HOUSE OF COMMONS SESSION 1987 — 88

TRANSPORT COMMITTEE

First Report

DECLINE IN THE UK-REGISTERED MERCHANT FLEET

Together with the Proceedings of the Committee, Minutes of Evidence and Appendices

Volume I
Report and Minutes of Proceedings

Ordered by The House of Commons *to be printed 27 May 1988*

303-I

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The Transport Committee is appointed under S.O. No. 130 to examine the expenditure, administration and policy of the Department of Transport and associated public bodies, and similar matters within the responsibilities of the Secretary of State for Northern Ireland.

The Committee consists of a maximum of eleven Members, of whom the quorum is three. Unless the House otherwise orders, all Members nominated to the Committee continue to be members of it for the remainder of the Parliament.

The Committee has power:

(a) to send for persons, papers and records, to sit notwithstanding any adjournment of the House, to adjourn from place to place, and to report from time to time;

(b) to appoint specialist advisers either to supply information which is not readily available or to elucidate matters of complexity within the committee's order of reference;

(c) to communicate to any other such committee its evidence and any other documents relating to matters of common interest; and

(d) to meet concurrently with any other such committee for the purpose of deliberating, taking evidence, or considering draft reports.

The membership of the Committee since its appointment on 2 December 1987 is as follows:

Mr David Marshall (Chairman)

Mr Jack Aspinwall *(appointed 28.4.88)*
Mr David Gilroy Bevan
Mr Sydney Bidwell
Mr Jim Callaghan
Mr Derek Conway
Mr Terry Dicks
Mrs Gwyneth Dunwoody
Mr Peter Fry
Mr David Mudd
Mr Neville Trotter

NOTES:
In the Report, references to the Minutes of Evidence are indicated by the letter "Q" followed by the number of the Question referred to. References to Memoranda included in the Minutes of Evidence taken in Session 1986-87 are indicated by the word "Evidence" followed by the page referred to. References to Memoranda included in the Minutes of Evidence taken in Session 1987-88 are indicated by the word "Evidence" followed by "(1987-88)" and the page referred to. References to Memoranda included in the Appendices to the Minutes of Evidence are indicated by the word "Appendix" followed by the number of the Appendix referred to.

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FIRST REPORT

The Transport Committee has agreed to the following Report:

DECLINE IN THE UK-REGISTERED MERCHANT FLEET

I INTRODUCTION

1. The previous Transport Committee announced its intention to undertake an inquiry into the decline in the UK-registered merchant fleet[1] in July 1986. The Committee identified as possible areas of investigation the items listed in Appendix 1 and invited submissions on any other related matters of substance. The invitation to comment more widely was accepted and the evidence received accordingly covered not only the matters listed but also the vitally important matters of training of seafarers and safety.

2. The dissolution of Parliament in May 1987 meant the Committee was unable to complete its inquiry. The Committee did, however, publish an Interim Report[2] in which it recommended its successor Committee to take up the inquiry and to pursue it as a matter of urgency. It also recommended that an opportunity be found in the first session of the new Parliament for consideration of the Government's proposals on the restructuring of Dependent Territory registers and expressed the hope that the legislation necessary to bring into effect the Government's proposals to set up a Merchant Navy Reserve and to provide financial assistance with the training of seafarers and with repatriation costs would be speedily brought before the new Parliament. The measures were included in the Merchant Shipping Bill which the Government introduced in October 1987[3].

3. Delays in nominating our Committee prevented us from resuming the inquiry as quickly as we would have wished, but our acknowledgement of the urgency of the matter is illustrated by the fact that the decision to resume the inquiry was taken at our first meeting. We also agreed to complete the programme of oral evidence which had been interrupted by the dissolution and to invite all who had submitted evidence to the previous Committee to up-date their submissions if they so wished.

4. In the previous Parliament the Committee held twelve oral evidence sessions during which it took evidence from twenty-five separate groups of witnesses. We have subsequently taken oral evidence on five further occasions. A complete list of witnesses for the whole inquiry is given on pages lvii and lviii. The oral evidence taken by the previous Committee was published in individual parts as House of Commons papers 94-i to 94-xii and that taken in this session has been published as House of Commons papers 303-i to 303-v. The evidence is also reproduced in Volumes II and III of this Report.

5. In addition, a considerable amount of written evidence has been received. Some of the submissions are printed as Appendices to the Minutes of Evidence in Volume III of this Report. Much of the written evidence, however, has been reported to the House and will be available for inspection by Members in the House of Commons library and by others in the Committee Office[4]. In due course, the papers will be deposited in the House of Lords Record Office where they will remain available for inspection.

6. We are grateful to everyone who submitted oral and written evidence for their contribution to our analysis and assessment of the decline in the UK-registered merchant fleet. It is also appropriate at this point to express our thanks to our two specialist advisers, Mr Patrick Shovelton CB, CMG, Vice-Chairman of the Maersk Co. Ltd and former Director General of the General Council of British Shipping, and Dr James McConville, Senior Lecturer, Faculty of Business, Economics and Social Studies, City of London Polytechnic. We acknowledge with gratitude the help and advice they have provided throughout our inquiry, but stress, as always, that the conclusions in our report are solely ours.

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1. The UK-registered merchant fleet comprises vessels registered at ports in the UK and directly owned by UK resident companies, including the UK subsidiaries of foreign companies plus vessels registered at ports in the UK but owned abroad in the Commonwealth. The Merchant Shipping Act 1988 has altered the definition somewhat
2. First Report from the Transport Committee, Session 1986-87, HC 94
3. The Bill received Royal Assent on 3 May 1988
4. For lists of Appendices and Memoranda reported to the House, see p.lix.

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Visits

UK and the Isle of Man

7. As reported briefly in the Interim Report[1], during the last Parliament the Committee supplemented its oral evidence sessions at Westminster with visits to Newcastle University, South Tyneside College and the Isle of Man (IoM). The visit to Newcastle began with a tour of the naval architecture laboratories where the Committee had the opportunity to see some impressive research. The tour was followed by a presentation by three people closely involved with the shipping industry[2] and by an open forum which provided a stimulating and wide-ranging exchange of views. The Committee's visit to South Tyneside College gave Members the chance to inspect its excellent training facilities and to discuss with senior staff the current decline in cadet numbers and their suggestions for improving the situation[3]. Finally the Committee made a two-day visit to the IoM to discuss its recently established register. The Committee held informative discussions with members of the Government and its officials and also met various ship management and shipping companies. The visit provided an invaluable input to the inquiry. The Committee's gratitude to its hosts on all three visits for their generosity of time and expertise was acknowledged in its Interim Report but we should like to use this opportunity also to express again our thanks for their assistance with the inquiry.

Far East

8. In March 1988 Members visited Hong Kong, Japan and South Korea. In Hong Kong, discussions took place with the Governor and Hong Kong Government officials, including the Department of Marine, the Hong Kong Shipowners' Association and the Merchant Navy Officers Guild. We also visited the Hong Kong International Terminal at Kwai Chung and called on the Missions to Seamen. Members next moved on to Toyko where meetings were held with the Vice Minister of Transport and his officials as well as with representatives of the Japan Shipowners Association, the Japan Shipbuilders' Association and the All Japan Seamen's Union. We then visited the Ship Research Institute at Mitaka where we gained considerable information on technological advances in shipbuilding and likely future trends. Finally we visited South Korea where meetings were held with, amongst others, the Minister of Transportation and the Assistant Minister of Foreign Affairs, the Federation of Korean Seamen's Union, the Korean Maritime and Port Administration and the Korean Maritime Institute.

9. We should like to record our gratitude to all concerned for the arrangements made for our visit. Our hosts bore patiently with our many and varied questions and were most generous of their time, experience and knowledge. Thanks to them we gathered a great deal of information which has been of considerable value to our inquiry[4].

The Inquiry

10. At the conclusion of the Interim Report, the Transport Committee said "It will be for our successor Committee . . . to make detailed and comprehensive recommendations once the inquiry is completed and the evidence considered. But we conclude . . . by noting that central to that inquiry must be the question of whether the UK needs a merchant fleet, and, if so, whether the UK government should provide support for the shipping industry beyond that which it provides for other industries"[5]. It is indeed with this central question in mind that we have continued our inquiry and it is on that question and the consequences which flow from it that our Report now concentrates.

1 *Op cit*
2 For written evidence subsequently submitted by two of the people concerned, see Appendices 9 and 23
3 See Appendix 8
4 See, for example, Section VI below
5 *Op cit*, para 10

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II THE STATISTICS OF THE DECLINE

11. The size of a fleet may be measured in a number of ways: by number, gross registered tons, and deadweight tons. All these categories have been used in the following statistical analysis of the UK and world fleets.

The UK-registered Fleet

12. While the number of UK-registered ships has been declining since the beginning of this century, total tonnage continued to grow, apart from the inter-war years, until it reached a peak in 1975[1]. It then began to contract. Since 1980, and particularly over the last three years, the decline has been dramatic.

Table 1

UK-registered merchant fleet (500 grt+)

Year (31st Dec)	Million deadweight tons (dwt)	Numbers
1975	51.9	1682
1980	42.3	1275
1981	35.6	1118
1982	30.4	985
1983	24.5	866
1984	22.0	777
1985	18.6	693
1986	11.2	545

Source: Department of Transport Statistics bulletin (87) 50, Table 1.1(ii)

As Table 1 shows, the peak tonnage in 1975 of 51.9 million dwt had dropped to under half by 1984 and had halved again between 1984 and 1986 to only 11.2 million dwt. The number of ships on the UK register also dropped by over half between 1975 and 1984 and then declined by a further 30% between 1984 and 1986.

Structure of the UK Fleet

13. Although there has been a general contraction in the UK-registered fleet, it has not affected all sectors of the fleet uniformly. As Table 2 shows the tanker fleet declined between 1975 and 1986 by 82% in tonnage terms and 65% in number of vessels compared with a decline in the non-tanker sector of 28% in tonnage and 69% in vessels. Similarly, the degree of decline in the non-tanker sector has varied with category of vessel. Between 1975 and 1986, the cargo liner sector, for example, declined by 83% in tonnage and 84% in number of vessels while the container sector declined in numbers by 47% but in tonnage by less than 1%, see Table 2 overleaf.

1. Evidence, p70

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Table 2

UK registered vessels (500 grt+)

thousand dwt

Date (31 Dec)	No	Passenger vessels	No	Cargo liners	No	Container vessels	No	Tramps	No	Bulk carriers	No	Tankers	No	Grand total
1970		518		6,371		207		1,972		5,519		18,812		33,625
1975	116	254	425	4,281	89	1,276	307	1,436	267	13,760	478	30,910	1,682	51,916
1980	102	179	232	2,627	72	1,495	252	858	190	11,127	427	26,021	1,275	42,307
1981	94	171	178	2,049	70	1,486	226	736	174	10,323	376	20,861	1,118	35,626
1982	87	164	148	1,724	64	1,465	191	636	146	8,804	349	17,607	985	30,399
1983	89	165	125	1,426	61	1,424	178	579	109	6,744	304	14,130	866	24,468
1984	87	166	97	1,178	60	1,448	170	551	87	5,908	276	12,721	777	21,970
1985	83	159	87	986	53	1,373	155	519	73	4,991	242	10,569	693	18,596
1986	79	154	68	736	47	1,264	132	389	50	3,269	169	5,412	545	11,223

Source: Department of Transport Statistics Bulletin (87) 50, Tables 1.3(iii) and 1.3(iv)

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14. The recent fundamental changes in the structure of the UK fleet are even more clearly demonstrated in Table 3. This shows that the decline in gross tonnage terms is very similar for the commercial trading fleet and the total fleet. The decline in number of ships, however, is greater in the commercial trading fleet. This is due for the most part to the growth of the supply ships and tenders sector of the total fleet[1], which are excluded in the statistics from the general category of commercial trading fleet.

Table 3

Analysis of the UK fleet (100 + grt) and percentage change 1973-1986

		1973	1986	%·CHANGE 1973-1986
Oil Tankers	Ships	590	216	−63.4
	GRT	14107064	4302604	−69.6
Oil/Chemical Tankers	Ships	N/A	20	—
	GRT	N/A	91504	—
Liquified Gas Carriers	Ships	28	23	−17.9
	GRT	533044	708166	+32.8
Chemical Tankers	Ships	13	32	+146.1
	GRT	88802	133023	+49.7
Miscellaneous Tankers	Ships	N/A	7	—
	GRT	N/A	20317	—
Bulk/Oil Carriers	Ships	33	6	−81.9
	GRT	2436090	513536	−79.0
Ore and Bulk Carriers	Ships	235	56	−76.2
	GRT	4545276	1636180	−64.1
General Cargo	Ships	1129	472	−58.2
	GRT	5231668	1124850	−78.5
Container Ships	Ships	92	49	−46.8
	GRT	1344805	1418666	+5.4
Vehicle Carriers	Ships	6	6	0
	GRT	7378	6052	−28.0
Ferries and other	Ships	167	138	−17.4
Passenger Vessels**	GRT	938871	640400	−31.8
Commercial Trading	Ships	2293	1025	−55.3
Fleet*	GRT	29232998	10595298	−63.8
Total Fleet	Ships	3628	2256	−37.9
	GRT	30159543	11567117	−61.7

Source: Lloyd's Register Statistical Tables 1973-1986. See also Appendix 17.

* The designation 'Commercial Trading Fleet' excludes Supply Ships and Tenders, Livestock Carriers, Fish Factories and Carriers, Fishing Vessels, Tugs, Dredgers, Cable Ships, Icebreakers, Research Ships and non-trading miscellaneous.
** This includes passenger liners which were included in the Lloyd's Register Statistics as a separate category until 1977

The World Fleet

15. The decline in the world fleet, in terms of both tonnage and numbers, has been much less marked than that of the UK's. As Table 4 shows, world tonnage actually increased by 15% between 1975 and the beginning of 1987, although, using 1980, the year in which the UK's decline started its dramatic acceleration, as the base year, it dropped by about 8% between 1980 and the start of 1987.

16. Table 4 also shows that the change in the world fleet between 1975 and 1987 was not uniform between sectors. The tanker sector contracted by 9% over the period, while the non-tanker sector actually grew by 41%. Nevertheless, although the composition of both the UK and world fleets has changed over recent years, it is for the UK that the overall picture has been one of severe contraction. The UK fleet declined as a proportion of world tonnage from 9.7% in 1975 to 1.8% in January 1987. Tankers contracted from 10.8% to 2% and non-tankers from 8.5% to 1.6% over the same period.

1. Appendix 17

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Table 4

UK fleet as a proportion (%) of world tonnage (million dwt)

At mid-year	All vessels World*	All vessels UK	%	Tankers World*	Tankers UK	%	Non-Tankers World*	Non-Tankers UK	%
1970	332.7	38.0	11.4	151.6	21.5	14.2	181.1	16.5	9.1
1975	544.2	52.7	9.7	286.5	30.8	10.8	257.7	21.9	8.5
1980	677.3	43.0	6.4	351.6	26.1	7.4	325.7	16.9	5.2
1981	683.2	40.5	5.9	348.7	24.4	7.0	334.5	16.1	4.8
1982	687.2	35.2	5.1	339.9	20.9	6.2	347.3	14.2	4.1
1983	678.6	29.0	4.3	321.5	17.0	5.3	357.2	12.1	3.4
1984	666.8	23.3	3.5	303.2	13.6	4.5	363.6	9.7	2.7
1985	656.8	20.9	3.2	284.9	12.1	4.2	371.9	8.9	2.4
1986	630.8	16.0	2.5	264.1	9.1	3.5	366.7	6.9	1.9
1987 (1st Jan)	626.2	11.1	1.8	262.0	5.3	2.0	364.2	5.7	1.6

Source: Department of Transport Statistics bulletin (87) 50, Table 2.1 (ii).

* Including US reserve fleet estimated at 2.6 million tons gross and US and Canadian Great Lakes ships amounting to 3.3 million tons gross at mid-1986.

17. It is important to note that the structure of the world fleet in terms of national flags has changed markedly over the last 37 years. A number of new fleets has emerged and, while some traditional maritime fleets have experienced a decline similar to that of the UK. other fleets have grown. This change is illustrated in Table 5.

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Table 5

UK shipping in relation to other large fleets 1950-1987
(100 grt+) percentage of world tonnage

1950		1967		1970		1980		1982		1983		1984		1985		1986		1987*		
Country	%	Country	%	Country	%	Country	%	Country	%	Country	%	Country	%	Country	%	Country	%	Country	%	No
(1) UK	21.3	Liberia	13.9	Liberia	16.1	Liberia	20.1	Liberia	17.5	Liberia	16.9	Liberia	15.7	Liberia	14.8	Liberia	13.8	Liberia	13.8	1
		(2) UK	11.9	Japan	11.5	Greece	9.8	Greece	9.9	Japan	9.7	Japan	9.7	Panama	10.1	Panama	10.6	Panama	11.0	2
				(3) UK	11.5	Japan	9.7	Japan	9.8	Greece	9.3	Panama	9.1	Japan	9.7	Japan	9.6	Japan	9.2	3
						(4) UK	6.5	Panama	7.8	Panama	8.4	Greece	8.8	Greece	7.8	Greece	7.4	Greece	6.6	4
								(5) UK	5.3	Norway	4.6	USA	4.4	USA	4.5	USA	4.8	USA	4.8	5
										(6) UK	4.5	Norway	4.3	USSR	4.2	USSR	4.4	USSR	4.5	6
												USSR	4.2	Norway	3.8	China	2.9	Cypress	3.5	7
												(8) UK	3.8	UK	3.4	UK	2.7	China	3.0	8
																		Hong Kong	2.2	9
																		Philippines	2.1	10
																		(11) UK	2.0	11

Source: Business monitor. General trends in shipping MR15 No 1-9. HMSO and Department of Transport Statistice Bulletin (87) 50.
The UK was overtaken in 1967 by Liberia — the leading "Flag of Convenience" country. In 1986 three such countries were substantially larger than the UK: Liberia, Panama and Cyprus. These and others, for example Singapore, Somalia, Sri Lanka and Malta, are countries with a declared open registry policy.
* At 1st Jan 1987.

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Age Distribution of the UK Fleet

18. Accompanying the decline in the UK fleet has been the lack of investment that has taken place in recent years. A simple measure of this can be obtained from comparing the age distribution of the UK fleet with that of the rest of the world. As Table 6 shows, the UK fleet changed between 1975 and 1986 from being substantially below the world average age to being considerably above it. In 1975, 72% of the UK fleet was under 10 years old: by 1986 this figure had fallen to 40%.

Table 6

Age distribution of UK fleet compared with world fleet (100+ grt) % of total tonnage

Years	1975		1980		1985		1986	
	World	UK	World	UK	World	UK	World	UK
Under 5	39	46	24	24	19	14	19	13
5–10	25	26	35	47	26	27	22	27
10–15	14	14	20	19	31	40	34	39
15–20	12	9	10	6	13	12	14	12
20–25	5	2	6	2	6	4	6	5
25+	5	3	5	2	5	3	5	4

Source: Maritime Transport OECD.

19. If age distribution is broken down into categories, as in Table 7, the pattern of an ageing UK fleet emerges clearly, although there does appear to have been some reinvestment in bulk carriers. Due to the policy decisions of companies to re-engine or modify their vessels, rather than scrap or sell and new build, the container fleet has experienced the greatest increase in age although, in tonnage terms, that sector declined least between 1975 and 1987. For all but combination carriers and tankers, the average age of the world fleet has remained virtually unchanged. In June 1987 the average age of the UK fleet was lower than that of the world fleet in only one category; in the remainder it was higher or substantially higher. The total age of the UK fleet is the most disturbing feature of the Table. For the first time the UK fleet's average age is above that of the world fleet's. This increase in average age appears to be a continuing trend.

Table 7

Average age of world and UK owned and registered fleets (100 grt+)

	1982		1983		1984		1985		1986		1987*	
	World	UK	World	UK	World	UK	World	UK	World	UK	World	UK
Ore/Bulk	10.3	6.9	10.4	6.8	10.3	6.9	9.9	7.4	9.9	7.8	10.3	8.3
Combination Carriers	10.0	9.6	10.7	10.2	11.2	11.3	11.6	11.3	11.9	12.5		
Cellular Containers	8.8	8.9	9.4	9.5	9.3	10.2	9.2	11.3	8.9	12.1	8.9	13.5
Oil Tankers	10.0	8.8	10.2	9.2	10.7	9.6	11.3	9.8	10.3	10.0	12.1	13.5
Total	11.0	8.7	10.5	9.1	11.4	9.7	11.5	10.1	11.6	10.5	11.8	12.1

Source: GCBS statistical briefs, date as at June each year.
* In 1987 the definitions were modified slightly.

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Employment

20. The decline in the UK fleet is mirrored by a contraction of the seafaring workforce. Between 1975 and 1986, the total number of UK seafarers employed on UK-registered ships fell by just over two-thirds, with the largest drop occuring in the second half of that period, see Table 8 below.[1]

Table 8

Number of UK seafarers employed in UK-registered ships and % change, 1975-1986[2]

Year	All Seafarers '00s	All Officers '00s	All Ratings '00s
1975	73.4	34.8	50.9
1976	70.9	33.3	47.9
1977	69.6	33.7	46.7
1978	66.0	32.2	42.2
1979	60.4	29.5	37.4
1980	57.9	28.2	36.3
1981	53.7	25.6	32.5
1982	47.5	21.7	28.7
1983	40.0	17.8	25.1
1984	34.5	15.2	22.8
1985	34.5	14.6	21.3
1986	24.8	11.5	16.6
31.3.88	*23.8*	*9.8*	*14.0*
	Percentage rate of decline		
% 1975-86	66.2%	67%	67.4%
% 1975-81	26.8%	26.4%	36.1%
% 1981-86	53.8%	55%	48.9%

Source: Data from GCBS Fleet and Manpower Inquiry, for 30 September.

Notes: Figures exclude non-federated sector.
Data for the number of UK seafarers employed on ships registered outside the UK are not available. Such employment for officers in recent years has become substantial.

21. The contraction in employment has been accompanied by a reallocation of the labour force between vessel types. As Table 9 shows, between 1975 and 1985 the number of seafarers employed in dry cargo vessels fell by 84%, in tankers by 70% and in passenger vessels (including ferries) by 39%. The only vessel type which has seen a rise in employment has been the offshore supply sector (specials) servicing the North Sea oil and gas industry.

Table 9

Number of seafarers employed on-board by vessel type 1975-1985

Vessel Type	1975	1980	1981	1982	1983	1984	1985
Passenger	12867	10387	10341	9980	10350	9727	7877
Dry Cargo	32991	18254	14198	10311	7195	5879	5165
Tankers	17781	14776	12710	10474	8149	6359	5324
Specials	656	1363	1905	1654	1521	1452	1519
*All vessels	64295	44780	39154	32423	27215	23415	19885

Source: (not including back-up): GCBS Fleet and Manpower Inquiry for 30 September.

1. Evidence, p5
2. For National Maritime Board Register figures, see Evidence, p5

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III REASONS FOR THE DECLINE

International influences

22. As Section II illustrates, the UK has not been alone in experiencing a decline in its fleet. We discuss below the factors which have had a general effect on world shipping and then examine those which have had a particular and specific impact on the UK fleet.

23. The international crisis in the shipping industry has various origins. These include:
(a) fall in, or lack of growth of, demand;
(b) changes in trade patterns;
(c) technological advances;
(d) a gross over-supply of ships affecting almost all sectors of the industry, largely as a result of subsidised shipbuilding.

Changes in world demand for shipping

General

24. It has been suggested that part of the reason for the international crisis in shipping may be attributed to a fall in demand for world shipping which can be measured by the seaborne trade undertaken. Such trade may be shown simply by weight of cargo carried or, more accurately, by distance, ie tonne-miles, and weight of cargo carried, as in Table 10 below. All cargoes by weight have remained comparatively stable since 1975 while ton-miles have contracted. Both figures have shown a small increase since 1983.

Table 10

International seaborne trade

Million metric tons: thousand million ton-miles

Year	All cargo		Tanker cargo		Total dry cargo	
	Weight	Ton-Miles	Weight	Ton-Miles	Weight	Ton-Miles
1975	3,047	15,366	1,496	9,730	1,551	5,636
1976	3,312	17,023	1,670	11,149	1,642	5,874
1977	3,399	17,453	1,724	11,403	1,675	6,050
1978	3,466	16,934	1,702	10,546	1,764	6,388
1979	3,714	17,513	1,776	10,497	1,938	7,016
1980	3,606	16,611	1,596	9,239	2,010	7,372
1981	3,461	15,662	1,437	8,193	2,024	7,469
1982	3,199	13,499	1,278	6,282	1,921	7,217
1983	3,090	12,580	1,212	5,558	1,878	7,022
1984	3,292	13,426	1,227	5,648	2,065	7,778
1985	3,293	13,065	1,159	5,157	2,134	7,908
1986	3,385	13,856	1,263	5,905	2,122	7,951
1987 (prov)	3,418	13,961	1,265	5,905	2,153	7,959

Source: Department of Transport Statistics bulletin (87) 50, Table 3.1 (i).

It can be seen from the Table that there was a steady decline in tanker movements between 1977 and 1985 though dry cargo movements held up well.

25. The UK's position with regard to its seaborne trade is somewhat different from the world picture. Although imports (mainly oil) declined substantially between 1975 and 1986 from 176.9 mn tonnes and 1030.4 billion tonne-miles to 147.1 mn tonnes and 422.3 billion tonne-miles, exports increased substantially, almost trebling in weight and more than doubling in tonne-miles. This latter measurement reflects a growing concentration on European trade. The EEC agricultural policy has led to a contraction of imports such as sugar and cereals, undermining the deep sea trades in which the UK used to play a prominent part.

26. Tables 11 and 12 illustrate the different growth rates for tanker and dry cargo trades. Between 1975 and 1986 dry cargo imports rose steadily by weight while in tonne-miles, after a period of contraction between 1980 and 1983, they again increased. Dry cargo exports fluctuated between 36.0 and 55.8 million tonnes and between 78.7 and 98.2 thousand million tonne-miles. Tanker imports contracted between 1975 and 1983 and then began to rise. Tanker exports showed a more or less steady growth. The problem for the UK shipping industry is that these cargoes have increasingly been carried by non-UK registered vessels.

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Table 11

International seaborne trade of the United Kingdom
by Weight (million tonnes) and Tonne-Miles (thousand million)

Imports by Sea									
Weight	1975	1980	1981	1982	1983	1984	1985	1986	1987
All cargo	176.9	130.8	120.6	120.7	117.6	137.6	142.2	147.1	149.8
Dry cargo	73.1	72.8	74.0	75.2	79.0	88.0	93.6	93.7	N.A.
Tanker cargo	103.8	58.0	46.6	45.5	38.6	49.6	48.6	53.4	N.A.
Tonne-Miles									
All cargo	1030.4	614.9	489.2	415.6	356.0	385.8	397.1	422.3	418.7
Dry cargo	226.8	220.6	206.1	208.1	202.6	228.0	256.8	260.3	281.4
Tanker cargo	803.6	394.3	283.1	207.5	135.5	157.8	140.3	162.0	137.3

Source: Department of Transport Statistics bulletin (87) 50, Table 3.2 (i).

Table 12

International seaborne trade of the United Kingdom
by Weight (million tonnes) and Tonne-Miles (thousand million)

Exports by Sea									
Weight	1975	1980	1981	1982	1983	1984	1985	1986	1987
All cargo	50.9	100.1	122.0	121.6	129.5	136.5	143.9	150.7	148.1
Dry cargo	36.0	45.8	55.8	47.2	45.9	44.8	45.9	48.8	N.A.
Tanker cargo	14.9	54.3	66.3	74.3	83.6	91.6	98.0	101.8	N.A.
Tonne-Miles									
All cargo	103.7	138.0	191.4	195.6	195.5	203.8	204.8	234.4	257.2
Dry cargo	89.7	78.7	97.2	87.6	88.8	93.1	94.1	98.2	121.2
Tanker cargo	14.0	59.2	94.2	108.0	106.7	110.6	110.7	136.2	136.1

Source: Department of Transport Statistics bulletin (87) 50, Table 3.2 (iii).

27. Taking all cargoes imported into the UK, the proportion carried in UK-registered vessels has declined by 32% in weight and 48% in tonne-miles since 1975. For exports, the figures are 52% and 67% respectively, see Tables 13 and 14 below.

Table 13

Percentage of imports by sea into the UK carried by UK-registered vessels

Weight	1975	1980	1981	1982	1983	1984	1985	1986
All cargo	31	31	29	29	25	22	23	21
Dry cargo	35	32	31	33	29	27	28	24
Tanker cargo	29	30	25	23	18	14	13	14
Tonne-Miles								
All cargo	31	28	25	30	25	21	21	16
Dry cargo	39	33	28	32	28	26	27	20
Tanker cargo	29	25	21	28	19	13	10	9

Source: Department of Transport Statistics bulletin (87) 50, Table 3.2 (ii).

Table 14

Percentage of exports by sea from the UK carried by UK-registered vessels

Weight	1975	1980	1981	1982	1983	1984	1985	1986
All cargo	46	37	28	27	24	24	23	22
Dry cargo	45	43	30	32	30	29	28	24
Tanker cargo	48	32	26	24	20	22	21	21
Tonne-Miles								
All cargo	45	27	21	18	17	16	17	15
Dry cargo	45	31	23	25	22	22	22	19
Tanker cargo	44	23	18	12	12	12	13	12

Source: Department of Transport Statistics bulletin (87) 50, Table 3.2 (iv).

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28. Both tanker and dry cargo sectors experienced a considerable decline in exports and imports carried between 1975 and 1986 though the decline was noticeably greater for the tanker sector. Even in the 1980s, imports of dry cargo carried in UK-registered ships have gone down by 25% in weight and 39% in tonne-miles, while exports have declined by 44% and 39% respectively. For tankers, the equivalent figures are 53% and 64% for imports and 39% and 48% for exports. The extent to which the UK fleet has lost its traditional deep sea trades is even more clearly illustrated in Table 15. The implications of this loss are discussed below.

Table 15

International seaborne trade of the United Kingdom by weight percentage carried in UK registered vessels by trade area

Year	IMPORTS			EXPORTS		
	Near and Short Sea	Deep Sea	All	Near and Short Sea	Deep Sea	All
1975			31			46
1980	34	28	31	40	22	37
1982	27	32	29	33	12	27
1983	25	26	25	27	11	24
1984	23	20	22	28	12	24
1985	24	21	23	25	14	23
1986	22	17	20	26	11	22

Source: Transport Statistics, Great Britain.

Cross-traders

29. The decline in seaborne trade carried by both the tanker and dry cargo sectors has been shared by ships involved in cross-trading. Since 1975 the cross-trade earnings of UK-owned and UK chartered-in ships have fallen in relative and absolute terms, with the fall being particularly severe since the early 1980s. In cash terms, these earnings have fallen by about 23% and they now contribute 52% of the gross earnings of the UK shipping industry compared with 56% in 1980.

Table 16

Cross-trade freight earnings 1975-86 (£m)

	1975	1980	1981	1982	1983	1984	1985	1986
Total Credits	2,287	3,144	3,063	2,527	2,328	2,480	2,457	2,658
Credits cross-trades (dry and wet cargo)	1,205	1,776	1,754	1,303	1,205	1,309	1,125	1,375
Cross-trades as % of Total Credits	53	56	57	52	52	53	46	52

Source: Balance of Payments — HMSO 1986 and 1987.

30. It was suggested by the National Union of Marine, Aviation and Shipping Transport Officers (NUMAST) that the UK's declining cross-trade activity was not simply a function of having fewer ships. The potential to cross-trade was also limited by the exclusion of UK vessels as a result of bilateral and other restrictive trading arrangements practised by other countries[1]. We discuss this point further in Section VI below.

Cruise Ships

31. The major structural change in the cruise sector occurred during the 1960s when the development of long distance civil air transport virtually removed the passenger transportation role. The cruise sector is now more a part of the leisure industry than the transport industry.

32. There are 12 large cruise ships under UK shipping company ownership, 7 of which are UK-registered[2]. They operate mainly in three markets — North America, both West Coast and

1. Evidence, p73
2. Interim Report, Appendix 1, p38

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in the Caribbean, Australia and Europe — although they sometimes operate longer cruises — even around the world. Cruising is an important and growing market and a useful source of employment for UK seafarers.

33. Although many new cruise ships are on order, there have been no new orders placed for service on the UK register since "Royal Princess", which entered service in 1984, and the only major investment in hand in 1986 was the re-engining of the "Queen Elizabeth 2" [1].

Changes in Trade Patterns

34. Trade patterns have changed dramatically since 1974, particularly in respect of oil consumption. Between the late 1960s and the early 1970s there was a large, world-wide, increase in tanker tonnage. The UK tanker fleet expanded by over 120 per cent from 13.7 million dwt in 1967 to a peak of 31.4 million dwt in 1976. The world tanker fleet expanded even more, see Table 17 below[2].

Table 17

Tanker fleet development (million dwt)

Mid Year	UK	World
1960	11.7	69.6
1965	13.2	93.0
1970	21.5	151.6
1975	30.8	286.5
1980	26.1	351.6
1985	12.1	284.9
1986	9.1	264.1
1987 (1st Jan)	5.3	262.0

Source: Lloyd's Register.

35. The demand for tankers, however, did not match the growth in supply. The oil price increases of 1973 and 1979 encouraged the developed countries to economise on their use of oils while, at the same time, new oil fields were developed, eg in the North Sea, Alaska and Mexico, closer to consuming markets. These factors combined to reduce substantially the demand for tankers.

36. The changes in the oil market had not been foreseen by tanker operators. New-building had become locked-in to the rapid growth in demand experienced during the 1960s and the world tanker fleet increased from 70 million dwt in 1960 to 213 million dwt in 1973. In addition, new building was continuing at a considerable rate. By the end of 1973 world orders for new tankers stood at 197 million dwt (only slightly less than the tanker fleet size at that time)[3]. Although not all the tankers were built the fleet continued to increase to a peak of 352 million dwt in 1980. An enormous surplus of tanker capacity was thus created. Table 18 offers an estimate of the scale of that surplus[4].

Table 18

Surplus tanker capacity (million dwt)

Year*	Demand	Supply	Surplus+
1981	233.8	341.3	107.5
1982	204.3	335.0	130.7
1983	185.4	319.4	134.0
1984	185.0	296.7	111.7
1985	172.1	273.0	100.9
1986	186.0	261.7	75.7
1987	187.0	255.3	68.3

Source: Lloyd's Shipping Economist.
* 1981 to 1986 — yearly averages; 1987 — August
\+ Includes vessels which were laid up or otherwise idle, and an allowance for surplus capacity implied by slow steaming.

1. Interim Report Appendix 1, p38
2. Evidence, p14
3. *Ibid*
4. Evidence, p15

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Dry Bulk Carriers

37. In the dry bulk sector, the UK fleet expanded considerably in the 1970s, reaching a peak of 8.3 million grt in 1977. Since then, and in contrast to the continuing expansion of the world bulk carrier fleet, the UK fleet has fallen rapidly, from 9.5% of the world fleet in 1975 to 1.7% in 1986[1].

Table 19

Dry bulk carrier fleet development (million grt)

Mid year	UK	World	UK share of World
1970	3.9	46.7	8.4%
1975	8.1	85.5	9.5%
1980	6.2	109.8	5.6%
1985	3.1	134.4	2.3%
1986	2.2	133.3	1.7%

Source: Lloyd's Register.

38. Tonne-mileage of cargo carried by the dry bulk fleet grew strongly from 1965 up to 1973. This was followed by four years of very slow growth, reflecting the recession in the industrialised economies brought about by the 1973 oil price rise. A period of rapid growth in demand from 1977 to 1980 led to high freight rates and an upsurge of orders for new vessels between 1979 and 1981. The world dry bulk fleet continued to expand strongly during the 1980s despite the slow-down in trade growth following the oil price rises of 1979.

39. From the early 1970s, the bulk carrier fleet expanded at a significantly faster rate than its markets. The estimated surplus capacity this created is shown in Table 20 below[2].

Table 20

Dry bulk carrier surplus (million dwt)

Year*	Demand	Supply	Surplus†
1981	147.5	184.0	36.5
1982	150.6	197.0	46.4
1983	150.9	202.9	52.0
1984	164.7	215.0	50.3
1985	172.6	222.7	50.1
1986	171.3	215.4	44.1
1987	169.2	213.1	43.9

* 1981-86: yearly average, 1987 — August

† Includes vessels laid up and idle, plus an allowance for the surplus capacity implied by slow steaming of vessels

Source: Lloyd's Shipping Economist.

40. Although the dry bulk sector has not experienced the dramatic changes in the volume and pattern of trade that have occurred in the tanker sector there has been considerable over-tonnaging, with excessive ordering because of misjudgements of future demand strongly encouraged by financial support for shipbuilding. This has led to a downward spiral of ship prices and charter rates. Despite the continued expansion of the world dry bulk fleet, the UK-registered bulk tonnage has fallen substantially from its peak level. Some companies have withdrawn from the sector because of poor financial results and limited prospects of an early upturn in the market. In the Department's estimate, although different in origins and timing, the fundamental position for deep sea tankers and dry bulk carriers has been the same: severe over-tonnaging depressing freight rates, undermining profitability and forcing shipowners to reduce their fleets or operate them under registers where competitive crew costs could be obtained[3].

Technological Advances

41. Technological advances have had their greatest impact on the liner trades which, over the last 20 years, have seen the introduction of container-carrying vessels. This has allowed port turn-round times to be substantially reduced and has led to an increase in the average size of

1. Evidence, p16
2. Evidence, p17
3. *Ibid*

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vessel that can be deployed economically in the deep-sea liner trades, with each single big container vessel displacing six or seven conventional vessels. Moreover, modern vessels can be more economically manned with, typically, a crew of 16 or even less for a big container vessel as compared with 30 or 40 on an old-type cargo liner. The UK's fully cellular container fleet grew rapidly during the early 1970s but has since remained fairly stable. Other countries' container fleets, by contrast, have grown substantially, see Table 21 below[1].

Table 21

Container Fleet Developments (million grt)

Mid Year	UK	% increase since 1975	World	% increase since 1975	World container port traffic TEUs* (mn)	% increase since 1975
1970	0.4	—	1.9	—	—	—
1975	1.3	—	6.2	—	17.4	—
1980	1.7	31	11.3	82	37.2	114
1985	1.5	15	17.5	182	55.8	221
1986	1.4	8	18.7	202	60.0	245

Source: Lloyd's Register and Container International.
* Twenty foot Equivalent Units.

42. As Table 21 shows, the UK container fleet grew by just 8% between 1975 and 1986 while the world fleet increased by over 200%. World container traffic rose by 245% over the same period.

Overcapacity

43. While technological advances and changes in trade patterns have had a noticeable effect on world shipping, the greatest impact has been a result of the continuing delivery of new ships that world trade could not absorb. Starting in the tanker sector, as described above, the surplus spread quickly to other sectors. Part of the problem can be attributed to excessive optimism by some owners and banks but the fundamental difficulty was caused by the willingness of many governments to subsidise shipyards without commercial justification. The International Association of Dry Cargo Shipowners cited the artificial stimulus provided by subsidies as one reason for severe overcapacity in the bulk shipping markets.[2] The General Council of British Shipping (GCBS) referred to "the absurdly low prices now on offer".[3]. The example it quoted was of a 120,000 dwt dry bulk carrier which would have cost $42 million in 1981, being built for $20.5 million in 1985. "In general, prices for most categories of ship were in money terms half what they had been five years earlier . . . [These prices] represent deliberate policy decisions by the governments concerned"[4]. The overall impact of this over-capacity has been a slump in freight rates which has hit hardest the high cost operators from Europe and Japan.

44. Shipbuilding is a subject which falls within the remit of the Trade and Industry Committee rather than ourselves but it is not a topic which can be divorced from a consideration of the decline in the UK fleet. We discuss below in Section VI the assistance which is provided by some foreign governments to their shipping and shipbuilding industries. It is perhaps sufficient to acknowledge here the impact which the indiscriminate subsidisation of shipbuilding has had on shipping in general.

UK influences

45. The impact of international influences on UK shipping has been exacerbated by a second group of factors which has made the UK register less competitive than other registers. In the view of the GCBS[5] these include:

relatively high employment costs of seafarers;

political impediments to trading;

excessive national requirements in the UK relating to the operation, construction and equipment of ships, including the cost of surveys;

the high cost of using UK ports especially in the areas of light dues and pilotage charges;

the lack of UK government assistance toward the capital cost of acquiring a ship.

1. Evidence, p13
2. Appendix 22
3. Interim Report, Appendix 1, p6
4. *Ibid*
5. *Ibid*

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In addition the UK register has been affected by:

the UK's previously high tonnage which was partly a result of investment grants attracting ships temporarily onto the UK register; and

membership of the EEC increasing the short-sea trades at the expense of deep-sea trades and increasing transhipment to and from near continental ports for cargoes to and from more distant destinations.

We discuss the strength of these influences in the following paragraphs.

Employment Costs

46. The relatively high employment costs of UK seafarers is one of the factors which it is suggested has made the UK register less competitive than some other registers. It must be emphasised that it is the *relative* position that is important, as the Department has conceded that "over the last five or six years the wage increases which have been recorded in the maritime industry . . . have been significantly below average increases in the economy as a whole"[1]. However, employment costs are not restricted to wage costs. They obviously include basic salaries and overtime but also cover leave entitlement, victualling, air passage home for leave, social security payments, pensions and training. The Department acknowledged that over a period when operations had been relatively profitable, there were no strong pressures to economise on crew costs[2]. However, with the surplus of ships that has developed in so many shipping markets since the mid-seventies and the consequential lowering of rates, at times, to levels little above the lowest operating costs, the difference in crew costs between developed and third world crews could be critical.

47. In the view of the Department, the existing tanker surplus, which was estimated in April 1986 to amount to 30% of the world tanker fleet[3], has made crew costs critical for tankers. The same is true of much bulk trading. Although such costs obviously vary with vessel type, trading area and company, the Department has estimated that "very broadly the annual crew costs of a UK-crewed deep-sea vessel with 10 officers and 12 to 14 ratings are now in the region of £700,000; those for a similar vessel with third-world crew are about half that amount"[4]. Much operation in the bulk trades has been unprofitable and, although shipowners have sought to make economies by steps such as reduced manning, there has, in many cases been insufficient scope on the UK register to close the gap. Accordingly the choice had sometimes to be made between selling ships off or operating them on other registers.

48. For other types of ship, crew costs constitute a much less significant proportion of annual costs. NUMAST cited an example of a 46,000 dwt container ship in which UK crew costs represented only 5% of annual costs. This compared with a figure of 12% for Japan, 8% for the Federal Republic of Germany and 3% for Flag of Convenience (FOC) registers[5].

49. In the short sea bulk trades the impact of crew costs on UK shipping as compared with flagged-out shipping is not clear. The Department noted in evidence that "competition is largely between vessels registered and in the main crewed in European countries, thus limiting the extent of crew cost disparities between operators" but also acknowledged that "As crew costs account for well over half total operating costs in the short-sea bulk trades, a modest crew cost disparity implies an appreciable commercial penalty"[6]. Disparity of manning levels may also have a commercial penalty. At the beginning of 1988, the Department published "Short Sea Bulk Shipping"[7] which analyses the UK's performance in this sector. The report concluded that changes made in the mid-1980s had significantly reduced the UK disadvantage in manning levels.

50. Any disparities of crew costs will be reduced by increased productivity. The British Motor Ship Owners Association, whose members operate small vessels in the coastal and short sea trades, said that all of its pay agreements are concluded on a company basis. The principal difference from national agreements is that many "have a large element of productivity

1. Q 59. See also Interim Report, Appendix 1, p8
2. Evidence, p15
3. *Ibid*
4. *Ibid*. See also Evidence, pp290, 300
5. Evidence, p85
6. Evidence, pp18-19
7. Short Sea Bulk Shipping — An analysis of UK performance, Department of Transport 1988

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payments in them and this means that, whilst the payments to the individual seafarers tend to be higher than those under the national agreement, the manning levels are kept to the minimum safe level because it is in the interests of the crew to operate the ship as cheaply as possible". In addition, the productivity agreements produce an attitude of mind in seafarers in which "they tend very largely to be rowing in the same direction as the owner"[1].

Constructional and Operational Requirements

51. A second factor which it was suggested made the UK register less competitive related to the UK's requirements for the operation, construction and equipment of ships. P & O, for example, said that there is in general no difference in repair and maintenance costs between various flags of registry but argued that "the extra financial burden arising out of the pernickety requirements of DTp Surveyors frequently discourages secondhand ships from being brought on the UK and its dependencies' registers"[2]. The company had found, for example, that the cost of transferring a small modern Ro-Ro cargo ship from the Danish to the UK flag amounted to £60,000. The problem of "pernickety requirements" was illustrated by the fact that the ship had had on board some compressed-air breathing apparatus which was made by world leaders in Europe, but which, as they did not figure on the Department's list of approved suppliers, had to be replaced[3].

52. The Department, perhaps not surprisingly, did not accept that it imposed "pernickety requirements". The Surveyor General stated that the Department tried to interpret International Conventions in the spirit of the Conventions. He accepted that such interpretation could give other countries the opportunity to reduce their constructional and operational costs to the detriment of UK-registered shipping but emphasised that the essential intention was that the ship should be safe[4]. As all our witnesses accepted the need for the highest safety standards[5], we feel that the importance given to this factor is perhaps due more to a lack of communication and understanding between the parties involved than to any real differences between the UK and other reputable registers. The argument may well have greater validity if the comparison were one between the UK's and some FOCs' registers.

Port Costs

53. A further factor alleged to make the UK less competitive than other registers is the high cost of using UK ports. Light dues are one example.[6] We were informed that whereas light dues in the UK fall exclusively on ships using British ports, both British and foreign, in most countries abroad the cost of maintaining lighthouses and lights is borne by the Government concerned[7]. In addition, the calculations on which light dues are based mean that it could be much cheaper for containers to be carried to the UK in small home trade ships rather than large foreign-going ships. However, it could also be argued that as over 80% of ships entering British ports are foreign-owned[9], abolition of light dues would be of disproportionate benefit to foreign owners.

54. The British Ports Association (BPA) has pointed out that "The shipping industry has not been stable over the last few years, but has been characterised in general terms by a high degree of over-capacity and severe pressure on profits. In this situation, savings in costs available to shipping lines by changing ports have become increasingly attractive"[9]. This has encouraged the development of 'transhipment', ie concentration of cargo delivery and distribution centres close to the main market place of mainland Europe with subsequent transhipment of small cargoes to the market periphery, such as the UK. This development has important implications for the need to retain a UK fleet, see Part V below.

Protectionism

55. A much more substantial influence on UK shipping has been exerted by protectionism and other political impediments to free competition in shipping. **A large number of the world's governments reserve some or all of their countries' trade to ships flying the national flag. The UK, as yet, does not reserve any part of its trade.** A late amendment to the Merchant Shipping Bill has provided the Secretary of State for Transport with the power to prohibit the provision of

1. Q 596
2. Evidence, p292
3. Q 1181
4. QQ 703-4
5. See, eg, Q 1181 Appendix 5 and Section IV below
6. Evidence, p200
7. Evidence, pp321-2 and Evidence (1987-88), p34
8. Q 33
9. Evidence, p318

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coastal shipping services which are not British based. At present, however, UK shipping is faced with exclusion from world markets and unrestrained competition at home[1].

56. According to the GCBS, restricted trades fall into five main categories[2]:-

(a) liner trades to developing countries;

(b) coastal trade;

(c) government financed or strategic cargoes;

(d) offshore oil work;

(e) trades to/from the Soviet bloc and China

Yet the liner trades between OECD member countries remain largely free and almost all the deep sea bulk trades are free of government controls. The same cannot be said with respect to coastal trading where cabotage is prevalent.

57. Cabotage refers to trade between two ports in the same country. The term is often used to denote the reservation of coastal trade to ships of the country concerned. The harm suffered by the UK fleet derives not merely from the UK's inability to penetrate the national coastal trades of its EEC partners but also from the spill-over effect which that has — in terms of lost local contracts and cargo opportunities — on short-sea international trading as well.

58. Reservation of strategic or government financed cargoes also causes problems to UK shipping, particularly in the short sea bulk trades.[3] But it also disadvantages companies seeking to lift, eg, grain aid from the USA. The protected right to carry supplies for USA troops based in Europe has similarly provided invaluable base cargoes for the USA shipping companies operating across the North Atlantic and offered no benefit to the shipping of the USA's NATO partners.

59. Giving evidence in March 1987, the British Offshore Support Vessels Association complained about the "protectionism [which] has been exercised either overtly or covertly in every other offshore market of any significance abroad"[4]. Norwegian-owned vessels, for example, had benefitted from up to 30% of the UK market over a period when non-Norwegian vessels had enjoyed at most 3% of the Norwegian market. The Department of Energy's action in making the UK Offshore Supply Vessel sector an area of special interest had prevented the situation from becoming a complete catastrophe, but because of the UK's open registry policy it had not kept out the Norwegian ships[5]. The situation appears to have changed substantially since then with only 2 or 3 Norwegian ships now being employed in the British sector[6].

60. Unfair pricing practices have also been alleged to affect the UK fleet's competitive position. They arise either from a deliberate policy to grant high subsidies to national shipping companies or as a result of the country's different economic system. The GCBS has suggested that these activities, particularly by the Soviet bloc, but also by state subsidised Korean, Taiwanese and US carriers, have had a significant effect on liner shipping in certain important trades[7]. With regard to Soviet shipping, however, Mr Simon Bergstrand and Professor Doganis in their examination of the Impact of Soviet Shipping[8] have found little to support this claim. They conclude that "In the liner trades Soviet competition is generally on a relatively small scale as well as being slow and unreliable . . . In the bulk trades the Soviets have to charter large volumes of shipping owned by Western firms to carry their grain imports . . . Although few British firms have earned freight revenues from carrying Soviet grain they have benefitted from the ensuing higher freight rates[9].

61. In the bilateral trades, "Much of the liner cargo between the two countries is carried by a joint shipping service comprising two Soviet and one British line: the Baltic Shipping Company of Leningrad, the Latvian Shipping Company of Riga and the United Baltic Company of London (UBC). UBC has been working with Soviet lines for a long period and in 1982 a full pooling system for cargo and revenue was introduced. Despite this system a large volume of non-bulk dry cargo is shipped outside the joint service either by Soviet vessels or by cross-traders. In some

1. See Annex A
2. Interim Report, Appendix 1, p10
3. Interim Report, Appendix 1, p47
4. Evidence, pp232, 240-1
5. Q 775
6. The Anglo-Norwegian supply ship dispute, Norwegian Oil Review 1988. See also Q 1436.
7. Interim Report, Appendix 1, p11
8. The Impact of Soviet Shipping (George Allen & Unwin), Jan 1987
9. Appendix 16

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cases this is because the traffic is one-way, for example imports of cars to the UK, and the British line is not keen to attract it. The Soviets carry even larger proportions of their dry and liquid bulk trades with the UK. They claim that there are no regulations restricting participation of foreign vessels in Soviet trade and that such vessels are free to enter Soviet ports. However, by buying on 'fob' terms and selling 'cif' they can, and frequently do, allocate trade to Soviet vessels" [1].

62. Doganis and Bergstrand have concluded that criticism of Soviet shipping policy is more justified in these bilateral trades. The Soviet policy of controlling shipment of their exports and imports undermines effective participation of vessels from the trading partners and ensures that Soviet lines carry a disproportionately high share of their international trade. In 1985, for example, the UK carried only 5 per cent of exports and 6 per cent of imports: the remainder was carried on Soviet vessels.

Other Factors, including Capital Cost

63. The GCBS argued that Government support towards capital costs of ships is very important as up to 50% of the total cost of running a new ship relates to the cost of financing it. [2] From 1952 to 1966 new ships attracted investment allowances. In 1966 these allowances were abolished but investment grants were made available. The UK fleet increased as a consequence from 25 million dwt to 50 million dwt between 1965 and 1975. The Department of Transport, discussing the reasons for the decline in the UK fleet, said "Pre-eminent among those is the very considerable increase in tonnage which took place in the early 1970s and the late 1960s as a result of some extremely generous investment incentives . . . a large part of the decline . . . has been the elimination of that tonnage"[3].

64. In 1971 investment grants were removed from all ships ordered after October 1970. However, the Finance Act of that year allowed 100% first year allowances coupled with "free depreciation", ie any part of the allowances not used in the first year could be carried forward to be used in any subsequent year or years. The Finance Act 1971 also allowed a carry-back against the profits of the previous three years. The system continued until 1984. GCBS argued that this system of allowances was a major help to British shipowners, providing "broadly equivalent help to that enjoyed by the vast majority of competitor shipowners in the developed world" [4]. We discuss below the various incentives that are provided by other countries and whether any similar incentives should be offered to the UK shipping industry.

Membership of the European Community

65. In 1985, almost three-quarters of UK seaborne trade was near and short sea trade. This represented a marked difference from the position in 1975 when half of UK trade was with deep sea destinations. The change in the pattern reflected, *inter alia*, the increasing importance of trade with the European Community which the UK joined in 1973. The effect for the UK fleet of this concentration of trade with Europe has been a decline in the foreign-going fleet and an increase in the importance of the short sea fleet[5]. We are concentrating in this section on a brief examination of factors which have had an influence on the decline in the UK-registered fleet. The European Community's policy on shipping is described in more detail in Section VI.

Industrial Relations

66. We have discussed above the many factors which it was suggested might have contributed to the decline in the UK-registered fleet as compared with other fleets. One question which was not raised was whether bad industrial relations had contributed to the decline in the fleet. We received virtually no evidence to support such a contention[6]. We hope, however, that any disputes within the industry will not lead to any further reduction in the UK-registered fleet.

1. *Op cit.* For definitions of 'free on board' and 'cost, insurance, freight', see Glossary
2. Interim Report, Appendix 1, p6
3. Q5
4. Interim Report, Appendix 1, p7
5. Evidence, p72
6. See Appendix 26

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IV SAFETY

67. We have been concerned throughout our inquiry to ensure that the highest possible standards of safety should be attained. We therefore welcome the Government's proposals in the Merchant Shipping Act to reform the existing law on ship registration so as to achieve more effective jurisdiction over British resistered ships[1]. The Act also proposes new arrangements for categorising the registers of Crown Dependencies and Dependent Territories to provide a framework within which the safety standards applied to ships on those registers can be brought up to the levels required by the relevant International Safety Conventions so that all ships sailing under the British flag will meet the same high safety standards[2].

68. Two matters of concern remain however. The first relates to the efficacy of Port/State control[3]. Under the Paris Memorandum of July 1982, to which Belgium, Denmark, Finland, France, Federal Republic of Germany, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden and the UK are parties, foreign ships are inspected by Government Surveyors using the standards set by International Conventions. Each member state undertakes to inspect a minimum of 25% of the foreign flag vessels visiting its ports[4]. In recent years, the UK has inspected around 30%. The importance of Port/State control is illustrated by the figures provided by the Department which show that in 1984-85 the average percentage level of ships delayed or detained was 5.58%. Eighteen flag states had more than this average percentage of ships detained[5]. Where ships are removed from the UK register, we would expect that British owners would continue to make the safety of their vessels and crew the highest priority.

69. The second matter of concern relates to some Classification Societies[6]. The Department is responsible for all statutory surveys done under the Conventions. As far as passenger vessels are concerned, the main certificate is the Passenger Ship Safety Certificate which is issued by the Department. In the case of cargo ships, the Department conducts the surveys necessary for the issue of the Safety Equipment and MARPOL Certificates but delegates the Load Line and Cargo Ship Safety Construction Certificates surveys[7]. The Department has to be satisfied about the completeness of the surveys and to do that it must be sure that the Classification Societies are competent. It says that it does this when delegating the two types of survey[8]. It is of course essential that Classification Societies should perform their duties satisfactorily and we were therefore very concerned to learn that a passenger ship which had come on to the UK register inadequately surveyed and classed, had originally been classed by one of the five Classification Societies with British Committees. We were further concerned to learn that although 20 of the 21 Dependent Territory ships delayed or detained after inspection in the UK were registered in Gibraltar[9], there was no record of which Classification Societies had previously, apparently so inadequately, surveyed the ships. It is in our view essential that the name of the Classification Society be recorded when inspections are undertaken so that if a disproportionate number of ships failing inspection are shown to have been classed by any particular society no further surveys are delegated by the Department to that Society.

70. Lloyds's Register of Shipping has advocated for some time that P & I Clubs[10] (and underwriters) should take the right to examine the classification records of ships on entry or on change of class. "The good owner and the competent classification society have nothing to fear from this right being exercised and it would reassure those who fear the erosion of safety standards, or expose failings which could then be remedied"[11]. It is a suggestion which we support. We hope that underwriters and P & I Clubs will take steps to make access to classification records a condition of entry to the Club or acceptance for insurance.

71. At present the Department accepts work undertaken by Classification Societies up to 50% of all running surveys on class 1 passenger ships[12]. This delegation of passenger ship surveys is opposed by the Association of Board of Trade Marine Surveyors because the standards of the surveys are not uniform "resulting in an overall decline in safety"[13]. In addition, the UK permits

1. The term "British ship" covers vessels registered in the United Kingdom, the Crown Dependencies and the Dependent Territories
2. DTp Press Notice, 30 October 1987
3. See Glossary
4. Evidence, p227
5. Evidence, p228
6. See Glossary
7. Q 707
8. Q 715
9. Q 724
10. See Glossary
11. Evidence, p310
12. Official Report, Vol 107, *c.599*
13. Appendix 4

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four out of five annual surveys of cargo ships to be carried out by Classification Societies. Although the requirements for passenger and cargo ships obviously differ, there is no acceptable reason why the surveys on each category of ship should not be performed with the same thoroughness and uniformity of standards. In view of the poor standards of some Classification Societies, to which we referred above, **we recommend that the Department institute random checks of surveys carried out and that, if the surveys carried out by any particular Society are shown to be seriously inadequate, the Department ensure that no further surveys are delegated to that Society.**

V DOES THE DECLINE MATTER?

72. The fact that a decline in the UK-registered fleet has occured is indisputable; the question of whether this decline matters is more uncertain. Any evaluation of the importance of the decline must be based on an assessment of the reasons for maintaining a fleet. These reasons may be founded on strategic and/or economic arguments. For the Department of Transport, there is only one reason for maintaining a UK-registered fleet — the strategic. "Any case for assistance to the shipping industry . . . must be strategic; it has no compelling economic basis"[1]. In fact the Department has questioned "since we have accepted that there is a need, a continuing need, for a substantial British merchant marine to meet our defence and civil re-supply purposes, whether it is necessary to argue the same from the economic standpoint"[2].

Strategic Reasons

73. Merchant shipping is required in terms of defence for four specific purposes. These are:
- (i) transatlantic reinforcement of Europe;
- (ii) reinforcement of Europe from the United Kingdom;
- (iii) direct support of the Royal Navy; and
- (iv) civil supply of the UK and Europe in times of tension and war.

The Department of Transport has acknowledged that these are the "four essential requirements"[3]. It is the role of the Ministry of Defence to state its requirements for merchant shipping for support of the armed forces, ie the first three of the requirements, and the Department of Transport's to ensure the availability of shipping to meet those demands and to provide for the civil supply of the UK.

74. It is for the Select Committee on Defence rather than ourselves to comment on the Ministry of Defence's perceived requirements for merchant shipping. In fact, the Defence Committee is currently taking evidence on the use of merchant shipping for defence purposes. We understand that it is due to report shortly. It is undoubtedly part of our responsibility, however, to assess whether, when deficiencies appear likely to arise, the steps which the Department of Transport institutes will be adequate to meet those deficiencies and whether they contain sufficient flexibility to allow the fourth requirement of civil supply of the UK to be met satisfactorily. Within this context, we discuss the action that is being taken to safeguard a merchant fleet for defence purposes, and that which is required, in Sections VI and VII below.

75. In the Department's view, as we noted above, there is no compelling economic basis for assisting the shipping industry. In discussing how the costs of retaining unprofitable vessels on the UK register compares with the economic loss to the nation that might be incurred if vessels were switched to an alternative register, the Department described the initial economic effects as "the loss to the UK economy of the seafarers' jobs and the vessels' future earning potential . . . the resources released by the sale of the vessels will normally be redeployed into other sectors of the economy . . . The net effect on employment, output and profits within the economy as a whole is therefore likely to be small, and may well be positive"[4].

76. Unlike the Department of Transport, however, we believe that there are economic arguments for maintaining a UK-registered merchant fleet. These include
- **(i) impact on trade of a serious reduction in the fleet;**
- **ii) the danger of being totally dependent on others to move the UK's imports and exports;**
- **(iii) the contribution made by shipping to the balance of payments;**
- **(iv) employment in shipping and ancillary industries;**
- **(v) loss of international influence.**

1. Interim Report, Appendix 3
2. Q 1377
3. Q 1380
4. Interim Report, Appendix 3

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Impact on Trade

77. The British Shippers Council, when asked whether there was a level beyond which the fleet should not be allowed to drop, replied "From a purely business point of view, I would see that figure being zero"[1]. The Institute of Freight Forwarders, however, argued that if the present situation deteriorated further it would be bad for UK trade. "If the situation was ever allowed to reach the point where we did not have such strong UK lines . . . and because they are so strong we still have some control over the number of other foreign lines within a conference that do call in to the UK, then we believe that these foreign lines would not call into the UK and . . . a far greater proportion [of our traffic] would have to be trans-shipped. When that point was reached we believe that the freight rates or the costings for UK trade would become much higher than at the moment"[2].

78. This view was shared by the Institute of London Underwriters which argued that if "UK shipowners were to leave the stage to foreign flagged vessels the UK economy would be at the mercy of overseas operators." It questioned "just how long their hitherto low freight rates would be maintained given the demise of British flag competitors"[3].

79. The Institute of London Underwriters also suggested that there would be a tendency by foreign flag vessels to limit the number of European ports of call to a minimum as a way of minimising costs. UK shippers would have to meet the additional costs of transhipment by feeder services. We referred above[4] to the development of transhipment which has reinforced the need for a UK fleet. The demise of the UK's larger ships would not remove the necessity for a short sea trading fleet. It should be unnecessary to mention the fact that Great Britain is a collection of islands but in advancing the case for a UK fleet it is perhaps important to point out that 98% by volume and 76% by value of the UK's imports and exports are carried by sea[5]. Transport by sea is the cheapest and often the only feasible method of moving heavy cargoes. It seems unlikely therefore that there will be any great changes in these figures in the foreseeable future. **Given the UK's reliance on sea transport, we believe it would be dangerous to allow the fleet to decline to such a level that the UK was almost totally dependent on ships of other nations to move its imports and exports.**

Balance of Payments

80. The British Maritime Charitable Foundation (BCMF) has argued that the shipping industry regards its true contribution to the UK balance of payments as the sum of export earnings plus import savings which takes into account the UK owners' revenues on goods imported to the UK. "The contribution to the balance of payments defined in this way has been fairly constant in money terms over the last 10 years. In real terms it has fallen to a level of about one-third of that in 1975, as more of the overseas freight bill has gone to foreign shipowners and cross-trade revenues have reduced following the reduction in the UK fleet. However, UK shipping still produces a strong positive contribution"[6], see Table 22 below.

Table 22

UK Balance of Payments: UK owned ships

By year of contribution

	Gross Earnings	Of which from abroad	Net direct* contribution	Gross import** savings
1978	2,324	1,895	+ 975	+429
1979	2,718	2,193	+1,144	+525
1980	2,755	2,239	+1,150	+516
1981	2,778	2,329	+1,114	+449
1982	2,453	1,902	+ 822	+551
1983	2,367	1,768	+ 615	+599
1984	2,363	1,760	+ 704	+603
1985	2,496	1,859	+ 745	+637
1986	2,619	1,946	+ 979	+673

NOTE: * Gross earnings from abroad *less* disbursements abroad
** Freight on imports, passage money collected in the UK and time charter receipts from UK non-shipowners

Source: GCBS Statistical Brief

1. Q 372
2. Q 428
3. Appendix 21. See also Appendix 7
4. para 54
5. Q 1545
6. The Merchant Fleet and Britain's Economy 1988, pp7-8

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81. In a press release issued in December 1987, the Department announced that the UK shipping industry made a £0.7 billion contribution to the balance of payments in 1986 compared with £0.5 billion in 1985[1]. The Department suggested that this upturn showed that there was not an immediate correlation between the decline in the number of ships on the British register and the contribution to the balance of payments of the shipping industry[2]. This does not mean however that there would be no long-term correlation between the two. If the net earnings of UK-owned ships are examined as a percentage of total invisible credits such a correlation does appear to exist. Table 23 shows the total credits of all invisible services eg, government, private sector and public corporations, civil aviation, travel, financial, other services and sea transport, with gross and net earnings from sea transport (shipping) as a percentage of the total invisible services. It can be seen that in the period 1975-1985 shipping's contribution in gross terms has contracted from approximately 30% to 10%, in net terms from 11% to 3%, and as a percentage of all invisible credits from 5.7% to 0.9%. **It seems to us inevitable that a decline in the UK-registered fleet will result in a drop in the contribution by the shipping industry to the balance of payments.** It must also be emphasised that overall the industry earns nearly £3bn pa from its international activities. Without our shipping industry the country's balance of payments would be that much worse[3]

Employment

82. The decline in the UK-registered merchant fleet has also had a significant impact on employment. In 1975, when the UK fleet was at a peak, there were 77,500 seafarers on the National Maritime Board register. By 1980 this figure had dropped to 64,600 and by 1986 to 29,800[4]. (The equivalent Fleet and Manpower Inquiry figures for UK seafarers employed on UK-registered ships are 73,400, 57,900 and 24,800 respectively). The Department acknowledged that employment correlates poorly with tonnage, more closely with numbers of ships[5]. It would seem undeniable therefore that the decline in the UK fleet has had a deleterious effect on employment. However it should be borne in mind that British seafarers, especially officers, do find employment in ships which are registered in other countries and that the increasing development of agency contract crews is likely to make such employment further available to British seafarers although national figures may continue to show a decline.

83. The effect on employment of a decline in the UK fleet would not be confined to seafarers. It has been estimated that over 100,000 jobs in the ancillary industries and professions, which draw from the expertise of ex-seagoing personnel, could be affected[6]. Such employment includes pilots, harbour masters, marine and engineering superintendents, ship management, ship broking, marine training, manufacture of marine equipment and the marine insurance industry. The Institute of London Underwriters also listed many other jobs like marine surveying, lawyers and consultants on matters such as cargo and towing risks where experienced deck and engineering officers were indispensible to marine insurers[7]. The Institute argued that if "the United Kingdom was to lose this reservoir of highly trained and practical know-how, the Marine Insurance market in particular would suffer a body blow of considerable magnitude . . . In the competitive world market the loss of such an asset would be extremely detrimental." We agree.

Loss of International Influence

84. Finally, it was suggested that a loss of the UK fleet would reduce the UK's influence internationally. We see no reason to doubt this. The UK has for many years played a predominant role in international shipping bodies such as the International Maritime Organisation, the International Chamber of Shipping, the International Shipping Federation, the Council of European and Japanese National Shipowners Association, and so on[8]. If its tonnage falls further it will be difficult to maintain this role.

1. DTp press notice 613, 10 December 1987
2. QQ 1525-6
3. See also Appendix 13
4. Evidence, p5
5. Evidence, p8
6. The Merchant Fleet and Britain's Economy 1988, British Maritime Charitable Foundation, pp26-27
7. Appendix 21
8. For a fuller list of the international bodies on which the UK is at present represented see The Merchant Fleet and Britain's Economy 1988, pp76-78

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Table 23

Contribution of gross earnings of UK owned and operated ships and net earnings of UK owned ships as a percentage of total invisible credits 1975-85 (£m)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Total credit on invisibles	14,999	19,188	21,326	24,848	33,224	41,008	56,635	64,592	65,224	76,737	80,608
Gross earnings on ships UK owned and operated	2,287	2,796	2,933	2,617	3,187	3,144	3,063	2,527	2,328	2,480	2,456
Gross earnings as a % of invisible credit	15.2%	14.5%	13.7%	10.5%	9.5%	7.6%	5.4%	3.9%	3.5%	3.2%	3.0%
Net earnings on ships UK owned	857	1,014	1,024	975	1,144	1,150	1,123	821	615	691	745
Net earnings as a % of invisible credits	5.7%	5.2%	4.8%	3.9%	3.4%	2.8%	1.9%	1.2%	0.9%	0.9%	0.9%

Source: UK Balance of Payments HMSO 1986

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VI WHAT IS BEING DONE?

85. As we discussed above, the UK has been only one of many nations to have experienced a decline in fleet size. National governments and shipping companies have responded to the decline in various ways, but in general most of our major competitors have sought to halt, or at least mitigate the effects of, the decline. We discuss first the action taken by other Governments.

Action taken by Other Governments

86. The belief that a national flag merchant fleet is of vital importance to the security and economy of a country has led many governments to develop a range of policies to ensure support for their shipping industry. The British Maritime Charitable Foundation suggested "When reasons were given by governments for supporting shipping they might include provision of a service for the nation's trade, value added and balance of payments, . . . defence, support for the maritime infrastructure, employment in shipping, provision of work for shipyards, safety and pollution"[1].

87. The costs of encouraging and operating a fleet vary considerably between countries according to the quantity and quality of their resources and their economic and strategic needs. The main characteristics of national shipping policies usually include at least some of the following:

i) The shipping industry is strengthened by direct government policy which places it in a preferred position. This priority is recognised by other industries which ensure that their policy decisions complement the need to "support" national flag shipping;

ii) A direct link with shipbuilding industry policy. This can be a particularly successful way of helping shipping since anything which lowers the initial capital cost of a vessel is of major importance in lowering overall costs;

iii) A wide variety of financial assistance aimed directly at reducing costs and improving returns on investment;

iv) Indirect assistance such as tax remission and indirect subsidy to private operators;

v) Cargo preference, bilateral agreements and cabotage;

vi) Research and development in technology and marketing

88. The protection of shipping has a long history and the measures currently adopted are by no means necessarily a direct reaction to the current shipping crisis. Annex A to this Report gives details of measures which have been taken by other governments to support shipping.[2] As can be seen, a wide range of methods is used to encourage national flag fleets with few countries relying on only one type of support. It is interesting to note that all EEC governments except the UK provide substantial assistance to the shipping industry.

89. There is no doubt that the current shipping crisis has increased the pressure on all governments to reassess the extent to which they assist shipping. For example, Australian shipowners have been encouraged to invest in new tonnage by the introduction of a 7% taxable investment grant and recently Denmark has been forced to reintroduce its fiscal benefits for private partnership investments. The French Government has introduced a wide ranging package of measures to improve its industry's position: these cover capital assistance and investment grants, some cargo reservation and state-aid for the social and fiscal obligations of some crews. The Federal Republic of Germany, Italy and the Netherlands all have a system of capital grants and the latter is considering seafarers' tax relief.

90. To some extent the situation in the Far East is different in that the shipping policies of countries like Japan and Korea have been as much related to shipbuilding as ship operation, thus exacerbating the overtonnaging problem. This has necessitated a reassessment of the place of shipping in their economies by both the governments and the shipping companies.

1. The Merchant Fleet and Britain's Economy 1988, p28
2. In some instances these measures are part of a long term policy for shipping but most of the measures shown in the Ann ex are a direct reaction to the recent serious decline in fleet tonnage

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91. In addition to the worldwide problem of overtonnaging the Japanese shipping industry has suffered from the rise in value of the yen and high crew costs. Japan is tackling the problem partly by research into advanced technology shipbuilding which allows for minimum crew sizes and partly through the development of special purpose ships such as ice breakers. However, the threat of flagging out remains a serious one. It was particularly interesting to note that of the Japanese-owned fleet of 4,962 ships, no less than 1,591 were flagged-out,[1] and in Government circles there was a broadly expressed desire for a more open European-type register.

92. Korea's problems have been those of indebtedness for which there has been government aid in the form of a ten year moratorium on interest repayments. This situation was largely created by the purchase of second-hand ships at a time when prices were at their peak. There then followed a period of low second-hand values and even lower freight rates. In addition to the moratorium the problem has been tackled by a rationalisation programme, though in recent years the Korean Government has proved unwilling to allow shipping companies to go bankrupt and has instructed other shipowners to come to the rescue of ailing firms. It was clear from our discussions with both the Korean Government and the Maritime and Ports Association that strategic considerations were of prime importance to the size of fleet which they wished to retain. These strategic considerations were used to justify the cargo reservation or 'waiver' system which is applied to the eleven commodities.

93. In 1987[2] the open registry fleet constituted 34% of world deadweight tonnage, an amount approximately equal to that registered in the developed market economy countries. Beneficial ownership of open registry fleets is dominated by Greece, then the USA, Japan and Hong Kong which together own 67.5% of dwt. The UK is in seventh position with 5.6m dwt. During the period July 1984 to July 1987, the open registry fleet increased from 202.5m dwt to 216.4m dwt, ie by some 6.2%. During the same period the relative positions of the major beneficial owners shifted. Greece moved to the top of the list with 45.2m dwt or 20.9% as against 36.0m dwt or 18% in 1984. The USA saw a decrease from 49.8m dwt (24.6%) to 39.0m dwt (18%) in 1987. Japan experienced the largest increase from 23m dwt (11.3%) to 33.8m dwt (15.3%). Hong Kong's position on the other hand decreased from 37.3m dwt (18.4%) to 28.1m dwt (13.0%). The majority of beneficial ownership is concentrated in tanker tonnage, some 43.3% of the open registry fleet. The dry bulk and combination carriers amounted to 35.9%. General cargo vessels were 8.3% and containers 2.4% of the fleet. The UNCTAD Report noted that open registers were no longer limited to the five major flags, Liberia, Panama etc. It commented "that during the last few years a number of developed market economy countries and developed countries have announced the establishment of so called "off-shore" "international", "free" or "open" ship registers"[3]. This trend is discussed in other parts of our report.

The European Community

94. The EC Transport Commissioner, Mr Stanley Clinton Davis, stressed the need for a Community merchant fleet which would enable the Community to retain control of an independent means of transport for its trade[4]. In 1980 the Community's share of the world fleet was 29%. By 1987 it had been reduced to 17%; in absolute terms barely half its 1980 level of 170 million tonnes. The Commission attributed this decline to three factors. One was a loss of comparative advantage; another, the world recession and excess shipping capacity; the third, **the growth of the protectionist policies and practices of other countries.** It was this third threat that the Commission considered could be countered most effectively by Community action.

95. In December 1986, the Council of Ministers agreed four regulations based on the Commission's proposals. The first[5] of these removes, over a transitional period, existing restrictions for Community ship owners whether by unilateral measures or through bilateral cargo sharing agreements and prohibits cargo sharing arrangements in future agreements with third countries unless under specified exceptional circumstances in the liner sector.

96. The second regulation[6] lays down detailed competition rules for international maritime transport services from or to one or more Community ports. It attempts to ensure that competition is not unduly distorted through restrictive practices. There is a group exemption of conference agreements from the general prohibition of restrictive agreements under the Treaty.

1. For details of Japanese and other ships flagged out to Flags of Convenience Registers, see Annex B.
2. Much of this section is based on UNCTAD Report "Beneficial ownership of open-registry fleets 1984" and UNCTAD Report "Beneficial ownership of open registry fleets 1987". See also Annex B
3. UNCTAD Report *op cit* 1987, p2
4. Q 1449
5. No. 4055/86
6. No. 4056/86

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97. The third regulation[1] deals with unfair pricing practices and provides for the imposition of redressive duty on foreign ship owners to restore a situation of fair competition on a commercial basis. It is aimed at those cases where foreign shipowners enjoy non-commercial advantages granted by a third state and persistently charge freight rates too low to be sustainable by companies on a commercial basis.

98. The fourth regulation[2] concerns coordinated action by the Community to ensure free and non-discriminatory access to cargoes for Community shipowners and to ensure fair competition on a commercial basis. Mr Clinton Davis described these legislative measures taken by the Community in the field of shipping and admitted that it was "much too early since the first regulation came into effect on 1st January 1987 and the remaining regulations . . . in July to be able to make a full assessment of what is happening"[3]. But it does not seem to us that the first stage of the European Community shipping policy has had any effect so far in arresting the decline of the European merchant fleet, and in particular that of the UK fleet. Market influences appear to have had far more effect.

99. The second stage of the European Community shipping policy is now under consideration. The UK Government sets particular store on achieving what it failed to gain in the first stage namely, the opening up of the Community shipping market and especially the abolition (or the gradual abolition) of current restrictions on cabotage (See Section VII). The Commission also has under consideration measures for the favourable tax treatment of seafarers in the Community — measures which already exist in certain Community countries[4]. There is no doubt that such measures would benefit UK seafarers — and UK shipping — provided some or all of the benefits got passed on to owners. Other measures, such as a scrapping scheme to try to overcome the problem of surplus capacity and, separately, the idea of a European flag for Community registered ships, are also under consideration. These are all interesting concepts but we cannot see that the future of the UK merchant fleet is going to be seriously affected by these measures. **Overall we feel that any effective EEC action is likely to take some considerable time to achieve. We fear that before this the UK fleet may be so further reduced that EEC remedies could be too late.** Indeed there are other measures which the Commission has under consideration which could be positively harmful to UK shipping, eg the proposed withdrawal of VAT exemption for passenger fares and the abolition of duty free facilities on ferries[5].

Diversification

100. Over the last twenty years or so the historic names of British Shipping — P & O, British and Commonwealth, Cunard, Ellerman's, Furness Withy — have greatly diversified by way of acquisition, merger or reverse takeover. The smaller British shipping companies have also taken over other firms or in their turn been taken over. On the whole these developments have been successful and very few recorded examples of bankruptcy of UK shipping firms exist — unlike the situation in many countries abroad. This process of diversification or growth by acquisition is likely to continue and in so far as it makes for a stronger British shipping industry, with better prospects for the workforce, it must be welcomed.

The Merchant Shipping Act

101. In December 1986, the Government announced its intention to provide financial assistance with the training of seafarers and with repatriation costs. Provision is made in the Merchant Shipping Act 1988 for the implementation of these measures.

102. The intention of the scheme to provide financial assistance with the repatriation of crews is to "reimburse shipping companies for a substantial proportion of crew transfers of seafarers ordinarily resident in the British Isles and serving on ships registered in the United Kingdom, Isle of Man or Channel Islands where the crew changes take place outside the limited European trading area of Bergen to Cadiz"[6]. A sum of about £5 million will be provided. We welcome this assistance which is intended to reduce the differential between the cost of employing UK and third-world crews. We hope it will succeed in its objective of helping to stem the decline in the number of British seafarers employed on UK ships. We discuss later the assistance that is being provided for training.

1. No. 4057/86
2. No. 4058/86
3. Q 1452
4. See Annex A
5. See Fairplay, 7 April 1988, pp3-4 see also Q 1467, and Evidence (1987-88) p 10
6. Official Report, Standing Committee B, 23 February 1988, c 117.

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Table 24

UK-owned trading fleet (500 grt+)

	31.12.75			31.12.82			31.8.85			31.8.86			31.8.87		
	m.dwt	%	(no)	m.dwt	%	(no)	m.dwt	%	(no)	m.dwt	%	(no)	m.dwt	%	(no)
UK-owned and UK mainland registered	50.0	100	(1614)	24.8	86	(868)	16.0	83	(640)	10.3	55	(515)	5.9	35	(400)
UK-owned and Isle of Man/CI registered	Included above but negligible			Included above but negligible			Included above but negligible			0.5	3	(37)	3.2	19	(75)
UK-owned and registered in British Dependent Territories*		N/A		1.2	4	(50)	1.0	5	(45)	5.2	28	(70)	6.2	37	(85)
UK-owned and foreign registered*		N/A		2.8	10	(145)	2.3	12	(100)	2.6	14	(85)	1.6	9	(75)
Total	50.0	100	(1614)	28.8	100	(1063)	19.3	100	(785)	18.6	100	(707)	16.9	100	(635)

Source: GCBS: Evidence (1987-88) p 11 and Interim Report, Appendix 1, p 18

* Partly estimated and based on Lloyd's Register figures

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Flagging-out

103. Although flagging-out is not a new phenomenon, the pace at which it has taken place has accelerated considerably over the last two years. At the end of 1982, 86% of the UK-owned fleet was mainland registered: by August 1987 that figure had fallen to 35%. Flagging out to Dependent Territories had increased from 50 ships of 1.2m dwt in 1982 to 85 ships of 6.2m dwt in 1987, see Table 24.

104. There was also a virtually new category in the Table: that of UK-owned ships registered in the Isle of Man and Channel Islands. As late as August 1985, the number and tonnage of UK-owned ships so registered was negligible. Two years later the number of such ships registered in the Isle of Man had risen to 75 with a tonnage of 3.2 million dwt.

105. Registration on the Isle of Man offers some advantages to the UK. The ships still fly the Red Ensign and can be readily available in times of tension. Similarly the ship management companies based on the Isle of Man are swiftly contactable in an emergency. Thirdly, the ships are registered with an administration whose high safety and technical standards accord with the International Conventions. It would, of course, be preferable for all concerned — the Government, the shipping companies and the seafarers — if the ships could be kept on the UK mainland register but the essential object of flagging-out is to secure reductions in manning costs either by using third world crews or by renegotiating terms and conditions with UK seafarers[1]. Shell Tankers UK, for example, has flagged-out to the Isle of Man and now obtains seafarers through a third party manning agency which has entered into agreements with the British maritime unions. Personnel savings arise from the removal of the substantial part of the leave and other shore side payments inherent under mainland employment conditions, but Shell Tankers UK is enabled to retain a pool of experienced British seafarers and to maintrain links with the recruiting and training facilities in the UK[2]. Under present arrangements there would appear to be some advantages to the UK in flagging-out to the IoM rather than Flag of Convenience registers, but we have noted that some shipowners have taken the opportunity to employ their crews under foreign agency manning arrangements and this of course could mean that non-UK crews are employed.

106. It is important in trying to assess the effect of the decline of UK merchant shipping to make some allowance for the increasing number of ships flagged-out to the Isle of Man and other Dependent Territories as well as those UK owned but foreign registered ships which Her Majesty's Government believes would be available to the UK in time of crisis.

1. Q 848
2. Evidence, p263

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VII OTHER POSSIBLE ACTION

107. Throughout our inquiry we have received suggestions for action which could be taken to halt or even partly reverse the decline in the UK registered merchant fleet. Such proposals have centred on three intentions: to maintain the fleet; to retain British seafarers; to meet defence needs. We discuss these in turn below.

To Maintain The Fleet

Scrap and Build

108. For many years scrap and build policies have been talked about but they have never appealed to the UK Government — nor indeed to the European Commission[1] nor to other Governments — because of the high costs involved and the difficulty of producing effective and equitable schemes. In any case, in recent years, it has been policies of scrap and not build which have been wanted. Now with an upturn in a number of shipping markets and the substantial decline in laid-up tonnage, see Table 25, it is not scrap that is the priority but selective new building[2]. We discuss below some incentives which might be employed to this end.

Table 25

Merchant shipping laid-up for lack of employment (number and thousand tons)

End of year/month	World			United Kingdom		
	No	dwt	%*	No	dwt	%*
79	411	11,061	2	16	1,680	4
80	402	9,190	1	17	1,399	3
81	527	27,391	4	23	1,277	3
82	1,549	83,761	12	79	5,373	15
83	1,663	79,827	12	65	4,525	16
84	1,302	62,350	9	59	3,543	15
85	1,170	49,187	7	54	1,902	9
86	953	24,104	4	46	435	3
87						
March	890	22,719	4	36	411	3
June	792	20,610	3	36	381	3

Source: Department of Transport Statistics bulletin (87) 50, Table 2.8

Fiscal Incentives

109. One of the most widely discussed proposals for action concerned taxation of shipping companies. The GCBS argued that action was needed "to tilt the balance in favour of *reinvestment* in new and good quality secondhand ships as opposed to reinvestment in some other industry of lesser national importance but higher rate of return."[3] As noted in paragraph 64, although investment grants were abolished in 1971, the Finance Act of that year continued 100% first year allowances coupled with free depreciation and allowed a carry-back against the profits of the previous three years, but levied a rate of corporation tax of 52%. This system continued until 1984. Post-1984, the rate of corporation tax was gradually reduced to 35% and the 100% first-year allowances were changed to 25% on a reducing balance basis.

110. Mr Peter Marlow of the Department of Maritime Studies, University of Wales Institute of Science and Technology, assessed the effect of the 1984 Budget as three-fold with, on balance, the low rates of return companies being worse off as a result of the Budget. He deduced that shipowners did not make greater use of the pre-1984 incentives because "shipping investment is not profitable investment . . . They did not feel that the investment incentives provided enough incentive to invest their money into a ship which might cost them £30 million, a ship which they might not be able to use and which they might end up selling a few years later for perhaps £8 million."[4]

1. Q 1457
2. See also Q 90 and Appendix 6
3. Evidence (1987-88), p6
4. Q 492

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111. Similarly, the Department argued that the "pre-1984 taxation regime did indeed encourage tax-shelter investment . . . Nevertheless it had not lead to a high level of shipping investment . . . the basic benefit to the shipping industry of the pre-1984 regime . . . was the front-loading of investment allowances, not the extra flexibility arising from free depreciation."[1]

112. If the 100% first year allowances were not widely used, it is perhaps surprising that the GCBS should have argued that such allowances were a major help to British shipowners, allowing full write-off of the cost of buying a ship against profits virtually whenever they occurred. It is true that the allowances provided broadly equivalent help to that enjoyed by the vast majority of competitive shipowners in the developed world,[2] but we are doubtful that a return to the pre-1984 situation of capital allowances is the entire answer.

113. In its analysis of policy options for the future of the British merchant fleet, published in December 1987, the GCBS argued for roll-over relief for balancing charges, ie for the Treasury to forego the repayments of tax on the excess of the sale value of a ship over its written-down value, provided that the receipts were reinvested in a new or secondhand ship acquired within three years of the disposal of the old one. In the industry's view this would be the most useful single early measure Government could take to assist the shipping industry. The GCBS also proposed that there should be a 50% ship allowance as an incentive for investment in new or secondhand ships. This would enable front-end loading. The GCBS argued that it "would be a most beneficial measure, permitting shipping companies to tap the profits of other businesses, or of other activities within their groups, to restore investment to appropriate levels".[3] The NUS[4] too supported the idea of a 50% allowance for the purchase of new or second hand ships on condition that they were crewed by British seafarers.

114. In his Budget speech on 15 March 1988, the Chancellor of the Exchequer made no concessions on the lines sought by the GCBS. The only concession to shipping was that whereas other industries are now to be limited to £500,000 as the maximum sum they can raise under the Business Expansion Scheme, the ship chartering industry is to be allowed to go up to £5 million.[5]

115. Shortly after the Budget, Inland Revenue gave evidence to us. In its initial written submission, Inland Revenue described the objective behind the 1984 reforms as being "to create a more neutral tax system based on significantly lower rates of tax coupled with allowances for depreciation at rates more closely linked to useful asset life." It also explained why the concessions sought by the GCBS are not in accordance with that objective.[6]

116. Inland Revenue's assessment of roll-over relief was that it "would amount to the reintroduction of accelerated capital allowances in the form of 100 per cent first year allowance for so much of the expenditure on the replacement ship as is necessary to eliminate the balancing charge."[7] Its estimate of the cost of roll-over relief to maintain a UK-fleet of 640 trading ships of over 500 grt was £35 million for the year after the measure took effect, £55 million for the following two years, declining thereafter to an eventual £10 million a year. This estimate is considerably lower than the GCBS's.

117. Inland Revenue also estimated the cost of introducing a special 50% tax allowance for the cost of a new or secondhand ship, as proposed by the GCBS. On the GCBS's assumptions about ships replaced, etc, the cost was estimated as likely to rise to £200 million in 1990/91 and the following year, and then decline to around £90 million in 1995/96.[8] This is markedly above the GCBS's estimate of about £55 million pa to sustain a fleet of the current size.[9]

118. In considering whether assistance of the type discussed above should be made available to the shipping industry, we have used the estimates of cost made by Inland Revenue based on the GCBS's assumptions about ships replaced, etc. If the Government decided that it was essential to maintain a somewhat smaller fleet than that on which the estimates were calculated, the overall cost would of course be lower.

119. Inland Revenue more than once made the point that the 100% first year depreciation

1. Evidence, pp25-6
2. Interim Report, Appendix 1, p7. See also Annex A
3. Evidence (1987-88), p7
4. Appendix 6
5. Official Report, Vol 129, c 1002
6. Evidence (1987-88), p77
7. Evidence (1987-88), p79
8. Evidence (1987-88), p80
9. Evidence (1987-88), p7

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allowance and "free" depreciation which the industry had enjoyed before 1984 did not seem to have had any effect on maintaining investment in the fleet.[1] However, we feel that the Inland Revenue was looking too much at a depressed market situation whereas accelerated depreciation allowances might be expected to have a more marked effect in more favourable trading conditions. When we attempted to question Inland Revenue officials about why no exceptions could be made for shipping we were not met with technical reasons or arguments about the need to maintain comparability with other industries but simply with the time-honoured official formula: "This is a matter for Ministers."[2]

120. There may be a case for a special tax allowance for ship purchase. However, the cost of the scheme would be very high and there is no guarantee that the money spent on new ships would be spent in UK shipyards. It is apparent that the shipping industry would not welcome a scheme which restricted its ability to buy where it chose.[3]

121. The case for roll-over relief is somewhat different. The cost of the proposed scheme is not excessive. Given the serious state of UK shipping and the fact that the Parliamentary Under-Secretary of State for Transport has acknowledged that "if we find the situation deteriorates still further and we get to the danger point in the number of ships available, we may very well have to look at other means,"[4] we believe it is a cost that ought to be accepted. If ships are not purchased there will be no cost to the Treasury from roll-over relief. If they are, this should help the efficiency and competitiveness of the UK shipping industry. We recommend that urgent and sympathetic consideration be given to the proposals for roll-over relief for balancing charges.

122. Lastly, we turn to the Business Expansion Scheme. We believe that, in a shipping context, the limit of £5 million is unduly restrictive. Bearing in mind the high capital costs of ships, we recommend that the limit be raised substantially.

UK Cabotage

123. The possibility of introducing UK cabotage as a defence against the cabotage operated by some of the UK's trading partners was frequently raised in evidence. The GCBS, for example, while believing that it is in the UK industry's best interests for the European cabotage trades to be opened up, argued that if this were not feasible in the near future, the UK should close its own coast until such time as all member states abandoned cabotage[5]. Similar views were advanced by BOSVA and the NUS among others.[6]

124. The Government has recently acknowledged that whereas its primary objective on cabotage remains liberalisation throughout the European Community, it faces "an uphill task against entrenched opposition"[7]. It has therefore introduced a clause into the Merchant Shipping Act which provides the Secretary of State with an enabling power to introduce a test of establishment for operators who wish to carry out cabotage in UK coastal waters. The test would mean that, while non-British companies would be allowed to compete in UK cabotage trades, they would have to be established in the British islands. We welcome the Government's initiative in this area, and recommend that the Government does not hesitate to use the power it has taken if the discussions in the EC on the abolition of cabotage are not brought to a satisfactory conclusion within a reasonable period of time.

Anti-protectionist Measures

125. Another suggestion which has been advanced as a means of countering the protectionism of other nations is to introduce some form of cargo reservation. This could be restricted to the carriage of strategic cargoes or extended to cover other government financed cargoes[8]. Traditionally since the repeal of the Navigation Acts in 1854 the policy of the UK Government has been "a fair field and no favour". Over the years, protectionism has crept insidiously into the world of shipping, but compared, for example, with the world of civil aviation, shipping is still remarkably free. A new entrant to the industry, or an old timer, can buy a ship and trade it freely provided he can obtain a berth at each end or at each point of his trade as he usually can. The UK is benefitting from this freedom and it is not something to be lightly jeopardised. We must be

1 See, eg, QQ 1550, 1555, 1564
2. See, for example, QQ 1554, 1569
3. See, for example, QQ 614 and 1345
4. Q 1522
5. Interim Report, Appendix 1, p10
6. Evidence, p234, Q 110 and Appendix 6. See also Evidence, p79
7. Official Report, Vol 130, c1167
8. Evidence, p79. See also Appendix 6

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careful not to hazard the UK's earnings from cross-trading, see Table 16, by our now setting examples of protectionism to the rest of the world. Quite apart from our mercantilist interest, to do so would be in breach of our undertakings in OECD and our obligations to the EC.

126. A further suggestion has been to reduce custom duties on goods imported on UK-flag vessels. Such action would seem likely, however, to contravene the free trade provisions of the Treaty of Rome.

New Technology

127. Efficient ship projects have been funded in several countries including France, Holland, Norway, Germany and Japan. Japan's Rationalised Ship Programme, which we saw during our visit earlier this year, started in 1977 and experimented with reduced manning on 14 highly automated ships culminating in a 16 man crew on 6 of the vessels. Japan's latest programme is the Highly Reliable Intelligent Ship Project. The aim is new technology and a virtually crewless ship.

128. In 1985 a national research project was begun in the UK into "Technology and Manning for Safe Ship Operations in the 1990's". It was "the first comprehensive attempt to address the complex inter-relationship between manning, the training of seafarers and the introduction of new technology in the marine industry"[1]. The study was completed in February 1987.

129. The report recognised that more reliable automation systems had already allowed very significant progress towards higher productivity. The trades in which UK operators were engaged had tended to be well established and relatively slow to change. As they invested in new ships, the equipment was updated in stages. The Technology and Manning report also acknowledged that the UK is never likely to return to the stability of former worldwide trading patterns. The successful entrepreneur would have to be 'flexible', ie "he will have an acute awareness of the market and great acumen . . . in entering or withdrawing from particular trades. Coupled with this is the need for ability to implement suitable manpower policies, and operate with very efficient shipboard management regimes"[2].

130. If the current trend towards automation continues, ships will be available which can be operated by even fewer people. However, greater technical support between members of the shipboard team will be required. To date, each discipline has not been given the proper training to allow such supportive roles. Training will be required if the UK seafarer is to be able to take advantage of employment opportunities in highly automated ships. There is a long-lead time in training skilled people and action is needed immediately. As the Technology and Manning report concluded "To take full advantage of the opportunities afforded by new technology, investment needs to be made, both in new ships and new training programmes".[3]

131. Dr Milne[4], a member of the Board of British Shipbuilders, has suggested that there is an urgent need for the UK to progress a project of this type into hardware, so that it can be tested at sea and used with confidence in future installations. Financial incentives could be used to encourage the introduction of technologically advanced projects into service. The BMCF too agreed that "In the view of many, the funding of a ship demonstrator is required to give a practical lead to the Shipping Industry and gain its involvement"[5] and argued that there was probably a need for "more incentives and arm-twisting by government to make UK shipping participate more broadly in a productivity programme"[6]. We agree.

132. In January 1988, we were informed that the first steps had been taken towards implementing the recommendations of the Technology and Manning Project. "If these are carried through, and matched with investment in high-technology ships, they should enable UK shipowners and seafarers' organisations to implement training and manning which will be at least as efficient as that in other developed countries. However, shipowners quite naturally take a narrow view of their future training and manpower requirements"[7]. We discuss below the financial assistance which the Government is providing to encourage training. There will, of course, need to be a continued readiness on the part of British seafarers to accept more flexible job specifications.[8] Japanese Officers, for example, in their new high-technology ships will be expected to be both navigators and engineers. Similar agreements will be needed in the UK.

1. Evidence, p109
2. Evidence, p110
3. Evidence, p111
4. Appendix 23
5. The Merchant Fleet and Britain's Economy 1988, p21-2. See also Appendix 14
6. The Merchant Fleet and Britain's Economy 1988, p73
7. Appendix 20
8. See, eg., Q 104

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To Retain British Seafarers

133. Various suggestions have been made about incentives which might be provided to encourage shipowners to continue to employ British seafarers, to help retain those seafarers already in the profession and to attract new entrants.

134. Both the GCBS and the unions have advocated the introduction of a special tax and social security regime which would involve a reduced rate of income tax and a lower rate of national insurance contributions for both employers and employees.[1] The GCBS has argued that it is these charges which provide the real disincentive to the employment of Western European crews. It estimates the current annual wage and related cost for vessels on the UK register is around £440 million a year of which £70 million represents income tax payable by seafarers, £50 million the joint employer/employee contribution and £65 million the employer/employee contribution to pension funds. This amounts to a 40% differential between what the employer pays gross for labour and what the seafarer receives net[2].

135. As the GCBS concedes, it would be unrealistic to assume that all these costs could be eliminated for UK seafarers. Pension costs are a real part of a seafarer's income and have to be reflected in wage costs. But income tax and social security contributions are an impost of Government and could thus be modified by Government.

136. The combined employer/employee contributions to National Insurance are about 13% of the wage bill. A reduction on the ground that foreign-going seafarers will inevitably use the facilities of the National Health Service less than people permanently resident in the country would be a help to the industry. Employers' contribution are already reduced by 0.5% where a mariner is a master or crew member of a foreign-going ship[3]. The GCBS has estimated that a reduction of 50% in the employer's contribution would yield nearly £2 million pa to the industry for every 100 ships that the Government decided to support as necessary for a UK fleet[4]. **We recommend that the Government should look again at the whole question of employers' National Insurance contributions in respect of foreign-going seafarers.**

137. A reduced rate of income tax for seafarers has been suggested by their Unions[5]. And some European countries already grant income tax concessions to their seafarers, see para 99 above. It is difficult to draw meaningful comparisons with the situation in other countries as there are differences in terms of local income tax, social security contribution benefits paid, and in the general level of taxation. However if, as we believe possible, the European Commission makes proposals on a Community-wide basis for the remission of at least part of a seafarer's tax[6], we hope that the Government will give the proposals sympathetic consideration.

138. There is one aspect of seafarers' income tax that causes us concern — that is the question of whether PAYE should be deducted at source from the pay packets of officers and ratings serving on vessels registered in the Isle of Man. In the past, UK shipping companies generally employed and paid their own crews and deducted PAYE tax from wages paid. In recent years, growing numbers of these companies have contracted with manning agencies to engage, employ and pay crews for their ships. One common feature of the arrangments made with the crewing agencies, has been that prior to these new arrangements PAYE was operated, but that subsequently it has not been. Some major companies have made changes of this kind in recent years. The Revenue decided last year to conduct a fact-finding exercise with a view to achieving consistent treatment of the shipping industry as a whole. The findings are currently under consideration and the shipping industry is waiting to hear whether PAYE liability exists.

139. It has been suggested that one of the attractions of the Isle of Man register is that the ship management companies concerned can contract with their employees for a lump sum payment — with the seafarer being responsible for his own taxation and pension arrangements. However, Inland Revenue has pointed out that the flag under which a ship sails is not relevant either to the question of the seafarer's liability to tax or to the operation of PAYE[7].

1. See, eg, Appendix 5 and Evidence, p 43. See also Appendix 10
2. Evidence (1987-88), p8
3. Appendix 2
4. Evidence (1987-88), p8. NB. The abatement of mariners' contribution rates in respect of their exclusion from the redundancy payments scheme ceased on 6 April 1988, Q 1614
5. Evidence, p79. See also The UK Fleet in Crisis, NUMAST 1987
6. QQ 1449; 1475
7. Evidence (1987-88), p82

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140. The Inland Revenue maintains that it is not expected that the operation of PAYE would involve substantial administrative costs for the shipping companies. Independent studies have shown that for larger employers the administrative costs are normally relatively small and in practice are largely offset by the cash flow advantages of only remitting the tax due to the Revenue some time after it has been deducted from employees' pay.

141. It is our understanding that if the Inland Revenue judges that a company is liable for PAYE the company will not avoid that liability by moving on to another register. The Revenue would continue to take into account whether the employer had general control and management of the employee's work. Presumably the shipping company could seek to avoid PAYE by altering its arrangements with the manning agency but that also should not require movement between flags. The possibility of flag movement becomes more likely when it is recognised that PAYE only applies to people resident for tax purposes in the UK. The shipping company could avoid PAYE responsibility by replacing UK seafarers with those of another country. That prospect concerns us greatly.

142. Moreover the effect of deducting PAYE at source may be to disenchant some seafarers who have hitherto been collecting a "full" pay packet. Seafarers, for example, who spend so much time abroad that they are not liable for UK tax are going to take it hard if they have tax deducted at source and then have to claim it back from the Revenue, only receiving it many months later. Such seafarers may try to obtain service under other flags. **All in all, we recommend the present practice should continue.** However, we can understand if the Inland Revenue should decide to make the deduction of PAYE the responsibility of the shipping company. In these circumstances we feel that special arrangments should be made to avoid the seafarer having to reclaim tax that he has overpaid.

143. We have noted that the Inland Revenue has told us there is no entitlement to collect tax from the employee where an employer should have operated PAYE and thus that leaving the collection of the tax as a matter simply between individual seafarers and the Revenue is not an option.[1] We consider that such an option, if it is decided to continue the present practice, might, with advantage, be made available to employers and employees in the shipping industry and **recommend that urgent consideration be given to amending the relevant statutory regulations accordingly.**

Training

144. Considerable concern has been expressed by various marine training schools about the decline in the number of cadet trainees. In 1983, for example, fewer than 100 cadets were recruited through the Engineering Cadet Scheme. "The graph of cadet recruitment now shows some levelling off, but below a figure of 100 per annum" [2]. The Association of Marine Engineering Schools found this situation unsatisfactory. As the overall time required from recruitment as a cadet to qualification as a Chief Engineer is unlikely to be less than 10 years, it would be essential for more people to enter the service if the UK intended to retain a fleet manned by holders of the British Certificate of Competency[3].

145. The concern of the engineering side was echoed by the International Association of Navigation Schools and South Tyneside College in relation to both deck and engineering officers[4]. The College argued that there would be a shortage of officers in the 1990s. The concern of these bodies was shared by several other organisations which stressed the crisis level to which training numbers have fallen.[5] Cadet numbers fell between 1975 and 1986 by some 93%. The GCBS estimated that only 93 engineering and deck cadets entered training in the federated sector in 1987.[6] The Department's estimate of the total number of cadets entering training in 1987 was about 189[7].

1. Evidence (1987-88), p82
2. Appendix 25
3. *Ibid*
4. Evidence, p61 and Appendix 8
5. See, for example, Appendices 12 and 25 and Q 376
6. Appendix 18
7. QQ 1402; 1527

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Table 26

UK Federated Sector — Officer Recruitment

Year	Deck Cadets		Engineer Cadets	
	New Entry	Under Training	New Entry	Under Training
1970	1220	4384	846	3064
1975	1284	4482	1031	3663
1980	650	3484	624	3081
1981	320	2819	336	2506
1982	140	1969	156	1829
1983	81	1191	71	1187
1984	77	618	80	643
1985	85	383	80	387
1986	39	282	43	278
1987	43*	243	50*	257

* Estimated

Source: GCBS. See also Appendix 18, Annex D.

146. The Parliamentary Under-Secretary of State accepted that the present number of cadets was not satisfactory. The Government had therefore taken powers under the Merchant Shipping Act to provide assistance with training costs by helping offset the salary costs of cadets currently met by shipping companies[1]. It also hoped to enable the industry to take greater advantage of existing provision for the funding of education and training. The Government would be providing special assistance of £3.5 million per year with the aim of substantially increasing numbers. The Minister hoped "that within a fairly short space of time we would at least see a doubling in the number of officer cadets going in for training"[2].

147. The Government's financial assistance was generally welcomed. It was emphasised, however, that the greatest problem facing the shipping industry "is its inability to recruit school leavers into shipping as a career"[3]. Indeed the President of the Nautical Institute said of the assistance for training "without a parallel commitment to more ships, it is doubtful if it will be possible to stimulate enough interest in our profession[4]. Attracting capable young people into the Merchant Navy would require an initiative from central government to assist the industry to repair its image, by recognising the importance of the shipping industry as a whole and making youngsters aware that the Merchant Marine could still provide a good career.

148. We too welcome the assistance that is being provided to help meet the cost of training cadets. However, on the Government's own estimate, this assistance is only likely to enable a doubling of the numbers being trained. We do not believe that this is satisfactory. Clyde Marine Training Ltd have estimated that a minimum of 300/400 deck and engineering cadets should be entering training each year. In their view, considering that "the figures were 1800/2000 each year until 1980, the estimation of 300/400 cannot be considered to be other than the minimum necessary to ensure supply meets demand"[5]. We agree. **We recommend accordingly that the sum made available for training be doubled.**

149. We are also concerned about the drop in the number of ratings entering the Merchant Navy, a percentage drop of 68% between 1975 and 1985. Shell Tankers (UK) pointed out the inability of the shipping industry to find the capital injection necessary to maintain the Gravesend Sea School, the only training establishment for rating entrants, at the level it would wish. It stressed the need for an industry drive to promote careers at sea which offer prospects to the interested youngster.[6] We agree that much of the reluctance to enter the industry must be due to the very negative impression of its future prospects which the industry itself has engendered. We were pleased to hear the President of the GCBS, in his concluding statement to the Committee, say "Our industry actually is in pretty good shape now . . . The last thing that we would, therefore, like to leave you with is the feeling we are either a lame duck or a sunset industry"[7]. We welcome this positive statement. We believe that positive steps must be taken to improve the public perception of the industry and **recommend that HMG encourage a campaign in which all interested bodies should be invited to participate with the clear aim of improving the image and stressing the opportunities of the UK shipping industry.**

1. The Government published its training scheme in 'A Scheme For Department of Transport Assistance for merchant Navy Officer Training', 3 May 1988
2. Q 1527
3. Appendix 8
4. Appendix 19
5. Appendix 12
6. Appendix 24
7. Q 1373

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Table 27

Number of Junior Ratings and % Change 1975-1985

Date	All Junior Ratings	Deck Junior Ratings	Catering Junior Ratings	Engine Junior Ratings	GP Junior Ratings
1975	4,245	1,588	2,443	141	73
1980	2,723	1,113	1,491	11	108
1985	1,346	470	851	22	3
% change 75/80	−36	−30	−39	−92	+48
% change 80/85	−50	−57	−42	+100	−97
% change 75/85	−68	−70	−65	−84	−96

Source: GCBS.

For Defence Purposes

150. As we discussed earlier, the main case advanced by the Department of Transport for maintaining a merchant fleet rests on the strategic argument. Although we believe the Department has underestimated the other reasons for maintaining a fleet, we acknowledge and accept the importance of the strategic argument.

151. As we stated in paragraph 73, the merchant fleet is required in terms of defence for four specific purposes. These are the transatlantic reinforcement of Europe; the reinforcement of Europe from the UK; direct support of the Royal Navy; and the civil supply of the UK and Europe in times of tension or war. The importance of these four tasks is self-evident and it is essential that the UK fleet should be of a sufficient size to be able to fulfil them. It is for the Ministry of Defence to establish its requirements for merchant shipping for support of the Armed Forces and for the Department of Transport to ensure the availability of shipping to meet those demands and to provide for the civil supply of the UK.

152. The Department of Transport's responsibility appears to us to have two sides. The first is to ensure that sufficient vessels of the categories required will be available if needed; the second is to ensure that the necessary crews will also be available. We have considerable doubts about whether the Government's present policies on shipping can guarantee that either of these requirements will be able to be met.

153. For defence purposes, the Government does not confine itself to the UK register but also counts vessels registered in the Crown Dependencies and some other vessels registered in the Dependent Territories. The Department has estimated there are over 1,000 vessels (500 grt+) registered under the British flag. In addition, there are vessels owned in the UK but registered in foreign countries. The Government is making arrangements with those countries so that it can get the vessels back in time of war[1], **and we recommend that these arrangements be concluded as a matter of the highest priority.**

154. Of equal importance to the availability of ships, is the availability of crews. The Department said that there was no problem with ships registered in the UK and Isle of Man or in many of the vessels registered in Dependent Territories because the nationality requirement ensured they would have British officers aboard. However, the nationality requirement is only that the key officers should be British, Irish or Commonwealth citizens. There is no nationality requirement for junior officers, although they must hold recognised certificates of competency, nor for crews[2]. With vessels registered in foreign countries, the Department admitted that although the UK might have arrangements to get them back in time of need, there was no guarantee that they would have the right sort of crews on board to ensure they were delivered promptly when needed[3], **or, in our view, ready to sail where needed in a crisis.** For that reason the Government is establishing a Merchant Navy Reserve of seafarers who can be used to man the vessels in an emergency[4].

1. Q 1384
2. Evidence, p50
3. Q 1385
4. *Ibid*

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155. We are very concerned about certain aspects of requisitioning. Although it may be reasonable to place dependence on the availability of ships registered in the UK and Crown Dependencies it is not certain that equal reliance can be placed on ships registered further afield. Some undoubtedly would move between registers at any hint of tension to avoid making themselves liable to requisitioning. Many of the 35 tankers which have joined the British register since the beginning of 1987 may have been attracted by the prospect of a Royal Navy escort through the Gulf. It seems equally possible that the threat of a conflict might encourage other vessels to reflag.

156. With regard to crews, we believe it is dangerously naive of the Department to assume that three British officers would be able to ensure that a ship could be brought back to the UK if the remaining non-British crew decided otherwise. Mr Clinton Davis, discussing flagging out, said "from a national and Community point of view it is dangerous, not least for strategic reasons. It is, I think, extraordinarily complacent to believe that in time of emergency or potential emergency agreements for repatriation could readily be implemented, but even if they could, could you rely in an emergency upon seafarers from other countries which might have a direct interest in conflict with that of a Community member?"[1] This is a question to which we think the Government must give serious consideration.

157. In addition, we are not convinced that there would be sufficient UK seafarers available to man the requistioned ships. We expressed above our reservations about whether the training assistance being provided under the Merchant Shipping Act will be sufficient to encourage the shipping companies to train an adequate number of cadets and about whether the image of the shipping industry is as yet sufficiently positive to encourage more people to apply for training. We agree with the Editor of Fairplay's assessment that "In some respects . . . the men are more important than the ships themselves. You can always charter ships but you cannot obtain men so quickly"[2].

Merchant Navy Reserve

158. As we noted above, the Government has made provision in the Merchant Shipping Act for the establishment of the Merchant Navy Reserve (MNR). It "will be a body of qualified and experienced seafarers who can be called upon to crew merchant vessels in time of tension or war . . . The Reserve should help ensure that in future years there will be sufficient experienced seafarers available in time of emergency to man merchant vessels"[3]. Membership of the Reserve will be open to former Merchant Navy officers and ratings who will be paid a bounty of £200 a year in exchange for accepting an obligation to serve if called upon to do so. The Reserve will not be open to seafarers actually serving on British ships. Nor will British seafarers serving on foreign ships be eligible though they may be invited to register as willing to serve if free to do so[4]. It remains to be seen how this Reserve will work out. By some it has been dubbed "Dad's Navy."[5] Progress will need to be carefully monitored to see that the Reserve is effective. If it is not, we recommend that the Government give consideration to further measures.

159. The Merchant Shipping Act contains powers to allow for training but a training element is unlikely to be included at the outset. The Government wishes "to get the Reserve established and assess reaction before taking any decisions on the need for training"[6]. The Minister of State has given an assurance however that when the Government sees the need for training it will consider the problem and how best to finance training[7]. We believe that the need already exists and we recommend that periodic training be introduced.

Specific Ship Support

160. When we took evidence jointly from the Ministry of Defence and the Department of Transport we discussed the availability of particular types of merchant ship required for the four purposes described earlier. The tanker situation, for example, was something which was being monitored very closely[8]. For obvious reasons, we do not intend to comment further on whether there is a shortage of any particular type of ship. We feel, however, that if such a shortage is identified it would be appropriate for the Government to provide financial assistance towards the purchase of that specific category of vessel[9].

1. Q 1478
2. Q 1035. See also Q 1457
3. Merchant Shipping: Legislative Proposals, Cm 239
4. Official Report, Standing Committee B, 23 February 1988, cc 121-2
5. See reference in Appendix 15
6. Official Report, Standing Committee B, 23 February 1988, cc 121-2
7. *Ibid*, c. 125
8. Q 1416. See also Q973

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VIII CONCLUSION AND SUMMARY OF RECOMMENDATIONS

161. At the start of this inquiry we noted that central to it must be the question of whether the UK needs a merchant fleet and, if so, whether the UK Government should provide support for the shipping industry beyond that which it provides for other industries. We believe that the case for a merchant fleet both on strategic and on economic grounds is unarguable. Perhaps the only difficulty lies in convincing the Government that it should give tangible recognition to that fact. In evidence, the Parliamentary Under-Secretary of State, the Lord Brabazon, said several times that if the decline continued, the Government would have to take further measures. We believe the time for action has arrived and that the Government must now take steps to ensure that a core fleet, of a size sufficient to fulfil its strategic and economic roles, is maintained.

162. We asked also whether support should be provided for the shipping industry, beyond that provided for other industries. In our view, the support provided for shipping does not match, much less exceed, that given to other industries[1]. The UK shipping industry operates in a highly competitive international market where the greater proportion of its competitors enjoy tax and other concessions. It is in line fiscally with the rest of UK industry though an element of free depreciation remains. It is not eligible for Enterprise Zone tax benefits, etc, and does not share the same import barriers that are available to much of UK industry and agriculture. We believe therefore that there is a case for the Government to provide assistance to enable the UK shipping industry to compete more fairly with that of the rest of the world. We do accept however that unilateral UK action alone may be insufficient. Whatever improvements in training, financial incentives, new manning agreements or even protectionist policies such as restricted cabotage may be pursued, there will always remain the risk that other countries may take further measures to undercut the policies adopted by the UK Government. As some such foreign action could well affect safety, international action and agreement will clearly be necessary and Her Majesty's Government would be well advised to consider what steps it could take towards such an end in the EEC and outside, if further efforts to help British shipping, such as those contained in this report, are not to be frustrated. The UK needs a merchant fleet. We hope that our recommendations will help to ensure its continued existence.

163. Our main recommendations are as follows:

i That the Department of Transport institute random checks of surveys carried out and that, if the surveys carried out by any particular Classification Society are shown to be seriously inadequate, the Department ensure that no further surveys are delegated to that Society (para 71).

ii That urgent and sympathetic consideration be given to the proposals for roll-over relief for balancing charges (para 121).

iii That the Business Expansion Scheme limit of £5 million be raised substantially (para 122).

iv That the Government does not hesitate to use the power it has taken to introduce a test of establishment for operators who wish to carry out cabotage in UK coastal waters if the discussions in the EC on the abolition of cabotage are not brought to a satisfactory conclusion within a reasonable period of time (para 124).

v That the Government should look again at the whole question of employers' National Insurance contributions in respect of foreign-going seafarers (para 136).

vi That the present practice with regard to deduction of tax from seafarers employed by ship management companies should continue (para 143).

vii That urgent consideration be given to amending the statutory regulations which prevent Inland Revenue from deducting tax from an employee where an employer should have operated PAYE (para 143).

viii That the sum made available by the Government for training be doubled (para 148).

1. See, e.g., Appendices 10 and 11

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ix That HMG encourage a campaign in which all interested bodies should be invited to participate with the clear aim of improving the image and stressing the opportunities of the UK shipping industry (para 149).

x That the arrangements for repatriating UK-owned vessels registered in foreign countries be concluded as a matter of the highest priority (para 153).

xi That, if the Merchant Navy Reserve is not effective, the Government give consideration to further measures (para 158).

xii That periodic training of the Reserve be introduced (para 159).

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MEASURES TAKEN BY OTHER GOVERNMENTS TO SUPPORT THEIR SHIPPING INDUSTRIES*

COUNTRY	HOME CREDIT SCHEME (Shipbuilding)			SUBSIDIES	TAX-FREE RESERVE	OTHER	CABOTAGE	RECENT REPORTS	% CHANGE ±1976-1986 MILLION DWT (500 grt+)
	% of Cost	Interest Rate %	Repayment Period Grace-Period In ( )						
BELGIUM	70	4-5	15 years				None	Guarantee loans, interest subsidies, tax allowances on investment and depreciation	N/A
DENMARK	80	8	12 (2) [a]		Companies: 25% of taxable income for new investment.	(i) Guarantees of loans for smaller cargo ships. (ii) Special rates of tax for seafarers.	Total (1)	Interest subsidies, tax allowances on investment and depreciation, special tax relief for seafarers	−17.3
FINLAND	70-80	10-10.5	7-12 normally 8 or 10		Book profits resulting from the sale or loss of a vessel as a reserve for future purchase of a vessel.			Guarantee loans, interest subsidies, tax allowances on investment and depreciation, special seafarers taxation scheme, additional financial assistance if industry produces cost cutting	N/A
FRANCE	80	8	8½	Government will offer exceptional grants to shipping companies carrying out restructuring operations aimed at improving their competitivity. New vessels: 7½-10% of investment. Second-hand vessels: 5-10% of cost of vessel or a subsidised loan.	(i) To cover salary element resulting from expansion. (ii) Re-evaluation of assets.	Investment aid now available for the purchase of ships up to 8 years old and will also be offered to owners carrying out modernisation work on ships bought second-hand. Professional tax obligations of French companies to be reduced by 66% for 1987 and 1988.	Total (2)(4)	Construction and interest subsidies and a 23 point, £150 million aid package in 1987	−52
GREECE	30	14	4		Proceeds received from the sale of ships are exempted unconditionally from tax.		Total (1)	Guarantee loans, interest subsidies, tax allowances on investment and depreciation. Ship sales are tax exempted	+22.4

* See Evidence (1987-88) pp16-20

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ANNEX A (continued)

MEASURES TAKEN BY OTHER GOVERNMENTS TO SUPPORT THEIR SHIPPING INDUSTRIES (continued)

COUNTRY	HOME CREDIT SCHEME			SUBSIDIES	TAX-FREE RESERVE	OTHER	CABOTAGE	RECENT REPORTS	% CHANGE ±1976-1986 MILLION DWT (500 grt+)
	% of Cost	Interest Rate %	Repayment Period Grace-Period In ( )						
F.R. GERMANY	80	8	12 [b]	12½% for new ships [c] 20% for conversions.	80% of book profits from sale of vessel.	Foreign Income Relief. If 80% or more of profits arise exclusively from operations overseas, then the rate of taxation is halved for the first 80% of profits. Roll-over Relief. Accelerated depreciation available — allowance up to 40% of the after-subsidy price, spread over the year of acquisition and the following four years.	Total (1) but waivers and reciprocal agreements	Guarantee loans, construction subsidies, tax allowances on investment and depreciation	−48
IRELAND	As agreed in OECD			Investment grants of up to 25% towards acquisition of new ships and second-hand ships less than five years old.		Corporations profit tax on shipping profits reduced from 50% to 10%.	None	Tax allowances on investment and depreciation, shipping profit tax cut to 10% in 1987, investment grants for new and second hand tonnage	N/A
ITALY				5½% for new ships and second-hand ships less than 10 years old. 6.4% for ships less than 5,000 grt transporting liquid or gas, or less than 3,000 grt for others. Subsidy for shipping companies to launch shipping lines.			Total. Limited waivers	Construction subsidies	−29

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ANNEX A (continued)

MEASURES TAKEN BY OTHER GOVERNMENTS TO SUPPORT THEIR SHIPPING INDUSTRIES (continued)

COUNTRY	HOME CREDIT SCHEME			SUBSIDIES	TAX-FREE RESERVE	OTHER	CABOTAGE	RECENT REPORTS	% CHANGE ±1976-1986 MILLION DWT (500 grt+)
	% of Cost	Interest Rate %	Repayment Period Grace-Period In ( )						
JAPAN	60 50	7.3 7.3	13 (3) [d] 13 (3) [e]	1979-81: 89.7 bn Yen Government-sponsored ship-building programme (payment delayed: interest on 1987-1991 loans on ship-building frozen).	(i) Replacement of business assets. (ii) Special repairs of ships. (iii) Special depreciation. (iv) Unusual rise in war risks premiums.	Coastal vessels may be scrapped and new ones built for joint ownership with two Maritime Credit organisations.	Total (1)	Tax allowances on investment and depreciation	−13
KOREA	90	10	8 (2½)	Operating subsidies to liner shipping companies who make a significant contribution to earning foreign exchange.			Total (4)	Loan guarantee, operating and construction subsidies, 10 year debt moratorium and 10 year repayment period	+448
NETHERLANDS				1.5% for new ships and second-hand ships less than 5 years old.	Book profits from sale of vessel.	Investment tax deductions of 12% [f]. Marine Investment scheme, allowing for a payment of 2.3% of the value of a new vessel in each of the first five years after purchase.	None	Loan guarantee, operating subsidies, special tax scheme for seafarers, Nil tax for foreign shipowners	−38
NORWAY	80	8	8 (2)	Subsidies are available in place of the credit scheme for shipowners financing projects themselves.	(i) Investment reserves including book profits resulting from sale loss of an asset. (ii) Reserves for consolidation limited to 10% of net income.	(i) State credit guarantees available to Norwegian shipowners. (ii) Seafarers are paid 50% returning home expenses and are subject to a special income tax.	None	Guaranteed loans, tax allowances for investment and depreciation, special tax scheme for seafarers, establishment of Norwegian International Ship Register	−72

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ANNEX A (continued)

MEASURES TAKEN BY OTHER GOVERNMENTS TO SUPPORT THEIR SHIPPING INDUSTRIES (continued)

COUNTRY	HOME CREDIT SCHEME			SUBSIDIES	TAX-FREE RESERVE	OTHER	CABOTAGE	RECENT REPORTS	% CHANGE ±1976-1986 MILLION DWT (500 grt+)
	% of Cost	Interest Rate %	Repayment Period Grace-Period In ( )						
SPAIN	85	8	12 (2)	5.5% plus additional subsidy up to 9.5% according to type of ship. Operating subsidies for shipping companies operating in national interest and for making up losses incurred in the coastal trade.	(a) Book profits. (b) 50% of undistributed profits. Gains from the sale of most tangible fixed company assets reinvested in next two years.	Loans for conversions and major repairs: 60% of cost at 8% interest repayable over 5 years with 1 year's grace period.	Total (1) (4)	Construction and interest subsidies. Considering additional subsidies	−1
SWEDEN	90	9.65 (US$)	12 [i]		(a) Reserves for replacement. (b) Allocations to investment funds for economic stabilisation.		Total (1) but waivers and reciprocal agreements	Construction subsidies, tax allowances on investment and depreciation, £50m aid package March 1988, tax exemption for seafarers	−77

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[Mr Mudd *Contd.*]

of course may then turn upon a host of other factors that obviously I could explain to you if you wish.

Mr Bevan

18. So that one can get an idea of the proportions going elsewhere, I wonder if we can have some kind of relationship between the percentages that go to the Isle of Man and to the Channel Islands and others, and also the proportions that are being flagged out outside the dependencies with other foreign countries and how those split up as well, and how either the tax basis that exists there or the tax collection mechanisms there might affect those tendencies.

(Mr Sunderland) Certainly we can provide more detailed figures about the distribution between the different dependent territories and the other overseas countries. I think in general terms it might be useful if I were to point out that the Isle of Man register is very new and until this year had no significant amount of tonnage on it at all. A very large part of the vessels leaving the United Kingdom register this year have been moving to the Isle of Man and that is perhaps one of the few brighter features of the present scene, that whereas in earlier days the normal place to go was Panama or Liberia, which had absolutely no associations with the United Kingdom at all and where there was no requirement for owners to carry any UK nationals on board, the nationality requirements do attach however to registration in the dependent territories and Crown dependencies and we have seen recently a growth in the number of ships going to Bermuda as well. But, as I say, by far the most significant trend has been the sudden growth this year of the Isle of Man register.

Mr Dicks

19. Bearing in mind that owners are in business to make a profit, not necessarily to provide employment—that is a secondary aspect of running their business—what are the other reasons for going away from London, say, to the Channel Islands and the Isle of Man and elsewhere? You said the wage rates for crews would be less. Are there any other factors which would pressurise an owner to go away from London elsewhere besides just cheaper crew rates? What would they be?

(Mr Sunderland) Yes, there are countries, as has been made clear in the evidence that has been submitted to you, who provide incentives of various kinds to put ships on their registers. These may be investment incentives, sometimes with some strings attached as to where the ships are built and as to how long they are kept on the register in question, but this is one potential incentive to moving to another register. I think it is probably fair to say that there are owners—not necessarily British but certainly of other countries—who may feel that the safety regulations on the established registers are more onerous than they would wish them to be. So speaking in general terms it is quite clear that the so-called flags of convenience—we refer to them as the open registers—in some cases do have a very light supervisory capacity. So that would be another potential incentive to move away. But I am happy to say that is not something which is a feature of the British shipping industry, but it certainly does help to account for the growth of some of the open registers.

20. But not necessarily the decline of the British register?

(Mr Sunderland) No, not necessarily.

Mr Ross

21. Just to follow up the tax advantages of doing this, I think I got you right when you replied to my earlier intervention that, if those ships were trading out of a British port, there was no tax advantage to the owner but presumably, if they are trading between foreign ports and not coming to British ports is there a further tax advantage for them to flag out, or any advantage other than crewing costs?

(Mr Sunderland) I do not think the pattern of their trading has anything to do with the taxation, no.

Mr Trotter

22. Coming back to Hong Kong, we all know in 1997 it will not be under the control of the Secretary of State for Transport in London, though I think I am right in saying there is a proposal to have two flags before that in the same ship. Is that right? Is that something we should take into account with regard to availability of British ships?

(Mr Sunderland) Yes.

23. On crewing, savings by them on flagging out, there seem to be two quite different possibilites. One is to retain basically the same crew under more economical overall terms; the other is to go for a foreign crew. Have you anything to say on those two alternatives and why some people choose one and some the other?

(Mr Sunderland) As I think I said, there are many permutations here. You can at one extreme have an all British crew and at the other extreme an all foreign crew, and you may have a mixed crew. Indeed, amongst the foreign crews there are quite wide variations in cost. But undoubtedly the growth in the expertise of some foreign crews over the last few years has been a very considerable challenge to British owners and British crews. Some of our most reputable shipowners can, I think, give you evidence that they have seen competitors operating vessels with foreign officers and ratings who have been very throughly trained and are fully responsible in the operation of very sophisticated tonnage and their services can certainly be obtained at well below the rates at which any Western European crews can be obtained.

24. Are there any UK laws, as opposed to union agreements for foreign crews on British ships or on those in these independent countries?

(Mr Sunderland) I will ask Mr Battersby to summarise the constraints.

(Mr Battersby) Mr Chairman, Mr Sunderland flatters me, as he knows full well, in saying that. The position is that the law in these matters is of very remarkable complexity and it might assist the Committee best if we were to put in a note on it. But in order to take the discussion forward now, UK registered ships under the law must carry in the posts of master, chief officer and chief engineer British nationals as defined, and that definition is rather a broad one, including citizens of the Republic of Ireland and certain citizens of what for convenience we call the Old Commonwealth. That stipulation is extended, as Mr Sunderland said a little earlier in evidence, to the Dependent Territories but in some of

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[Mr Trotter *Contd.*]

those territories it is honoured more in the breach than in the observance. With Hong Kong—to take up a point you made a few moments ago, Mr Trotter—a new shipping register is envisaged long before the transfer of responsibility and a consultative document is under public discussion for this purpose. This document envisages that the existing requirement in Hong Kong, which in broad terms is the same as in the UK, although not precisely, will be abandoned, so that once that new register takes effect—and the target date is roughly 1990, although perhaps before if all goes well—the requirement to carry British officers on the Hong Kong fleet would be lifted and those officer posts could be filled by any persons of suitable competence. This is not a cause for alarm. The Hong Kong Marine Administration stands very high in our estimation. They exercise very rigorous standards and we have every confidence that there will be no diminution in the quality of the officer standards in Hong Kong shipping in consequence.

Chairman

25. Could we turn to the position in the EEC and the importance of the Commission's memoranda on shipping policy. The Minister, I believe, hoped to have some agreement during his six months' period of Presidency of the Council of Ministers in this connection. Do you feel this is going to take place?

(Mr Sunderland) There is a meeting of the Transport Council on Tuesday of next week and we are hopeful of the adoption of certainly the major part of this package of regulations, which we have been negotiating for the last year and a half.

26. Would you like to say briefly what they comprise, particularly the one in connection with cabotage?

(Mr Sunderland) Yes. There are three regulations that are pretty well tied up now. Some very minor points can easily be eliminated if the other obstacles can be overcome. Of those three regulations, two are essentially defensive. They deal with action against cargo reservation in other countries and against unfair pricing practices by foreign carriers. The third regulation is the competition regulation, which will at long last set out the terms on which the liner conferences can operate consistent with the competition provisions of the Treaty of Rome. Those three regulations, pretty detailed, pretty complex, are in a very satisfactory state now. The debate on Tuesday will turn on one or two outstanding points on the so-called freedom to provide services regulations. There are two of these. One of them concerns services from Member States of the Community to other countries in the world, in other words, external services, and the other regulation is internal services, that is, cabotage, to which you referred. So far as the external services are concerned, this regulation, if adopted, will have the effect of requiring Member States to abandon any laws, any measures which they at present operate and which have the effect of reserving cargoes to their national flag vessels and will so give equal access to all EEC Member States to those cargoes. In Spain, for instance, there is an important list of commodities, notably barley and oil, which are reserved to Spanish flag vessels. In France there is the reservation of coal imports. In various trades from various countries of the Community there are cargo-sharing agreements which mean that cargoes are shared with trading partners, often on a fifty-fifty basis, so that other Member States can have no access to them. There are a number of other areas where our carriers do not have the necessary opportunities to compete. We in this country have no such provisions and, therefore, we stand to gain—and to lose nothing—from this regulation. We are very hopeful that this regulation can be adopted on Tuesday, with certain transitional periods, but I would hope that the benefits would start coming through to British ship owners very soon.

27. If that was not agreed would you feel there would be very little option but to take on a protectionist role ourselves?

(Mr Sunderland) I think that is a rather large jump in the logic. We are here talking about competition between EEC Member States and the idea of becoming protectionist would have an effect on shipping worldwide. It would also have profound implications for our users.

28. I was talking about coastal shipping.

(Mr Sunderland) I had not quite come to cabotage. The final regulation is the cabotage regulation, which would require other Member States to open up their coastal trades to British vessels. This is the one which undoubtedly is going to be the most difficult. I think if that regulation is not adopted the position will be absolutely clear. We have negotiated in good faith for 18 months and we cannot go on negotiating. If we do not get a cabotage regulation at this Council the Secretary of State has already made it quite clear that we have to adopt one of two courses. One would be to close our own coastline to some or all foreign vessels, and clearly there would be an opportunity to admit those vessels of countries which admit us to their trades. Alternatively, he believes there are good grounds for referring the whole case to the European Court. Obviously a judgment of the Court would take a little time to obtain and he has to make an assessment of the balance of advantage of those two courses. He is quite clear that he will not simply continue a process of negotiation. The other Member States have had long enough now to decide whether they are going to go along with this regulation.

Mr Fry

29. Why was it not considered possible to take the first step until there was any decision by the European Court? It seems that by referring the case to the Court and waiting, those other Member Countries are continuing to gain the advantage with their restrictive policies. We continue as usual in this country to stick by what we think are the rules, and our shipping suffers accordingly. Is it not time we made it quite clear that we will operate on the same terms as our EEC partners and still refer the matter to the European Court?

(Mr Sunderland) The Commission made a proposal for a cabotage regulation for the opening of cabotage trades. This is something we welcome and on which we began to negotiate enthusiastically along with several other members. We have plenty of support for this concept from the northern end of the Community, if I can put it that way. I think if we had at that point closed our trades it would have severely disrupted the negotiations not only on this regulation but on the entire package. We certainly judged it to be in the UK's interest—and the GCBS was entirely at one with us on this—that we should negotiate for a limited period of time, and our

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[Mr Fry *Contd.*]

own Presidency seemed to be a natural break point, and if we could not achieve it now we should adopt other measures.

Chairman

30. In the discussion which has been taking place there has been some controversy, as I understand it, over what is referred to as a country's fleet. There seems to be a difference between the European Parliament Transport Committee's definition, which I understand is backed by the NUS, and the definition which is put forward by the General Council for British Shipping, which puts forward a different definition, saying that the *ownership* should operate, that it does not matter where it is flagged-out to. Which line does the Government support at the moment?

(Mr Sunderland) I think that you have to look first of all at the Treaty of Rome, because what these regulations are all about is implementing the freedom to provide services provisions of the Treaty and those provisions concern persons established in the Community; they do not say anything about ultimate beneficial ownership, nor do they say anything about the means by which businesses are carried on. They do not, in other words, say anything about flag of vessel. Our position, as I said, was one of supporting the Commission and in this we were supported by most of the northern countries of the Community, in going for the widest definition of an owner. However, in the course of negotiations it has been necessary to move a little towards the views of those other countries who have a more restrictive view of what is an appropriate definition of an EC company and, if the regulation on the external service freedom to provide services is adopted on Tuesday, I think you will find that certainly during the transitional period there is a significant advantage to an owner who is flying the flag of an EC Member State. The question of the ultimate beneficial ownership has not, however, been addressed in these negotiations.

31. So there does not require to be a definition?

(Mr Sunderland) An actual definition of an owner is not going to go any further than the definition in the Treaty of Rome. The flag provision will be something added on top which has, I believe, now got the support of Spain and France and Italy who originally supported the more restrictive definitions.

32. France and Portugal have just recently announced a fairly comprehensive list of financial aid and other things to their fleets and, indeed, most of the other EC countries do the same, as I understand it. If it is possible to get a sort of league table, we would be interested in seeing where the UK Government comes. It seems hardly appropriate that we can compete equally on that sort of basis. Is there any thinking in the government mind about trying to reach some agreement across the board about equalising these things? Where do we go till we get there?

(Mr Sunderland) On your first point, we are very conscious that there are disparities here that need to be ironed out—disparities which are of particular importance for the short sea traders who are not so much affected by competition from the Third World but who are very much affected by competition from each other trading within the European area, and here we are glad to note that the Commission have proposed at the top of their agenda for the second stage of Community policy making, which we hope will start as soon as this first package of regulations has been adopted, to address the question of harmonisation of aid to shipowners. Whether that in itself will lead to any adjustment of the position in the United Kingdom, of course, will be a matter for the Secretary of State, but I think this is an appropriate point at which to draw your attention to the fact—and, as I said, unfortunately you did not have time to read the Secretary of State's speech—that in his speech he did indicate certain measures, of a fairly modest nature admittedly, which he was proposing to pursue to address what he saw as the real concern which the Government ought to have in connection with the decline of the fleet. The two particular measures were: one, to give financial support to training of seafarers; and two, to help owners with the cost of transporting crews to and from deep sea vessels on the British and Crown Dependencies registers.

Mr Fry

33. But if our attitude is on the whole not to give direct financial aid in the way some other countries give it—and I can understand that—why is it that we persist with the policy, for example, of charging light dues to shipping that uses our ports, because it tends to weigh against British ownership using our ports more often than others, whereas I understand most other North West European countries pay for their light dues out of general taxation so there would appear to be a tax that we are applying which is the reverse of protectionism in the sense that it is actually harming the interests of British shipbuilding and, indeed, of British ports.

(Mr Sunderland) It think your last point is the one which, with respect, I would say has the greater validity—that it does affect the competitiveness of British ports *vis-à-vis* their Continental neighbours. So far as British shipping is concerned, I would suggest that the damage in fact was rather less than is often made out since any user of a British port has to pay these dues and our goods have to move and whoever moves them, whether he be a British flag vessel or a foreign flag vessel, is going to have to pay those dues.

(Mr Battersby) Chairman, it is indeed the case that our near European neighbours do not finance the lighthouse services and marine navigational aids out of light dues and we do. But the Swedes do, the Greeks do, the Norwegians do in part. I am not sure that there are necessarily more merits in the one than the other. The burden, however, is not particularly great on UK registered shipping. It is likely that not more than about 8 per cent of the light dues paid in this current year will accrue from UK registered ships and perhaps as much again at a guess from beneficially owned UK ships not registered in the United Kingdom. But the remaining shipping, that is to say, certainly more than four-fifths of foreign registered non-beneficially British owned shipping, is paying light dues so the burden is by no means carried within the United Kingdom as to the main part.

34. But if I can take another aspect of the aid that some foreign governments give to their shipping, many of them give incentives to the shipbuilding industry and in such a way now that we have unfortunately great

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[Mr Fry *Contd.*]

over-capacity in the world. In your document you have said that you have pressed some of the Far Eastern shipyards, particularly Japan and South Korea, to try and reduce their capacity. I wonder whether you could tell us if you think your efforts have been successful. If so, you could perhaps indicate how successful you think they have been.

(Mr Sunderland) Chairman, these efforts are essentially the efforts of the Department of Trade and Industry, who of course have the responsibility for the shipbuilding industry, but I do not think that they would wish to suggest that their efforts have been particularly successful at all. Japan, I think, has come round to a realisation, because of the problems of her own shipping industry, that she has got far too much capacity and that something needs to be done about that. One of the ways in which she has dealt with the situation is by reducing that capacity and transferring it to other industries, but the main problem now is with Korea and I see at the moment no sign that we have made any impact on Korea in terms of trying to get them to reduce their capacity.

35. Accepting that, does not that present one of the most important problems facing world shipping and British shipping, that unless this question of over-capacity is dealt with many others of the measures are mere palliatives because, as far as VLCC shipping is concerned where there is such great over-capacity, it is impossible to earn the necessary revenue?

(Mr Sunderland) Yes, I do not dispute that the over-capacity in shipbuilding is probably the single biggest problem facing the shipping industry.

Mr Ross

36. Could I refer to another area where the British seem to be losing out and that is in the North Sea. In the Secretary of State's speech today he does refer to it and says that "there are problems in the North Sea but with the help of the Offshore Supplies Office we are ensuring that British vessels are not crowded out by vessels financed by tax rates in other countries." Chairman, you and I attended a presentation on this subject not six months ago when the prediction was that within two years there would not be a British-owned supply vessel in the British sector of the North Sea. We were given figures showing that in the Norwegian sector there were 90 Norwegian-owned and only one outsider, whereas, if I can quote the letter of a master mariner in my constituency who wrote to me last July saying his vessel had just been laid up: "The annoying aspect is that the drastic effect on British companies is unnecessary. A survey carried out in the past two weeks shows that in the UK sector of the North Sea employed on long term charter are eleven German supply vessels, five Dutch and twenty-two Norwegian vessels while on the spot market there are 24 foreign flag vessels employed. At the same time there are 16–20 British vessels lying idle." I was a bit encouraged by what the Secretary of State said today. How are we going to tackle that situation and why has it come about?

(Mr Sunderland) The position as at the middle of October, which is the latest report that we have on this situation, shows an altogether more encouraging picture, that there were at that time nine Norwegian vessels, six Dutch, eight German and two Danish as against 79 British in the UK sector of the North Sea, so there has been something of a turn-around even since July but certainly since the beginning of this year. That is not to say that the British vessels concerned are making money there. Like pretty well everybody else who is involved in any part of the North Sea activity at the moment the returns on their capital are very poor indeed, if they exist at all. But the fact is that as a result of the initiative of the OSO the operators in that area now are paying very much closer attention to the need to give the British operators a fair crack of the whip, and I think that is reflected in these figures.

37. That is very good news but what about the Norwegians? Are we going to get them to open up their sector as well?

(Mr Sunderland) A few weeks ago I visited Oslo in the company of Lord Brabazon, the Minister for shipping, and we were told by the Norwegians that they intended to get rid completely of the present discrimination on pilotage, which has been one of the bones of contention, and we shall see what effect that has on the Norwegian sector and the foreign participation in it. He made it quite clear that we would need to see some contracts awarded to British vessels before we could be satisfied that there really was a genuinely open market there. We are hearing the right noises from them but we remain to be convinced.

Mr Trotter

38. I want to come back to light dues. Mr Battersby said that 80 per cent of the light dues were not paid by British-owned ships. Who is paying those?

(Mr Battersby) Foreign-owners.

39. And are they coming to our ports?

(Mr Battersby) Yes.

40. Is that not an incredible indictment of the lack of success of our own carriers that 80 per cent of the dues are paid by foreigners for using our harbours?

(Mr Battersby) I must leave it to Mr Sunderland to deal with the wider implications of that but, as you well know, the structure of light dues is such that one cannot necessarily draw a direct relationship between the dues paid and the volume of trade of any particular sort.

(Mr Sunderland) Yes, indeed. The percentage of cargo carried in UK flag vessels—and this is to ignore that carried in UK beneficially-owned vessels—in 1985 is, as shown on page 23 of our evidence. 26 per cent in the case of dry bulk, 31 per cent other dry cargo and 18 per cent tanker cargoes, so that very roughly a quarter of the trade, either outward or inward, is carried in UK flag vessels. If you add in the beneficially-owned tonnage, which certainly should not be disregarded entirely, if one is looking at the British shipping industry as a whole, the figure would be somewhat larger. I do not know whether you want me to defend that, whether you still feel the 25 per cent is in some sense an indictment.

Chairman

41. Would you say something in that context about the size and scale of the competition from COMECON countries, which are heavily subsidised, as we understand it?

(Mr Sunderland) There has been a lot of attention paid to the COMECON fleets over the years and we do monitor their freight rates in the more important deepsea

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[Chairman *Contd.*]

trades in the greatest of detail to ensure that they are not damaging our own companies. The volume of trade carried into and out of this country by COMECON fleets is really rather modest. I do not have the figures immediately at my disposal but I can certainly provide them to you.

42. Is it modest and growing?

(Mr Sunderland) It is pretty well static but we are talking about perhaps 2 or 3 per cent of our trade at most. The reason we remain concerned about it is twofold: first, their freight rates do tend to be at the bottom of the market and, therefore, dragging the others down with them in the liner trades; secondly, because they are rather more active in other EEC countries and, of course, it is not possible to look at the UK market in isolation. We are affected by Soviet and East German ships operating out of Rotterdam because transshipment through Rotterdam is the easiest thing in the world, so we share the concern of our European partners in that, but so far as the UK is concerned it is certainly not on an upward trend.

Mr Bevan

43. I would like to get on to some of the economic arguments which might exist for retaining the registration of ships with the UK register or with a dependency register. I notice from a cursory look at the Secretary of State's speech today, where he deals with some of the necessities from a strategic point of view of grouping the advantages within the UK and the dependency areas, which he considers as one, that he rules out incentives to investments and general subventions. I think it is imperative for us in a general examination of this seeing, on the one hand, the deterioration of the tonnage of shipping that we retain, to weigh up the balance between the cost of attracting registrations to us and the advantages which can be obtained therefrom. Could you give us some idea of how much of a loss this country sustained in losing ships from the flag of this country in terms of balance of payments earnings, in terms of tax or employment or whatever, and what is the cost of attracting it back? For instance, in the strategic argument referred to earlier in the Secretary of State's speech he suggests that travel costs of crew replacement is one area that he may be interested in. Can you give us broadly the attractions and disadvantages, financial and commercial, of flag retention, and what would you propose?

(Mr Sunderland) That is a very large question and I will give Mr Smith a moment to think about it, then I will turn to him. But perhaps I should just say a word about the Minister's views as expressed in the paper here. In the late 1960s and early 1970s there was a clear policy of attracting vessels to the United Kingdom register, not I think so much from the point of view of enlarging the British merchant fleet for its own sake, but in order to secure the additional shipbuilding business that under the terms of the arrangements in force then went with it. It can now be seen, I think, by any neutral observer that those measures were not to the advantage of the shipping industry—and whether or not they were to the advantage of the shipbuilding industry is a question which I will not address here. But that growth has certainly proved unsustainable. Perhaps if we had not had an oil crisis in the early 1970s things might have worked out rather differently, but unquestionably the opportunities for sailing with Third World crews would have arisen regardless and I think the pressures on British owners would have been there and we would have seen a large measure of flagging out from this country. Perhaps I should remind the Committee that the 100 per cent first year allowances which the GCBS have so regretted losing in 1984 were in force until that year and, indeed, were only gradually run down thereafter, but there was very little investment towards the end of that period to take advantage of those allowances, and it does seem therefore that any policy of attracting ships to our register would probably have to be very much more expensive even than that particular provision. However, having said that by way of introduction, I will see if Mr Smith can answer your really rather penetrating question.

(Mr Smith) I think, Chairman, that I certainly could not answer that question in terms of the detailed figures for a particular ship, but I am not sure that it would provide the core of the economic answer even if I could. The sorting out of the profitability of the shipping industry is really no different from the sorting out of our international competitiveness in all the other industries with which we have problems, and the tax changes that were announced in 1984 were part of that process of trying to ensure that the quality of investment was appropriate; in other words, that it was designed to help to ensure that businesses in shipping and other activities were profitable in that investments were only made when they were profitable. The proposition that we should tot up the cost of retaining shipping jobs and shipping investment is really the reverse of that. It amounts to propping up activities in which we do not have a commercial advantage. I think it is in that broad sweep of the industry, like other industries, that the identifying of those shipping activities where it is commercially viable to remain is going on at this time. Now, under present cost conditions around the world certain parts of shipping are not viable on the UK register generally speaking.

44. Could you elaborate?

(Mr Smith) The bulk trades in particular, where the competition is so severe in an over-tonnaged situation particularly—that sharpens it, but in those circumstances there is just no way in which shipowners can be expected to compete successfully. The magnitude of the crew cost figures is really quite striking; these are broad estimates but they do give you the right feel for it. If you take a large container ship, which is a very capital-intensive ship, the crew cost is 8 per cent. Now, liner shipping is one of those activities where we can manage because, as our memorandum says, there are particular reasons in liner trading such as the conference system and so forth which give us a competitive advantage. But let us take another example, a ship such as a 125,000 dwt tanker: this is the arch problem for the bulk trade, if you like. The crew costs as a percentage of total costs including bunkers and capital costs—there are slightly different figures according to how capital costs are computed but the magnitude is there—are 10 per cent of the total. Now, we have said that the difference between a UK crew and a Third World crew is half, in other words, we have a 5 per cent overall competitive disadvantage, if you like, on

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[Mr Bevan *Contd.*]

the final price. In normal circumstances that would be difficult; in an over-tonnaged circumstance that crew cost set against operating costs is crippling. That, if you like, is the sharpest end of this. In those circumstances there is just no way that it can be commercially viable to trade those ships on the UK flag and consequently they are coming out. It seems it would be extraordinary steering of investment, if you like, however the Government set out to do it, to attempt to reverse such a large figure. It is not tipping the slight balance, it is an enormous competitive disadvantage. It seems to me it would be quite wrong to imagine steering the economy where one tried to retain that sort of activity in spite of such competitive odds.

45. Could you then define for us further those fields in which you feel that economic advantage lies with us, or those sectors of the business, and where the balance of payments advantage, tax advantage and employment advantage lie with this country? You told us the ones that clearly must be allowed to die and wither from a viability point of view with regard to operational cost and our national advantage. Now could you give us the sectors we should be aiming for to attract and build up, and the advantage that gives?

(Mr Smith) Whenever one tries to do this, Chairman, one immediately pays the penalty of being too simplistic.

46. Of course.

(Mr Smith) But there are sectors where we have shown strength, and the liner sector, of course, is one of these. These are the container ships and semi-container ships and so forth. Two other sectors where we have shown competitive advantages are cruise liners and ferries, but when I said, Chairman, that one has to be careful about being simplistic, I would not discard the possibility of there being some niches in specialised forms of bulk where at some point we might have an advantage. But I am saying, with just plain dirty tankers, as they are called—the cut-throat parts of shipping bulk—we should not. But I do not see why we should not have some advantage in more specialised forms of transporting bulks. We are not in them to much extent at the moment, as I think one of your other witnesses pointed out, in car transporters and other special sorts of bulk, but there could well be little niches in the bulk field which are more specialised, where the ships are more specialised and the crews need to be more specialised, where we could have advantages. I could illustrate some examples where, even within the short sea, Chairman (one cannot be comprehensive about it) there are some parts within very diverse activities where we find it difficult and other parts where we find it much easier. So there certainly are parts of shipping activities where we have continuing strength.

Chairman

47. You say that we have a very big disadvantage in the manning rates and you say that third world crew rates are half those of British crews. Are you saying those third world rates are much below IMO and ILO standards?

(Mr Smith) I am not sure of the relevance of the IMO at all in this.

48. The International Maritime Organisation have some sort of standard or regulations, do they not?

(Mr Battersby) There are no agreed international standards of reward for individual seafarers. There are, of course, international standards and conventions for conditions covering a very wide range of matters but not rewards.

49. But they do not include salaries?

(Mr Battersby) No, indeed not. Obviously conditions bear on operators' total costs. That is self-evident.

Mr Mudd

50. In reply to the last question I understood Mr Smith to say something to the effect "as one of our other witnesses has told us". This is the first session of this inquiry so might we indicate what witness Mr Smith had in mind and how he is aware of evidence that may or may not have been submitted to the Committee?

(Mr Smith) I had imagined that you would probably have had information of that type. I certainly have not seen any evidence of this type so I think I ought to withdraw that, Chairman.

Mr Dicks

51. In relation to the economic argument the phrase "over-capacity" has been bandied around and I would like to know more about this phrase because it seems to me by "over-capacity" what you really mean is that there are too many ships chasing too little business and it has to win business by competitive rates, so in many ways it is not that capacity which is operating inefficiently or at a higher cost than the market wants to bear. Could you say whether the subsidisation by France and Portugal of their fleets has made a major contribution to this over-capacity and if we want to make the situation worse Britain should be subsidising its fleets even more, or would it be better and more realistic if we could encourage other countries not to subsidise their fleets at all and, in terms of the market place, let those who provide the best, most efficient and cost-competitive fleets win the day and let the others literally go to the wall? That is the economic argument. We are getting on to the point made by Mr Smith just now. He was really getting at this. If we cannot compete why direct economic resources into the area to make us compete whereas in the market place we have not got a leg to stand on basically?

(Mr Sunderland) I think that is a perfectly sound argument and it is one which, were it not for responsibilities of the Government in other directions, would probably run very strongly, but, as the Secretary of State has been explaining today in the speech to the GCBS, we are very conscious that we cannot afford to stand by and watch the British merchant marine down indefinitely if only—and I say "If only"—because of the defence and emergency implications.

52. You did say while demand has been declining the actual shipbuilding capacity has been increasing. It seems to me—and I note again the social costs, particularly in the North East, the Chairman's area, and he knows it better than I—rather ridiculous to be pushing to build more ships when we do already have over-capacity and nobody wants many of the ships we have now, so there has been a major contrast—a decline in demand and—these are the words of the Secretary of

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[Mr Dicks *Contd.*]

State, not mine—an increase in capacity. There seems to be something less than logical in the approach of the industry as a whole, the shipbuilding side and the users?

(Mr Sunderland) If I can try and answer your earlier question as to whether France and Portugal were involved in helping to add to the capacity, I would say no, most of the problem arises in the Far East, but within the EEC I think we have to look in particular to the Federal Republic of Germany for a large measure of responsibility for the creation of excess capacity in the short-sea trades. This is why it will be very important for the Commission to get a grip on these various forms of aid that are given within the Community. Another sector where there has been gross over-supply is, as I said in answer to Mr Ross, in the North Sea. The position there has resulted from the Norwegians building more vessels than were needed for the market even before the drop in oil prices.

Chairman

53. My colleagues have an advantage over me; they are having the opportunity of glancing through the Secretary of State's speech but I have not been able to read it! Arising from that approach, would you not agree that shipping is becoming far more protectionist worldwide, that there seems to be an increase not a reduction in the protectionist policies on account of the competitors we have and is the Government not worried that by sticking rigorously to a non-protectionist policy we are literally driving the fleet into flagging-out, and, indeed, having their ships built abroad?

(Mr Sunderland) There are several points there. Taking the last one first, about having their ships built abroad, the GCBS will, I am sure, adhere very strongly indeed to their right to build their ships wherever they can get the best deal, but I do not think that really has much to do with protectionism in shipping, which arises in two forms.

54. It is protectionism in shipbuilding?

(Mr Sunderland) Sometimes the two are cleverly linked but they do not have to be. We do see some countries that subsidise their shipping industries and not always to good effect. The costs, for instance, of subsidisation of the United States merchant fleet are absolutely horrendous. The other form of protectionism is cargo reservation of the classic kind, and I dealt with this by saying that the European Community, if these regulations can be adopted soon, will be a very powerful force for turning back that particular tide.

Mr Bidwell

55. Can we look into the future? We know from our experiences that the advent of the aeroplane made for the decline of passenger shipping. How far has cargo shipping by aircraft affected the totality of shipping and will it increase in future? We have done numerous studies in this Committee—and I have been on it a very long time—and I was very surprised in asking representatives of airports how far they weighted the aspect of cargoes and merchandise going by air and found it was very small compared with the totality of shipping. Have studies been made about the potentiality of this because that would greatly affect the whole international scene, would it not, particularly in Europe?

(Mr Sunderland) Yes, indeed. I do not have a neat answer to your question. I seem to remember at an earlier stage in my career when I was involved in shipping matters in the early 1970s there was a feeling that shipping was going to lose out rather badly to the new generation of large aircraft that were going to come on the scene and take large quantities of high-value cargoes from the shipping companies. I think at that time nobody had foreseen how effective would be the container revolution and the developing of the through transport system. What we sometimes forget when we talk about liner shipping in particular is that the maritime element of that operation in only a part of a through transport chain which has been developed to a very high degree of efficiency and challenged the economics of air cargo to a degree which certainly was not foreseen. I do not know whether Mr Smith can add anything to that.

(Mr Smith) No, I do not know. We could provide information on the volume of air cargo at present and that could be related to the amount carried by sea.

56. Would it still be that in the next five to ten years there may be, so far as air cargo is concerned, a creaming-off activity of stuff that was required in quick time? Certainly bulk transport by sea seems to me at any rate to be enormously effective and that seems to me to be a commonsense layman's approach to the vision ahead. Would you agree with that?

(Mr Sunderland) Yes, I think our ship operators do accept that there is a role for air cargo and a certain percentage of the traffic they will never be able to get their hands on, but it is a small and, I believe, stagnant percentage of the total amount of trade.

57. It is a very costly business, is it not, carrying freight by air compared with sea?

(Mr Sunderland) It is indeed.

58. There is a high proportion of fuel and so forth?

(Mr Sunderland) Time can be of the essence. There are some surprising goods which are sometimes carried by air, but I believe the shipowners will be able to give you much better information about the weightings in the kind of projections they are making for the next five or ten years.

Chairman

59. Could we look in a little more detail at the manning and employment side? It has been suggested from certain quarters that the NUS have priced themselves out of employment. Would the Department agree with that view? Are they heavily paid in comparison with other employees?

(Mr Sunderland) No, Mr Chairman, I do not think they are. Over the last five or six years the wage increases which have been recorded in the maritime industry I believe have been significantly below average increases in the economy as a whole, and I just heard before coming along to today's meeting that the result of the NUS ballot announced today indicated that the membership was prepared to settle for a figure which is obviously going to be substantially below the going rate. So I think there is a sense of realism amongst the seafaring unions which must be helpful to the shipowners in their present difficulties.

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[Chairman *Contd.*]

60. This must have its effect, must it not, on the question of training and bringing recruits into the industry, on the longterm future of the maritime industry as such and its having adequate provision of officer material and the like. How do you see that being affected at the moment because of rates inside the industry?

(Mr Sunderland) I have no doubt that wage rates have something to do with the fall off in the number of people entering the industry but, of course, much more important is the lack of opportunities. With the decline in the number of British flag vessels and the amount of flagging out that we have seen in recent years, it would have been unreasonable to expect shipowners to have been looking for large numbers of new entrants. But, as the Secretary of State said in his speech today, this is one of the features of the situation that worries us most, and that is why he has declared himself ready to enter into consultations immediately with the shipowners and with the unions about how the Government can help with training. This will mean about how the Government can help with attracting people to the industry as well as with training once they have got in.

61. Will this umbrella include national insurance, possible tax incentives, aid to the industry to employ people in it?

(Mr Sunderland) The Secretary of State has confined himself at this point to three schemes: training; repatriation costs; and a third scheme which I have not mentioned, but which I should mention for sake of completeness, which does not affect shipowners or people currently in employment, but the Government is proposing to establish a Merchant Navy Reserve of trained personnel who could be brought back to the sea at a moment's notice in time of emergency to help to man those vessels which are currently manned either wholly or partially by foreign seamen.

62. What is his view about the aspect of the growth of self-employed seamen who seem to have earnings which rather smack of "the lump" system in the building industry a few year ago?

(Mr Battersby) My Chairman, I think probably it falls to me to answer this in so far as I can. I am not aware of a significant growth in self-employment.

Chairman: Our evidence is that there is some increase in that direction.

Mr Dover

63. I understand one of the problems with foreign crews is that, of course, people from Third World countries get relatively very low wage rates. I have had experience of building construction overseas where we would have paid a UK expatriate in Iran ten times the local rate. In shipping are we comparing like with like or is a UK person much more cost-beneficial because of what he does? In other words, do you get much more benefit for the pound of payment or is it, in fact, a straight payment that you could compare?

(Mr Battersby) I think the evidence here must be somewhat anecdotal but from information I have got from the Hong Kong Marine Administration, the standards there of the Taiwanese officers and ratings and the middle ranks like the bosuns are everything that they would look for. As I said earlier in my evidence, we have the highest esteem for Hong Kong's standards. For what that necessarily third or fourth or fifth hand evidence is worth I offer it to you, but I think of its nature it must be extremely difficult to come out with any general view about the quality of the average Philippino deckhand as against a member of the Merchant Navy establishment in the United Kingdom.

Mr Trotter

64. Could I come back to protectionism? The Merchant Navy has been built up in the long imperial tradition of free trade as it appears to me, but we are now reaching the state where we are in deficit as I understand on our trading account and in shipping we heard earlier on that 80 per cent of the light dues coming into our own country are paid by foreign ships. Is there not a theoretical argument to put forward that we would do better if we went and joined the protectionists?

(Mr Sunderland) I think not, sir. At the moment we still earn more in the cross-trades than we would gain by a straight division of the business coming into and out of this country with our trading partners at the other end of the route. In fact, if you look at that 25 per cent which I mentioned earlier as being what the British flag has got, it compares very favourably with the equivalent figure for other major maritime nations. But that is just another way of saying that we all accept, and indulge in, cross-trading and the wider the choice of vessel, then on the whole the better the rates available for importers and exporters; and as a major trading nation we are going to benefit there. Clearly there could come a point, perhaps in the not too distant future, when at least theoretically we pass the cross-over point and figures would suggest we might do better by going in for cargo sharing. At that point clearly the Government would need to pause and re-examine its principles, its obligations to OECD and to the European Community, and decide whether indeed this was still the right course. My feeling is that they would not have too much difficulty in deciding that, taking the interests of the nation as a whole, we would do far better to stick with free trading principles. I need only refer to the effect on freight rates that one can see in certain trades into and out of the United States which have been closed to outsiders. I believe that there are certain commodities in the export trades of North America to South America—the closed trades to which I have referred—where it is cheaper to ship those goods across the Atlantic, transship them at a Western European destination and send them on to South America, and these are not trades where the rates are noticeably low anyway, but where they are distinctly lower than the direct north-south route.

65. Could I ask you about the 40:40:20 cargo-sharing agreement, which I think is in force? Is it working? We do not hear very much about it.

(Mr Sunderland) You are referring to the United Nations Liner Code Convention, to which the United Kingdom and most of the other members of the EEC have subscribed on terms which do not deny the right of other OECD countries to come in and freely compete for whatever trade we have a right to. It is a complex instrument and I am not sure I should go into too much detail here. However, to answer your point directly, this is a convention which applies only to the way in which the liner conferences conduct their business. The so-called 40:40:20 ratios do not apply to the whole trade.

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[Mr Trotter *Contd.*]

This is very important because if we were to agree to the carving-up of the trade in this way then I think we could begin to say goodbye to free competition in shipping. We do insist that whilst the conferences have these guidelines as to how they should divide the traffic up as between the lines at each end of the trade, leaving 20 per cent for third countries, this regime should only be allowed to operate in parallel with a free market for any non-conference line to compete in the same trade. To answer your question, I do not think it is working terribly well because many of the developing countries who have signed that Convention are not implementing it in good faith and according to the letter of the Convention. This is one of the things which again I referred to when speaking about EEC policy. When we have the regulations I referred to we shall be in a far better shape to ensure that the developing countries do observe the terms of the Convention.

Chairman

66. We have heard a lot from some experts and all sorts of people about the defence implications of the flagging-out and the UK fleet in general but is there an economic case for a UK fleet in terms of balance of payments and so on?

(Mr Sunderland) By that I take it you mean even if we were guaranteed never to have a war again would we be concerned about the loss of the fleet?

67. Yes.

(Mr Sunderland) The position that Ministers have taken on this is that shipping is not fundamentally different from other industries despite the fact that we are an island nation. They are not convinced by the case which you may hear argued by shipowners and by the unions that if, overnight, we found ourselves without a merchant marine we would then be at the mercy of potential monopolists, our freight rates would start to soar and we would lose services. These are not arguments which have convinced Ministers. They do not see any evidence for this and, indeed, there are some countries who have deliberately opted not to develop a merchant marine because they are confident that world shipping will continue to supply their needs. That is a tendency with which Ministers have some sympathy. Having said that, I do not think it is necessary to ask the fundamental question whether we would be prepared to see the merchant marine dwindle indefinitely because we will undoubtedly always have strategic needs to look after and that is what is dominating our attention at the present time.

68. Arising from that, at what level would you feel that the decline in the fleet should stop before the Government believe that they should take some action? In other words, what is the base which you feel when you get down to it you really have to do something about it to retain a shipping capacity at all?

(Mr Sunderland) There you have to begin to look at the fleet by sectors. I do not think it really makes any sense to look at the overall tonnage figures and say that is the right tonnage because there is a tremendous difference between 100,000 dwt of "dirty tanker", and the equivalent tonnage of liners or ferries. The profitability, the earnings, in these other sectors are so much greater and the potential usefulness of that vessel for emergency purposes would be very much greater, so that we do look at the particular types of vessels. This is dealt with in some detail in our submission to the House of Commons Defence Committee, which I think gives some indication of the requirements which the nation has for particular types of tonnage. That will give you a feeling for the baseline but since the defence requirements do change from time to time this is a moving target and I do not really think I am able here to give you a succinct answer to that question.

69. I suppose we could possibly have a sight of the document you have given the Defence Committee but we can take this up with our Defence Committee colleagues.

(Mr Sunderland) Yes, I am sure the document will be freely available to you.

Mr Bidwell

70. What is our great ally, the United States, doing in this regard? Is it sustaining a very strong merchant shipping capacity with an eye on the defence question?

(Mr Sunderland) Certainly we consult very closely with the Americans because we have a joint commitment in NATO to ensure that we have the merchant shipping available to assist our respective navies to supply our countries in time of war. The Americans ever since the Second World War have adopted a policy of subsidising a certain base fleet, if I can put it like that. As I said earlier, the cost of doing so is horrendous. Last year the so-called operating differential subsidy to the US merchant marine came to $351 million for a mere 118 vessels.

(Mr Battersby) Chairman, if I may revert to the point that you were putting to Mr Sunderland—and I think this also deals with Mr Bevan's point—one does need to maintain a clear distinction in discussing these issues between British beneficially-owned vessels and vessels on the UK register. Let us look at the case of the BP fleet, which, as we all know, has been flagged-out in the course of this year. The physical deployment of those vessels is totally unaffected by that action on the part of the company, the senior management remains exactly as it always was, and so one would postulate as a matter of commonsense that in circumstances that required it the company would act with a ship in the same interests of the United Kingdom as it would have acted if the vessel was still on the UK register. I cite that merely as an illustration of the sort of problem.

Mr King

71. In the event of international tension, where it is our role to strengthen the Norwegian flag, are you sure in your own mind that on the requisitioning of merchant vessels for use in the supply context for those forces the vacuum they would leave would be taken up by other operators, and might those other operators tend to be those flying an East European flag of some kind?

(Mr Henes) The question is whether, in time of war, we might not find the ships we needed because they had been displaced by competition from other ships?

72. I was not referring to war because it might be a very short-lived thing. I was suggesting a state of tension where it was possible there might be a war but it might be the policy of another unfriendly government to put pressure on us to tie up our economic resources for weeks

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[Mr King *Contd.*]

if not months whilst we best-guessed exactly what our opponents were likely to do, but it would commit a great deal of our resources in the meantime?

(Mr Henes) I think if we look at the situation as it is at the present time, we know what the Ministry of Defence requirements are and with the Ministry of Defence we keep our ability to meet those requirements under review all the time. If difficulties arise from the sort of thing which you have suggested, then we would tackle them as best we could as they arose.

73. Are you suggesting there are plenty of operators, shipping companies and so on, throughout the world that would be available to back up the requirement of the United Kingdom in such an event?

(Mr Henes) What I was saying was at the present time we reckon we could basically rely on UK registered vessels to meet the stated requirements of the Ministry of Defence; in some areas—and one in particular—we would rely as well on dependency registered vessels. I was not making any predictions.

74. Quite. I think we are trying to establish what the resources are which we have at the moment and what we are likely to have in the near future, but in the event of the strengthening of our forces in Europe by the ferrying of equipment from the States, would that, do you know, take place in American ships or would our own Merchant Navy be expected to contribute as well?

(Mr Henes) Our Merchant Navy would certainly be expected to contribute to the ferrying of forces from the United States to Europe, as would the merchant navies of our other NATO allies.

75. They would all contribute obviously in the NATO context and you remain convinced that, given the situation that has been presented by the Defence Department to you, the existing Merchant Navy we have, and what we are likely to have in the immediate future, we would be up to that challenge, at the same time maintaining the standards of life we would have in the United Kingdom with the normal traffic in imports and exports that we would obviously require?

(Mr Henes) I think you raise two questions. You raise a question about a direct support to defence needs, and then a more general one about civil supply in tension or war. As far as the first is concerned, the problem is relatively easy to assess because defence requirements are so well defined and the position there, as I pointed out earlier to the Clerk of the Committee, is that we believe we can meet those needs at the present time. It is far more difficult to assess the civil supply position, for two reasons. First, that to assess real civil needs in a war is more difficult than it is to assess the Ministry of Defence needs, which are finite and related to particular scenarios. The second reason is that in a war—not in tension, but in a war—NATO will pool its merchant shipping; therefore, you cannot assess the balance of supply and demand in civil needs for shipping in tension and in war in United Kingdom terms alone—you can make an assessment but it has very limited value—and NATO has not yet made such an overall assessment. So I cannot answer you very fully on that.

Mr Trotter

76. Do we actually know the tonnage of flagged out ships that exists other than in Hong Kong and Bermuda? Would we know if the British owner does not tell you that he has a ship registered somewhere else?

(Mr Henes) Yes. We get information every six months, not from the companies direct but from Lloyds Intelligence, their information on ships flagged out.

Chairman

77. Mr Sunderland, this time, can I thank you and your colleagues for your very interesting evidence to the Committee. It has been our first meeting and a most enlightening one, for which we thank you. I will now have time to read Mr Moore's speech and see what enlightenment I can get from that. Thank you very much indeed.

(Mr Sunderland) Thank you, sir.

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HOUSE OF COMMONS

TRANSPORT COMMITTEE

Session 1986–87

DECLINE IN THE UK REGISTERED MERCHANT FLEET

MINUTES OF EVIDENCE

Wednesday 4 February 1987

National Union of Seamen

Mr S J McCluskie, Mr R J Wilkins, Mr J Kinahan

International Association of Navigation Schools

Captain D M Robinson and Captain M M Cornish

Ordered by The House of Commons *to be printed*
4 February 1987

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WEDNESDAY 4 FEBRUARY 1987

Members present:

Mr Gordon A T Bagier, in the Chair

Mr David Gilroy Bevan
Mr Sydney Bidwell
Mr Peter Fry
Mr Roger King
Mr David Marshall
Mr David Mudd
Mr Stephen Ross
Mr Neville Trotter

Memorandum submitted by the National Union of Seamen

THE DECLINE OF THE UK MERCHANT FLEET

The crisis in United Kingdom Merchant Shipping

1. Merchant shipping in the United Kingdom is going through the worst period in its long history. There are enormous changes taking place in international trade and shipping which require understanding, flexibility and a commitment to see the world as it really is. Complex and difficult decisions have to be faced in order to provide an urgently needed lifeline to save our fleet.

2. Britain is an island nation heavily dependent on international trade, with virtually all our imports and exports being carried by sea. British owned shipping makes a major contribution to the balance of payments, which helps us to trade in the world, but this contribution is getting less and is seriously threatened by the continued contraction of our merchant fleet.

3. Merchant shipping has a key part to play in any strategy to regenerate British industry and the economy as a whole. It is an inseparable component of our manufacturing and service industries, playing an important part in the demand for shipbuilding and in bringing in raw materials and taking out our many and varied products.

4. However almost every organisation concerned about shipping policy criticises the government for the lack of measures to support and protect British shipping—trade unions, employers and professional organisations alike.

5. Ships are being sold off, or registered in other countries, in the face of competition from foreign shipping which is either government supported, or is registered in flag of convenience countries such as Liberia and Panama, which have virtually no taxation and which allow shipowners to pay exploitation wages.

6. The combination of a worldwide economic recession, the availability of cheap credit for shipbuilding, the determination of other countries to maintain and develop their shipbuilding industries, a shift in sources of oil production and away from a heavy dependence on oil, have led to an overall decline in demand for shipping and a surplus of ships. In turn this has meant that freight rates have reduced sharply and the revenues and profits of British shipping companies have been put under severe pressure.

7. New technology has affected ships in a big way. Ships have increased in size and in cargo carrying capacity. The speed with which cargoes are loaded and discharged is unrecognisable compared with twenty years ago. Engine rooms are generally automated and can go unattended for most of the day. Crew size has generally been reduced but long working hours remain. Fewer ships and fewer men now shift greater quantities of cargo. Productivity per man hour, for which reliable methods of evaluation do not seem to have been devised, must inevitably have improved. Despite these benefits, shipping remains in serious financial and structural difficulties.

8. Britain's EEC membership has meant an increase in trade with Europe and a decline in our trade with the rest of the world. The distances cargoes are carried and the number of ships needed have both been reduced.

9. World trade declined at an annual average rate of 4 per cent from 1979 to 1984 as a consequence of the recessionary policies of many western governments. This, on top of the oil crisis generated by OPEC in 1973, which led to millions of tons of tankers being laid up, has compounded the industry's problems. At the same time large numbers of new ships for which there was no business were still being delivered. Inevitably freight rates dropped to such a pitch that even British ships manned by low wage ratings from the Indian sub-continent could not trade.

10. Between 1969 and 1975 the fleet grew rapidly, in terms of cargo carrying capacity. This revival was primed by 20 per cent investment grants and a significant influx of new ships which were foreign owned but British flagged. During the years mentioned a fleet which had been almost static in tonnage terms for 10 years (20.7 million gross

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registered tons in 1959) quickly moved from 20.73 million grt in 1968 to 31.489 million grt in 1975, an increase of 51 per cent.

11. However by June 1986 gross tonnage had fallen to 9.604 million grt, a fall of 69.5 per cent on the 1975 total and the lowest recorded UK registered fleet in gross tonnage terms in any year since 1919, then 16.3 million grt.

12. Between the end of 1979 and end of June 1986 the stock of UK ships has fallen by 52 per cent, 672 ships as against 1,305. In terms of gross tonnage the fall has been even more dramatic, 62 per cent (9.604 million grt as against 25.232 million grt). As a consequence, if Department of Transport figures are to be believed, 36,600 seafarers jobs had disappeared by the end of 1985, reducing the workforce by 45 per cent from 81,100 to 44,500. (See: Casualties to Vessels and Accidents to Men 1985, Marine Directorate, Department of Transport.)

13. For details of how the fleet has fared in terms of gross tonnage, ship number and principal types of ship see Annexes 1 and 2.

14. Other countries have faired better. The following countries actually showed an increase in tonnage between 1975 and the end of 1985.

	% change grt
Greece	+30.0
USA	+33.5
Denmark	+ 7.0
Spain	+ 6.8

Among those suffering tonnage losses were:

	% change grt
Italy	−14.4
Netherlands	−20.4
Germany	−32.9
France	−36.5
UK	−62.4
all EEC countries	−16.6
Norway	−62.4

High wage Japan had the same tonnage, 37 million grt in both 1975 and end of 1985, having gained and lost 1.5 million grt in the meantime.
(See Business Monitor MR15, General Trends in Shipping Nos: 7 and 9, Department of Transport.)

15. Deliveries of new tonnage to the UK registry have fallen dramatically, reflecting diminishing investment and a general lack of confidence in the industry. Between 1974 and 1978 ships totalling 11.3 million grt were delivered to owners of ships flying the UK flag. In the following six years ending in 1984 new tonnage delivered came to 3.6 million grt. Put another way the gross tonnage on order in 1984 was just on 10 times less than that of 1974 (0.389 million grt as against 3.518 million).

16. The state of the current UK order book provides no grounds for comfort. According to Lloyds Register there were only 35 ships totalling 291,168 grt on order as of June 1986. This compares with 148 ships totalling 1.9 million grt in 1975.

17. Regrettably UK owners continue to supply orders for new tonnage to foreign yards. At the end of 1985 only 307 of the UK merchant fleet of 693 ships over 500 grt had been home built. The question which needs to be asked is whether Japan, the USA and other maritime countries follow the same policy of exporting jobs in the shipbuilding industry to their rivals overseas?

18. Ships have a working lifetime of 15–20 years. A steady programme of replacement is necessary if fleet size is to be maintained. In the early 1960's a rough balance was held between ships acquired and ships sold. In the late 60's and early 70's the process of ship disposal was accelerated and compensation was provided by increased cargo capacity. Now the ships are being sold or scrapped with no compensating factors in place. The disappearance of the fleet and Britain's place in the world as a maritime force are now very much in prospect.

19. There is now less tonnage on order than at any time since 1945. This lack of investment would seem to make current concerns with efficient or high technology ships irrelevant, since without investment such ships cannot be constructed. Thus a favoured solution to the industry's problems seems destined to be still born.

20. A major problem is that of flags of convenience (FoC) ships. They have more than held their own during the present crisis. The two dominant flags are still those of Panama and Liberia. In 1975 these two registers combined totalled 80.1 million grt. By the beginning of 1985 their joint tonnages had increased by 23.3 per cent to 98.8 million grt.

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21. Flag of convenience shipping which was vigorously opposed by the UK and other OECD governments in the 1960's, now enjoys the full support of the OECD machine. The operators of FoC ships prosper even in times of recession because they do not pay taxes, they avoid costs such as those for training and social security, and they employ low wage unorganised crews from third world countries. Operating ships under these favourable conditions constitutes a subsidy which in turn enables their owners to undercut shipowners from the established maritime countries, the governments of which are OECD members.

22. Additionally the inducements of cheap credits and low operating costs cause flag of convenience operators to keep the shipyards of Japan and Korea fully occupied. The outcome is an oversupply of ships world-wide and massive retrenchments in the shipbuilding industries of OECD countries, our own included.

23. British owners too are now seeking refuge in overseas registers. UK shipping undertakings are now being transferred to the shipping registers in places like Gibraltar, Isle of Man, Hong Kong, Bahamas and Bermuda. The ships transferred continue to enjoy the benefits and the respectability bestowed by the flying of the British flag but enable the owners concerned to avoid the fiscal and other financial responsibilities required if registration in the UK continues. Transferring ships to British controlled offshore territories also provides an opportunity to replace British seamen by foreign nationals, with consequent unemployment and loss of earnings for British seamen. In the case of BP, British seamen have been given the option of continued employment on vastly inferior terms and conditions and akin to those epitomised by "the lump", including the withdrawal of trade union recognition and bargaining rights. The exodus of companies like BP, Shell and various others in the past year will lead to a loss of some 4.5 million grts. Further defections can be expected so long as the present economic climate endures.

24. There is also the problem of the Channel Tunnel. Scheduled for construction by 1993–4 this unwanted project has been forced on the country with minimum opportunity for affected parties to voice their concerns. Besides bringing wholesale unemployment to Dover and other Channel ports the Tunnel will, by the end of the century, effectively reduce the number of ships in service still further. This process of reducing ship numbers is already in train, since both Sealink and European Ferries have plans to introduce new and bigger replacement vessels on the cross channel routes.

25. The availability of North Sea oil has reduced our dependence on oil imports and the number of British owned or controlled tankers in those trades has been cut. Modest compensatory activity has been generated by supply boat traffic. Here however the ships themselves are small and the employment generated is welcome but modest. The entry of foreign flag and foreign manned ships is an unrestricted privilege which is not readily reciprocated by other countries. The current low prices for oil have reduced exploration activity, caused charter rates to fall, and led to demands for reductions in crew costs. These matters are discussed more fully in our accompanying pamphlet "The Case for Rescuing Britain's Offshore Industries"[1].

THE BALANCE OF PAYMENTS

26. Unlike many other countries, and especially our EEC partners who have international road and rail links, almost the whole of Britain's international trade is seaborne. In addition, a quarter of our domestic traffic is moved by sea round Britain's coast. If Britain had no ships then we would have to pay foreign shipowners to move the raw materials and goods our industries and people consume and produce.

27. This would mean we would have less influence over the costs of shipping, and we would have to spend more abroad to pay for these services, with a greater proportion of the money we earn from exporting staying abroad. So our money would not be spent on British companies and jobs for Britain.

28. The merchant shipping of UK operators has generated considerable revenue for the UK and contributed substantially to the UK balance of payments. Without those contributions the balance of payments could be permanently in the red.

29. Between 1974 and 1978 British owned ships made a net contribution of £3,031 million to our balance of payments. When the payments made for services provided by foreign shipowners are taken into account this reduced to a net contribution £131 million.

30. From 1979 to 1983 the position reversed. Whilst UK owned ship operations had net earnings of £3,553 million, the payments due to foreign shipowners produced a final deficit of £1,528 million. The overall shipping account has remained in deficit in 1984 and 1985, when the country imported shipping services at a net cost to the balance of payments of £2,289 million.

31. The decline of our shipping industry is therefore making its own particular and unwelcome contribution to the continuation of the nation's economic difficulties.

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32. Developing countries are trying to resolve their own balance of payments problems by carrying more of their trade in their own ships; through the United Nations, a code for regulating shares of the regular liner services has been produced, and now many nations want to see this extended to bulk cargoes—oil, ores, grain, timber and other raw materials. Such a development would have adverse effects for flag of convenience tonnage which is heavily engaged in the bulk trades. The UK and other OECD governments remain strongly opposed to regulatory intervention of this kind.

33. Unlike Britain many foreign governments also provide specific aid for their merchant fleets—tax exemptions, subsidies, and cheap and easy credit for building new ships (see Annex 3).

34. The UK government has not followed suit, even on the relatively straight forward question of taxation. The result is that the change in the system of capital allowances which was introduced in 1984 will ensure that investment remains at a low level. A revision of the 25 per cent writing down allowance has been called for. But whilst measures to increase investment would be welcome, the provision of this allowance is not linked to putting vessels under the UK flag, to employing UK seafarers or to building vessels in UK shipyards.

35. This same treatment was meted out to seamen, many of whom used to qualify for 25 per cent tax relief on earnings of employees who spent at least 30 nights abroad at work during each tax year. The abolition of the overseas earnings tax allowance in 1984 was followed by an 8 per cent National Maritime Board wage increase from January 1985, considerably higher than the prevailing annual inflation rate, as the union was forced to seek recompense from the employers for the loss in its members' earnings. By its actions therefore the government imposed higher wage costs on the industry, in contravention of its own avowed policies.

36. There has been an increase in the number of agreements where two nations share the whole of their trade and no other country's ships can take part. This clearly is to the disadvantage of British and other shipowners operating in an allegedly free trading environment. A different approach applies in the UK. Here it does not matter who lifts import or export cargoes. This indifference, compounded by a fast dwindling UK fleet, has brought about a marked decline in the proportion of our own trade carried by our own ships.

Percentage of UK trade carried in UK flag ships

		1974	1979	1984	*% change* 1974–1984
Total cargo	— imports	29	27	22	−24
	— exports	43	24	24	−44
Dry bulk	— imports	30	24	23	−23
	— exports	48	50	28	−42
Other dry (liner)	— imports	38	34	31	−18
	— exports	43	39	30	−30
Tanker	— imports	26	25	14	−46
	– exports	43	24	22	−49

37. The UK flag share of UK liner trade, in which container ships dominate, has also shown a steady downward trend whilst other EEC countries' and flags of convenience shipping have grown. In addition, the UK's share of the world container fleet shipping has more than halved, falling from 21 per cent in 1978 to 9.4 per cent in 1984.

Percentage of UK trade carried in UK and other flag-ships non-bulk dry cargo trade (liner shipping)

		Imports		*% change*
Flag	1974	1979	1984	1974–1984
UK	38	34	31	− 18
EEC countries	35	37	42	+ 20
Other OECD	16	15	13	− 19
FoC	2	3	5	+150
Other	9	11	9	—

		Exports		*% change*
	1974	1979	1984	1974–1984
UK	43	39	30	− 30
EEC countries	31	35	38	+ 23
Other OECD	12	12	14	+ 17
FoC	2	2	4	+100
Other	12	12	14	+ 17

Source: Nationality of Vessels in UK Seaborne Trade, MA8. HMSO 1984.

38. This decline in share of trade is reflected in revenue earnings. Although the Department of Trade and Industry talks about a steady increase in revenue (see British Business 13.7.84, p.407) this is expressed in current prices. If constant prices were used the fall in real revenue would be more readily apparent.

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39. Many countries also firmly believe that it is every nation's right to reserve its coastal trade for its own ships, and some countries reserve all government cargoes for their own ships.

40. Trade on our coast has been open to all comers since 1849. Our demands for the restoration of this policy by the introduction of a UK cabotage regime have been translated by the present government into a proposal for the lifting of all such regimes within the European Community. The European Commission supports the principle of removing cabotage reservation for Member States but would allow member states already excluding third countries to continue doing so. This falls a long way short of helping Europe's merchant fleets.

41. We cannot see any great merit in easing present European cabotage arrangements. In the past we have been assured by owners that whenever they had coastwise cargoes for European countries they experienced little difficulty in having cabotage restrictions waived. Further, we believe the amount of trade available is not great and would not compare with the amount of trade available between ports of the British Isles. Last it is our view that economic nationalism within the maritime nations of the community would override declarations in favour of liberal trading policies. The failure of Norway to open up its offshore oil zone to British supply ships is a salutary lesson in this regard.

42. The NUS/AUEW-TASS report, "Partners in Crisis", shows how the simple option of reserving the UK's coastal and offshore oil and gas trades for UK flag ships would create immediate demand for some 31 ships in the coastal trade and 40 to 50 ships for offshore oil and gas, with a further 40 to 50 ships to meet the demand from new developments. Our estimates show that some 2,500 new jobs could be created if proposals on these lines were adopted.

WHETHER FREE TRADE?

43. British government policy asserts that shipping should be left to the free market. Although other countries take steps to ensure their merchant fleets survive, the UK objective is to persuade other states not to protect or subsidise their fleets. But the governments of USA, Japan, France, West Germany, Italy, Greece and many countries in Asia and South America, who, among other measures, all reserve their coastal trades to their own ships, will not be persuaded to change their policies simple to comply with the unrealistic theories of those who formulate UK shipping policies.

44. The free trade option enjoys the strong support of the UK government and its partners in OECD. The European Commission is also about to nail its flag to the free trade mast. The Commission:

is opposed to state aid and protectionism

supports flag of convenience shipping

is in favour of non-EEC (low wage?) nationals being employed on EEC member state ships

is opposed to the setting of predatory freight rates, particularly when COMECON ships may be involved.

45. The Commission's proposed regulations propose:

action against cargo reservation

the ending of cabotage restrictions by Member States

consultation between member states and third world countries

amendments to competition policy implementation

action on unfair pricing practices.

Given the ravages wrought on UK shipping by "free competition" it is difficult to understand why UK ministers and their advisers should be so in favour of the Commission's aims.

46. Concern about the purity of competition is however severely limited. It does not extend to the voicing of any anxiety about the indulgence shown by the UK and OECD governments to shipowners who resort to flag of convenience registries. The lavish competitive freedoms they enjoy enable them to undercut British and other established shipowners, so placing their operations in the sort of jeopardy which leads to the disposal of ships and the steady reduction of national fleets.

47. The maintenance of a strong merchant fleet is supposedly the policy of the UK government. This policy is presumed to depend on the preservation of international competitive conditions, i.e. an unfettered international market economy for shipping.

48. Domestically the government implements this policy by withholding all state support, even modest income tax concessions, from employers and seamen alike. The policy of denial continues, despite the fact that the industry has never had so few ships or employed so few seamen.

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49. The search for the perfect competitive environment has presumably been continued abroad. However we do not know how successful this quest has been. We therefore need to know:

(i) What restrictions on competitive conditions imposed by all foreign governments were in place in 1979? In which instances have any of those restrictions been lifted as a result of representations by HMG?

(ii) What new restrictions have been proposed by foreign governments since 1979? To what extent has opposition from HMG led to those proposals being amended or withdrawn?

(iii) What restrictions already imposed or about to be proposed in the form of international conventions have been amended or withdrawn following representations supported by the UK government?

(iv) Which British flag ships and companies have benefitted from the activities of HMG in this context?

50. Free trade in shipping is a myth. Many countries ignore international agreements on free trade, and provide a range of trade protection and financial support to maintain both shipping and shipbuilding. Too much is at stake for nations to sacrifice their industries simply because some say an out-dated system should be maintained. The pursuit of free trade will not help Britain; only government intervention can ensure that Britain has the ships to meet our needs and the control over them to safeguard our future. The revival of our shipping industry has a major role to play in Britain's economic recovery.

51. The constant reduction in ship number which shows no sign of abating calls into question the relevance of UK shipping in times of war. In 1939 the UK had some 3,500 merchant ships at its disposal, and that fleet could well sustain war losses of 10–15 per cent (350–525 ships). Today the entire fleet is fast approaching such a configuration for total size. Hence even minor losses could have a significant impact on the tonnage available for military or naval purposes. Whether there would be enough ships left to supply the needs of the civilian population must remain a matter for serious doubt.

52. Because Britain is an island nation, we need an adequate merchant fleet to safeguard our supplies in time of crisis, which may not necessarily be on a worldwide scale. Britain would not be safe and secure if we had to depend on foreign ships, British owned flag of convenience ships could not be guaranteed to serve Britain if they were needed, and we would not have the trained seafarers to crew them. Even now flag of convenience ships must be hired if NATO exercises are to proceed, as happened when three Panamanian and one Honduran ship were chartered for the recent Brave Lion and Bar Frost exercises.

Tackling the problems

53. Changes are taking place in world trade, as increasingly many governments intervene to support home industries. Shipping is too important to be left to the free market, and in any case a free market in shipping is an illusion because intervention by many overseas governments distorts the terms on which ships compete for business in the international markets. Therefore action has to be taken by the UK government at home and within the EEC and at the United Nations, to bring order to the chaos of shipping. Improved policy formulation, higher safety standards, the elimination of flags of convenience, and the achievement of fair shares in shipping have to be aimed for.

54. The overriding objective should be to reverse the persistent decline of our own merchant fleet, and to ensure that Britain has shipping resources appropriate to a major trading nation.

55. Investment in shipping needs stimulation, not simply by providing more tax concessions to shipping companies in the hope that they will invest in ships and try to expand operations, but which then use them to make tax-free profits on other activities, such as brewing or construction. Government financial support should be linked to specific shipping activities, an increase in public control, the building and repair of ships in Britain and the creation of jobs for British seafarers.

56. At present British ships carry less than 30 per cent of our imports and exports. We should aim to raise this share to 40 per cent for trading partners and 20 per cent for cross-trades. The amount of our trade carried in British ships should be built up through agreements with our trading partners and by bringing realism to the EEC and United Nations trade policies.

57. Following an example set by most other countries our coastal shipping and supply shipping for the offshore oil and gas fields should be reserved for British ships. This will simply extend to shipping the protection given to Britain's domestic road, rail and air services, as foreign carriers are not allowed to pick up and deliver passengers or goods inside Britain.

58. Coastal shipping should also be able to operate with the same kind of assistance which is available to other forms of transport, such as the government grants which are currently available for the capital costs of new or modernised rail and inland waterway facilities. The exclusion of shipping from arrangements of this

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kind serve to confirm the industry's isolation from the country's transport infrastructure and to strengthen demands for an integrated transport policy.

59. Mass unemployment has been a dominant feature of the economy since 1979. Despite the declarations of interest in job creation nothing has been done to stimulate employment in the shipping industry. It is still public policy to impose virtually no restraints on the nationality of those employed on British ships and offshore installations. Work permits for non EEC nationals are not required and the 1976 Race Relations Act allows employers to pay wage rates substantially lower than agreed UK rates. Other countries, such as Australia, Japan, USA, Canada, France and Spain, make sure that employment for their nationals is not jeopardised in this way. It is high time the UK followed suit, by repealing the exemptions contained in the Race Relations Act which allows employers to hire foreign seafarers on discriminatory pay rates and by extending work permit regulations to British ships. Such measures would help create work for unemployed British seafarers and maintain seafaring manpower skills within the UK.

60. Without government intervention there is no prospect of shipping's decline being arrested, never mind reversed. By the next change of government Britain may well have a merchant fleet of only 300-400 ships, leaving us largely dependent on foreign ships to carry our imports and exports, and with British ships having an even smaller share of domestic shipping (coastal shipping, ferry services and the supply ships to our offshore oil and gas fields). If the UK register only loses ships at the rate of 1 per week instead of the present rate of 2, Britain could end up with no ships at all by the end of this century.

POLICY FORMULATION

61. These various problems of the shipping industry call into question not only the adequacy of existing government policy for the shipping industry but also how that policy is formulated.

62. In this country new governments generally assume office without any particular maritime commitments or mandates. This, coupled with the fact that shipping is not associated with important constituency interests or with large scale government expenditure ensures that the industry's problems appear infrequently if at all on Cabinet agenda papers. It also means that it is the opposition parties or government back benchers, rather than the government itself, who initiate debates on maritime issues. The unusual number of debates on shipping matters over the past few years testifies to the deep concern felt by the initiating parties. Regrettably those concerns have not been reciprocated by action from the Department of Transport or the government.

63. Since shipping lacks political clout it is treated as a parliamentary backwater overseen by junior ministers who tend to hold office on a temporary basis as is apparent when the names of Sproat, Trefgarne, Mitchell, Caithness and Brabazon are called to mind.

64. Given their initial lack of familiarity with shipping, both nationally and internationally, and their short periods of tenure, it has to be the case that ministers can only have a very restricted knowledge of what is by no means a simple industry to understand.

65. Inevitably then they rely heavily on their official advisers for guidance on all policy matters. In turn those advisers have no mandate to deal with other than that of ensuring that the long established policy of free trade and non-intervention by government in shipping affairs is maintained. They are strongly supported in these pursuits by UK shipowners and by their public service colleagues within OECD. The outcome is that the Shipping Policy Division at the Department of Transport defends and protects free trade in its advice to ministers as well as in fora such as OECD, EEC, UNCTAD, and IMO where the UK representatives play a leading role.

66. The maritime trade unions are consulted from time to time but invariably as part of the Department of Transport's *reaction* to an iniative taken by some international organisation. The Department seldom, if ever, *initiates* proposals on its own accord, certainly none of consequence in terms of this present discussion. It does not carry out or sponsor research into British shipping, its problems or its future. Published work of any consequence is not undertaken. Whether qualified maritime economists are employed or if consultations with a representative group of such economists take place is not known.

67. The Department publishes statistics on shipping, world trade and UK trade. The commentary accompanying those statistics is generally based on elementary arithmetical calculations which are well within the capability of any 14 year old who knows how to use a calculator. The actual practical use to which the statistical base is put for official policy making purposes is not at all evident.

68. However it is the case that the Department has a history of not using its own accumulated data for policy making purposes in the field of navigational safety. It would be of interest therefore to know the way in which the vast amount of available data is used for policy making purposes.

69. The Department obviously has responsibilities for the well-being of the shipping industry but it is not positively accountable in this regard. It is for concerned Members of Parliament, trade unions and other

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interested groups to evaluate the industry's problems, to assess the implication of available data and to propose alternative policies. The Department and its minister do not have an explicit obligation to express any views or to provide information or leadership. This is only done when they are specifically called on to do so.

70. The formulation and the implementation of public policy for the shipping industry is therefore subject to little informed control or scrutiny which is why the present parliamentary inquiry is particularly welcomed.

71. Essentially from the Department's standpoint, the affairs and the fate of the shipping industry are matters which are best disposed of by silence and ignorance rather than by the stimulation of debate which might lead to the principles of free trade being compromised or abandoned.

72. So long as this remains the case the industry will look in vain for a political solution to its difficulties.

October 1986

Annex 1

Total UK Owned and Registered Fleet
(trading ships over 500 grt)

	Number of vessels	*gross registered tonnes 000's*
1973	1,776	29,106
1974	1,767	30,795
1975	1,682	31,489
1976	1,573	29,839
1977	1,545	30,061
1978	1,421	28,078
1979	1,305	25,232
1980	1,275	25,769
1981	1,118	22,117
1982	985	19,233
1983	866	15,894
1984	777	14,312
1985	693	12,208
1986 (June)	672	9,604

Sources: General Trends in Shipping, Business Monitor MR15, No. 9, HMSO Oct. 1986

Annex 2

UK Fleet 1975–1985. Analysis by Ship Type

Ship Type	*1975 No. of ships*	*1975 Total grt*	*1985 No. of ships*	*1985 Total grt*	*% change ships*	*% change tonnage*
Passenger	116	748,000	82	621,000	−29.3	−16.9
Cargo liners	425	3,330,000	83	682,000	−80.4	−79.5
Container	89	1,363,000	50	1,437,000	−43.8	+5.4
Tramp	307	958,000	150	292,000	−51.1	−69.5
Bulk Carriers	267	8,022,000	62	2,189,000	−76.7	−72.7
Tankers	478	17,069,000	200	4,384,000	−58.2	−74.3

Source: Table 1.1 (1) General Trends in Shipping, October 1986

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Annex 3

Government Aid

THE MAJOR WORLD FLEETS—DECEMBER 1983

RANK	*FLAG*	*million dwt*	*COMMENT*
1	LIBERIA	123	Open registry. No taxation. Insignificant registration fees. Freedom of choice of nationality of crew.
2	GREECE	66	Ships built and registered in Greece exempt from basic tax for 6 years. Government loans 80 per cent repayable in 8 (for conversion)—10 (for construction) years. No corporation tax. Voyages starting and ending in Greek ports are restricted to Greek flag vessels. This is particularly relevant to mainland and inter-island shipping and cruises.
3	JAPAN	63	Government credit 50 per cent (60 per cent for container/gas ships) over 13 years incl. 3-year grace period and credit from commercial banks. Interest subsidies. Scrap and build subsidies. Coastal vessels 75 per cent construction subsidy repaid in fee. Utilisation of government financing and licensing services/purchasing monopolies often results in commercial cargo direction. Tax free reserves.
4	PANAMA	58	Open registry. No taxation. Insignificant registration fees. Freedom of choice of nationality of crew.
5	NORWAY	32	Domestic shipbuilding credit 80 per cent for 12 years, 3 years grace and interest subsidy or 80 per cent for 8.5 years at 5.5 less than norm. Tax offset against personal income. Government pays 50 per cent seafarers' repatriation costs and seafarers receive tax relief. State guarantees available to help owners meet financial obligations. Preferential treatment given to Norwegian-owned service companies operating on Norwegian continental shelf. Tax-free reserves.
6	USA	26	Credit guarantees 75 per cent-87.5 per cent. Tax deferral. Operating differential subsidies are granted to US ship operators to place US flag vessels' operating costs on a parity with those of foreign competitors. The US has a number of laws which reserve carriage of all or part of certain categories of goods to US flag vessels, eg. the 1936 Jones Act provides that only US vessels may engage in the US coastal trades. 50 per cent of all Government generated cargo must be carried on US flag ships to the extent of their availability.
7	USSR	22	State-owned fleet which, it is widely felt, does not need to operate according to accepted western economic criteria and thereby is enabled to quote non-commercial rates in the trades in which it is involved.
8	UK (owned & registered)	18.5	After Finance Act 1984 no significant aid.
9	FRANCE	16	Investment grants and some subsidies. Cargo direction to own flag for certain shipments. Coastal trade reserved to own flag, as are coal and oil shipments.
10	ITALY	15	Government loans for up to 70 per cent of construction, modernisation and repair of ships repayable over 15 years with subsidy 50 per cent of interest rate. 36.5 per cent tax-free reserves. Navigation code formally reserves coastal trade to ships of own flag.
11	CHINA	13	State-owned and does not operate according to accepted western economic criteria. Although no specific cargo reservation laws, self-reliance in shipping is government policy and maritime authorities direct that as much cargo as possible must move on PRC flag ships, all of which are operated by state company. Rapidly expanding operations world-wide.
12	SOUTH KOREA	12	Operating subsidies may be granted to those lines that have contributed significantly to foreign exchange earnings. Construction subsidies available to cover 90 per cent, 70 per cent of which must be repaid over 8 years with 2.5 year grace period. Own flag vessels must be used for transportation of designated cargoes.
13	SPAIN	12	Credit 85 per cent over 12 years with 2 years grace at 8.5 per cent. Operating subsidy for services in national interest Loss coverage for coastal shipping. Spanish flag ships must be used for coastal shipping, state controlled imports and offshore energy resource recovery programme.
14	SINGAPORE	11	Preferential financing; domestic credit terms higher with extended grace period. Interest rate OECD. Exemption from tax from income from freight earnings.

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Contd.]

RANK	*FLAG*	*million dwt*	*COMMENT*
15	WEST GERMANY	10	Tax-free reserves. Investment grants up to 12.5 per cent of vessel cost with possible 5 per cent addition. Coastal trade restricted to ships of own flag.
16	INDIA	10	Construction subsidy based on fixed percentage of international ship prices. Cheap loans. Coastal trade reserved to Indian flag. Government preference policy reserves cargoes to own flag, including aid shipments.
20	DENMARK	8	OECD credit terms with extension to 12 years + 2 years grace for limited period. Seafarers' tax relief. General restrictions on chartering of foreign ships for coastal trades.
22	NETHERLANDS & ANTILLES	7	12 per cent tax subsidy on vessel cost in certain cases special premium of 11.5 per cent spread over 5 years. Interest subsidy of up to 2 per cent up to 80 per cent cost of vessel. Seafarers' tax relief.
25	SWEDEN	5	Value guarantees up to 80 per cent of book value. Credit guarantees up to 90 per cent, 10 years with 3 year grace period on capital repayments. Loans for owners in difficulty. Tax refunded on 75 per cent of tax paid by crew members. Tax-free reserves.
29	POLAND	4	State-owned fleet which does not need to operate according to accepted western economic criteria and thereby is enabled to quote non-commercial rates in a number of the trades in which it is involved.

Examination of Witnesses

MR S J MCCLUSKIE, General Secretary, MR R J WILKINS, National Secretary, and MR J KINAHAN, Special Services Officer, National Union of Seamen, called in and examined.

Chairman

78. Can I open this second public meeting on the decline of the United Kingdom-registered merchant fleet and welcome our witnesses to the meeting. Before I start, can I introduce the two gentlemen at the back, Mr Patrick Shovelton and Dr James McConville, our two specialist advisers for the period of the inquiry? I think you will understand that the inquiry is an important one; it is extremely relevant at the moment, and the NUS are our first group of witnesses outside the Department. For the sake of the record, Mr McCluskie, would you introduce yourself and your colleagues, and tell us what position each of you holds.

(Mr McCluskie) I am Sam McCluskie, General Secretary of the NUS; on my left is Roger Wilkins, National Secretary of the NUS, and on my right is Jack Kinahan, Research Officer, NUS.

79. Thank you very much. I understand you have submitted a memorandum and you also wish to make an opening statement to the Committee.

(Mr McCluskie) Thank you very much. I will be as short as I can. I would just like to say we thank you for the opportunity to come and give evidence and to discuss this with you. We read with very much interest the evidence the Committee has received so far. You were kind enough to give us a copy of that evidence. There are one or two other points we would like to make as we go through, and for the sake of progress I will leave it in your hands and try as best we can to deal with the points, so I have cut my statement as short as possible.

80. You do not want to make an opening statement? *(Mr McCluskie)* I have made it.

81. Mr McCluskie, the core of your document, as I understand it, is that shipping is too important an industry to be left completely to the free market and that the free market is in some ways failing. You say: "Shipping is too important to be left to the free market, and in any case a free market in shipping is an illusion because intervention by many overseas governments distorts the terms on which ships compete for business in the international markets". You believe there has been a failure on the part of UK governments, probably successive governments, to intervene and to appreciate that it is an illusion to think we have free competition in that industry.

(Mr McCluskie) What you say is absolutely true. British shipowners are expected to abide by the principles of free trade and yet most of the competitors, to stay in business, actually get vast support from their various governments. Indeed, they do the exact opposite of free trade. We believe there are restrictions on the power of shipowners and the shipping industry which work to the detriment of British shippers. We have on many occasions tried to tell people who have been prepared to listen, and even discussed the issue with our own shipowners, that the flags of convenience issue has been a difficulty for many years. Our organisation has been trying to get better standards of navigation, safety and so on, and we always say we have fallen by the board. We believe that the competition is unfair in that,

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[*Chairman Contd.*]

given the concessions which have been made to flags of convenience vessels by the countries concerned, it puts us in a disadvantageous position. If you would care to refer to the specific paragraphs of the document when you put your questions we will follow it.

82. It is paragraph 53 of your memorandum.

(Mr McCluskie) I thought so. Insofar as the last sentence of paragraph 53 on page 21 is concerned, we have tried, purely on safety standards alone, in the international market, through the International Labour Organisation, to get acceptable standards, and yet we find, although there has been some improvement, particularly in Liberia, there are other flags now coming forward which do not accept the standards. I am talking of Cyprus and probably, to an extent, also Gibraltar, because they do not have any machinery to measure safety standards which we require on board British flag ships.

(Mr Kinahan) On the question of state aid, we did supply Annex 3 which lists, as far as we know, the extent to which foreign governments help their respective shipping industries. To a large extent, that assistance comes in the form of favourable terms for constructing ships and, to a lesser extent, the operation of ships. I draw your attention to the position with respect to Liberia and Panama where no taxation is levied and there are insignificant registration fees in both cases. The absence of a fiscal regime for these ships, the fact that they do not have to pay for training and the fact that they can hire labour anywhere they wish in the world, together with the fact that to some extent they can ignore safety legislation, constitutes advantages and hidden subsidies. Therefore, taking both the state subsidised ships and the free flag ships, if I may use that term, the supply side, that is, the number of ships and the terms on which they operate in shipping markets, is a distortion of competition. This is one aspect of the disadvantages to which British shipping is exposed.

83. Faced with that sort of unfair competition, as you put it, with your knowledge of the industry, what should the United Kingdom Government do about it?

(Mr Kinahan) The crisis which is facing British shipping is essentially a crisis of revenue. Freight rates, which are not determined by seafarers but by market conditions, have been extremely low over the past five or six years due to a number of circumstances which we have explained in our paper, so the immediate need in our view is to ensure that shipping companies can stay afloat, if that is not the wrong metaphor. As a second leg, the need is that when market conditions do pick up the industry must be in a position to regroup and expand insofar as the demand for shipping services makes it possible.

Mr Bidwell

84. Can we ask the witnesses to bring this more alive for us amateurs to understand the question of safety standards? As to the discrepancies between what is the normal British standard and practice and that applied by some other countries, can you bring it a little more alive? You talked of safety standards, but there is not much detail on what this means in action.

(Mr Kinahan) What it means in practice is that most maritime nations have in theory now subscribed to the legislation which has been drafted by IMO (International Maritime Organisation). The IMO organisations basically determine the standards to which ships are constructed and the standards to which they are navigated, and that includes watch-keeping both on deck and in the engine room. Therefore, the question is not whether particular countries like Liberia, Panama or whatever have ratified the legislation but whether they have the means to ensure that the legislation is enforced. It is true to say that in the case of Liberia and Panama they have taken steps to improve their enforcement machinery, but regrettably in the case of Panama that does not seem to have had any great effect. For example, in 1980 there were 46 recorded casualties involving Panamanian ships. Whilst the number dipped in 1983 and 1984, it was back at 46 in 1985. The question of enforcement also arises in the case of ships which are registered in dependencies of the United Kingdom. I am sure Members of the Committee will recall the incident on Boxing day when the *SYNETA* was sunk off the coast of Iceland. There are some questions in that case which suggest that the enforcement of standards in Gibraltar is not as good as it should be. In fact the staffing of what I might call the maritime division of the Gibraltarian Government consists of two surveyors, so that provision is totally inadequate to supervise ships which come onto that register. Indeed, there is a whole series of questions which need to be answered about the Gibraltar register, in that, reading from the minutes of the House of Assembly, it would appear that the impetus for registration in Gibraltar has been provided by the legal profession rather than by the shipping fraternity.

(Mr McCluskie) To go further on the question Mr Bidwell asked, we have probably the highest standard of able seamen anywhere in the world, or in maritime countries, because we follow the conventions which are freely entered into under the ILO statutes; there is no question of that. To become an able seaman up to 10 years ago and actually to obtain a certificate, six years' experience after the advent of learning and taking examinations was required. Many of the ships and countries we have been referring to escape the necessity for having trained seafarers on board. I would hazard the guess that some of the standards of practice which exist amongst the seafarers who actually sail on these ships are virtually nil; in other words, they are not trained to any acceptable standard whatever. They use the word "seaman" as opposed to the words we would use—"able seaman". But traditionally there are maritime countries which train seamen to as high a standard as we do. There are some as good as ours but there is none better. They are trained to a very, very high standard. You will find that as far as British shipowners are concerned their ships are kept in a state of readiness and good maintenance which puts them somewhere near the top of the league in the standard of ships sent to sea. We have no control over a rust bucket which can earn corn flying a flag of convenience, and I am saying up front the vast majority of them will carry unqualified seamen.

Chairman

85. Are you saying that some members of the General Council of British Shipowners are flagging out their ships to some of these places and therefore safety standards are not being kept up?

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[*Chairman Contd.*]

(Mr McCluskie) There are some who come to mind. I could probably go back to my office and find you a few who have gone down that avenue. They took seamen from the Far East after having left us, and those seamen that they took would not have the qualifications of the able seamen they had just put off the ships. I make specific reference to the likes of Denholms. I would not say that is the position with them, but certainly there are some shipowners who would use Third World labour which is not trained.

86. This is purely because of economic pressure?

(Mr McCluskie) Yes. I do not want to get hung up, but I know of specific instances.

Mr Fry

87. We will go into your idea of support later on, but I would like to ask you about your view in relation to the current state of world shipping. From what you have said already, do you take a dim view about there ever being any effective international agreement which will work in terms of safety, ie, will there always be a Liberia, and will there always be countries where the level of supervision is not sufficiently high?

(Mr Kinahan) I think there will always be ships which cannot and will not comply with international regulations, and the more liberal the shipping regime we create the greater the opportunity we provide for such operations to exist. I think the Gibraltarian flag is such a case. There is a lack of people to enforce simple regulations. They do not have the capacity to enforce regulations under the Gibraltarian flag about the deduction of national insurance contributions; that cannot be enforced and is not being enforced, so if such a simple administrative requirement cannot be adequately dealt with it is extremely difficult to envisage registers such as Gibraltar expanding further and enforcing at all vigorously international safety requirements.

88. But part of the purpose behind my question was that even if you tightened up on Gibraltar—and we understand there are proposals to do something about it in terms of putting shipping into various categories—there will probably always be another country like Madagascar or Malawi which is prepared to accept lower standards because of the foreign exchange it will earn. Is that the real danger?

(Mr McCluskie) That is fair, because every day there are countries opening up registers.

89. The second question I want to ask is whether to your knowledge there is any developed country where the number of ships is either increasing or is even static in the present state of world shipping?

(Mr Kinahan) We point to a number in our paper. The prime example is Japan which in 1975, if my memory serves me correctly, had 37 million tonnes of shipping. It expanded slightly thereafter and went down, and now it is back to 37 million tonnes. In the case of the United States, there was actually an increase in tonnage.

Mr Bidwell

90. Safety standards will include discipline and practices abroad, as much as the general question of navigation, the structure of the ship and so on. I take it that it would include the enforcement of personal safety standards and the general standard of supervision, I take it it would cover that as well when you talk in terms of "safety standards"?

(Mr Wilkins) Yes, it would apply to that, and in foreign flagged vessels we do not believe those standards are anywhere near those applied on British ships.

91. It costs money to enforce those standards, so British shipowners are turning to other flags and can debase those standards?

(Mr Wilkins) Yes.

Mr King

92. Exactly what standards are you talking about?

(Mr McCluskie) It was not so long ago that I visited a ship in Hull at the request of the foreign crew; there were various countries represented there. She was flying the Panamanian flag. There was a master mariner on board. We were trying to find the owners so we could negotiate on behalf of the people serving on board the ship. The chief officer had no certificate; the second officer had no certificate; the third officer had no certificate. There was one man on board with a certificate—the master. It turned out that the owner of the ship was the third mate; he had no certificate.

93. How does he get insurance to run it?

(Mr McCluskie) That is another subject. Who insures all the tonnage under the Cypriot flag, if it is insured? I do not know.

94. It is not mandatory to sail a ship with any form of insurance; you can collide with anybody and that is simply your tough luck?

(Mr McCluskie) I do not know. In that particular instance there was only one man with the certificate of a master mariner.

(Mr Kinahan) On that question, I would be surprised if any ship was uninsured, and in that case we would have to look to the five or six major classification societies and ask them whether they had insured ships which were sub-standard. There are individual cases where ships which were classified as fit to go to sea have subsequently proved to be very unseaworthy and have been involved in shipping casualties. Even if ships are insured, there is no guarantee that they will in fact meet required standards in terms of construction.

95. But if it was insured through Lloyds, for instance, would they not ensure there was a crew with sufficient certificates to man the ship, or does anything go?

(Mr Kinahan) As far as I know, I do not think Lloyds are particularly worried about the certificates of the people who run ships; they are concerned primarily about the structures of the ships.

Mr Bevan: To follow this up, because it is terribly important, what exactly are the standards required today for crew? I think we ought to have some note on this. For instance, in some classifications of vessel Lloyds registration is no longer applicable; it no longer exists, nor does the time-honoured phrase "constructed under Lloyds supervision" exist. What is required by the insurance companies? I think Mr King expressed his surprise that any vessel could sail without insurance, but

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[*Mr King Contd.*]

what is the tendency of vessels to have insurance, and what kind of insurance? Up to what level is there insurance, and in what respect? How does the market vary in the cost of premiums? I think we must know this, because it is an essential part of the story, before we can even begin to make decisions.

Chairman: I think that perhaps we should pursue it with Lloyds. A very important point has been raised by Mr Bevan, and Mr McCluskie, understandably, does not feel like covering it now.

Mr Mudd

96. Could Mr McCluskie help me on one thing. Without wishing to denigrate the role of the able seaman, who is the backbone of the Merchant Navy, he is defined in the Merchant Shipping Act as an able-bodied seaman in the sense he has to be a physically able person. Is there now not a contrary argument, that the seaman of today needs to be more intellectually attuned to the manning of a ship and that in this part of the twentieth century what is required is a seaman with intellectual abilities rather than simply muscle? Is there not an argument that "able-bodied" as a classification is irrelevant to the effective and safe manning of vessels?

(Mr McCluskie) No. Some of my colleagues, or some people, attached to the industry see the day when there will be no seamen on board, but I do not see it yet. Yes, he has become more experienced and his job is more sophisticated with new technology on board—probably more so than his predecessor. He must know the three Rs to do his job. Over the years—some of my colleagues in the shipping industry are here—we have seen the requirement for *x* number of able seamen on board reduced, and one of the arguments used has been the new technology and skills to be attained by able seamen. I do not know what else I can say, other than that skills have improved and the requirements are different now, though he still has a major part to play in moving a ship from A to B, and we have recognised that by reduced manpower.

(Mr Wilkins) Even on modern and sophisticated ships there is still a considerable amount of physical work, so "able-bodied" is still relevant; we call it "Norwegian steam". A lot of training is required: training in fire-fighting and damage control—the types of things you need when things go wrong. It is mostly a question of training, but even with watch-keeping and steering you still need somebody who is fit and able to work long hours whilst at the same time carry out a watch-keeping function. Considerable skill is required. This goes back to the time people have to spend training, which Mr McCluskie was talking about, and the fact that the training burden usually falls on the owner or often on the seaman himself. To get these qualifications he may have to spend time and even pay fees to do so. I appreciate what you say about sophistication, and most seamen have a fair standard regarding the three Rs, but there is still a lot of physical work involved and nerve is required when things go wrong. You want competent people at your back to do jobs for you if you are the master.

Chairman

97. Before going to the size of the fleet, would you or your colleagues like to say something about competition from the Eastern Bloc? It has been said that whilst we are stopping the Russians getting in to the front door they are creeping in the back door.

(Mr Kinahan) Chairman, there are mixed views on this question. The conventional view is that the Soviet Union has a mass plan for taking full control of the world's oceans in terms of commerical shipping. A book recently published, based on a study of Soviet documents and so on, entirely dismisses that view. The main complaints we have got are in the passenger or cruise field, the northern European market and also, in some cases, in East Africa where the coffee trade, for example, has been taken over by Russian ships. We dislike the idea of anyone undercutting us because in effect it constitutes dumping of shipping services, but it has to be remembered that the Soviet Union has a different cost structure and different approach to financing its operations. For example, they tend to encourage—I hope I have it right—when loading free on board (fob), and when they are picking up in the United States it is cost insurance freight (cif). These are practices which apparently conventional shipowners do not resort to as a matter of course, so the short answer is that we do not like the idea of any non-UK shipping lines—the Soviet Bloc—dumping shipping services, but the question is: How do you combat it? I understand the European Community is taking measures which it is hoped will enable this to be done.

Mr Ross

98. That leads me into the question I want to put. Surely, the real problem is that world shipping is in surplus. You have indicated the Pacific Basin which has not gone back at all; it has increased, but even in the Community where it has dropped away, not just in the United Kingdom—though we probably have suffered more severely than most—but other EEC countries are suffering similarly. I want to know what co-operation you have had as a union, or what you as a union can do, to get an agreement in the EEC to get a policy whereby we scrap a lot more of the existing shipping which is redundant at this moment—some of it is being sold as second-hand, which does not help very much—and try to put some pressure perhaps on the United States but certainly on the Japanese and Koreans to cut back their own fleets. What can you do as a union—towards that end?

(Mr McCluskie) I think we play an active part in the social content and make-up of the EEC, and we do so as members of the Maritime Committee. They have produced and presented a document on a scrap and build policy. As to what we can do, I am sure that even the shipowners would be prepared to say that the NUS has been realistic over the years in terms of the problems which the industry has had to face and some of the dire consequences which have resulted because of the state of the industry's worldwide over-tonnage. I would be hard pressed to say what we as an organisation could do immediately, other than what is in the paper, and ask the Committee to consider our view about trying to adopt some of the practices which have been adopted by other countries in terms of reservation of trade, import and export. I do not know if we can create an international forum. The ILO has striven for a long time to get a forum to consider acceptable standards of safety.

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[*Mr Ross Contd.*]

What can we do? All we can do is put our tanner's worth in. We have always been realistic. We have seen what has happened. I recall that 25 years ago a colleague of mine at a conference said that in the 1980s the merchant fleet would be down to 500 ships. That was the basic thinking at the time, and that was why we probably adjusted our policies, but I cannot think of any specific thing I can say to you now that we as an organisation could do, other than ask you to consider giving us protection and government help which we need to be more competitive. Looking at the memorandum we have submitted, some of the things we hear about from our international colleagues make my hair stand on end—and I do not have much of that. Looking at the Swedes, Norwegians and Finns, although their training standards are high, some of the manpower on board ships which go to sea makes my hair stand on end, because I believe some of their ships are becoming unseaworthy as a result of the number of men. That does worry me.

(Mr Kinahan) The question is: What can be done to check or reduce the supply of ships in the world market? How did we get into the position of world over-supply in any case? The particular circumstances of the present over-supply have been explained in our paper. Two of the main areas of over-supply are the tanker and dry bulk sectors. Significantly, these are two sectors in which the flags of Panama and Liberia dominate. Those countries have been able to get cheap loans and build ships at favourable rates; in fact they are major customers of the Japanese and Korean shipyards. There is a conflict between the desire of shipowners to build ships and the desire of some governments to promote their shipping interests, and at the same time there is the desire of governments to promote shipbuilding activities conducted in various countries. So far governments have been prone to assist their own shipbuilding industries and thus contribute to the over-supply situation.

Chairman

99. We have not!

(Mr Kinahan) No. If we regard the flag of convenience sector as the main engine for over-supply, we have to look at the conditions which make it possible for flags of convenience shipping to conduct its operations. In that respect, it is our view that OECD is one of the major permissive agencies in this area because OECD, on which our Government is represented, has consistently refused to do anything about flags of convenience registers. I should not say "consistently" because there was a time, between 1950 and the early 1960s, when OECD was extremely hostile to the concept of flags of convenience. Subsequently, OECD governments, including our own, changed their minds, and now in effect citizens of OECD countries can make the necessary arrangements to build and operate ships from flags of convenience registers, and until we achieve the right level of decision-making and control we will not be able to stop this continuous flow; there will be nothing to stop the flow of orders for new ships and their operation in the market unless governments intervene.

Mr Mudd

100. There would seem to be four major components in the cost of running a ship; one is labour cost; one is victualling cost; one is bunkering cost; and one is docking cost. Given that bunkering, victualling and docking costs are universal problems over which none of us has any control, what steps would the NUS be prepared to take to reduce or meet the cost of labour in ship management?

(Mr Wilkins) That is a leading question.

101. That was why it was posed.

(Mr McCluskie) We probably answered you a minute ago when we responded to Mr Ross's question. We use as a forum the National Maritime Board which sets rates of pay and terms and conditions of employment. Our able-bodied seamen's rate in relation to northern Europe is probably nearer the bottom than the top.

102. But that is basic pay; that is not overtime including Sundays spent at sea.

(Mr McCluskie) We do not get Sundays at sea; many years ago they went by the board. If you took it even on earnings you would probably push it up to somewhere below the middle section of the table in the wages league in Europe. We have not always voiced the views of our members at the time. We recognise fully that the cost of labour is one aspect we have to take into consideration insofar as jobs are concerned. Even this year, we had a 3 per cent increase which was probably less than what the seafarer would have been looking for. Why? We accepted that because we recognised that the more we put on that bill the more possibilities there would be for shipowners to walk away from us, saying they are doing it because of the high cost of British labour. Our membership listened to us; by a very small majority they agreed to accept it. The NUS position over the years has always been to recognise that that particular aspect of it is one that probably has had an overriding bearing on the response to any claim or award by shipowners. Even now, if you take Europe, we are in a position where shipowners are telling us that we are still too expensive, in relation to Germany and Sweden, if you take the ratio of crew as opposed to the cash. I honestly think that seafarers can continue to be reasonable and responsible, but I do not think they are going to go to the bottom of the heap in the wages tables.

Chairman

103. Are you aware that when the Department appeared in front of the Committee in December and replied to this very point they said: "No, Mr Chairman, I do not think they are [heavily paid]. Over the last five or six years the wage increases which have been recorded in the maritime industry I believe have been significantly below average increases in the economy as a whole, and I just heard before coming along to today's meeting that the result of the NUS ballot announced today indicated that the membership was prepared to settle for a figure which is obviously going to be substantially below the going rate." The Department also said later on, which is a substantial point to be made in relation to wages, that there was no doubt the wage rates and lack of opportunity in the industry was creating a resistance in the minds of qualified people or the type of person who might want to enter the industry?

(Mr McCluskie) You are quite right, because you have to look at the industry in two ways. First of all, you have the ferry boats which are high earners, as opposed

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[Chairman Contd.]

to deep sea vessels whose earnings are much lower. Amazingly, when our members voted by ship board ballots and sent the figures back by telex, it was the deep sea seamen themselves who said they did not want it; they wanted more than 3 per cent, whereas the high earners on the ferry boats put down their ticks and crosses and said "Yes". We receive tremendous pressure from our people in the deep sea industry, but I am sure that at the end of the day there is the knowledge or feeling that this is only one aspect of it, the wages part. I am very pleased to hear what the Department has put on the record.

Mr Fry

104. The General Council of British Shipping has said something slightly different, and it is only fair I should put their comment to you so that, in turn, you can comment on it. They suggested that current crew costs were founded on agreements made in the prosperous sixties and seventies when there was a shortage of experienced seafarers; now there is no such shortage and the industry is no longer prosperous, and these agreements penalise British owners. Would you comment on that?

(Mr Wilkins) If I may, the point which should be made is the one that Mr McCluskie has already made concerning basic rates and pay rises in recent years. The other point concerns manning. I remember 20 years ago when I was at sea in a 10,000-tonne refrigerated ship. We had 21 able-bodied seamen on board. If you look at the same ship today which is containerised, it gives three or five times the efficiency than the break bulk reefer I was serving in, but the crew would be between five and seven. That is an indication of the type of reduction in crew we have had over the last 20 years. The NUS has been severely criticised by its members for going along with many of the cuts, but we have recognised that sophisticated, modern ships do not require the same amount of what we call Norwegian steam as was required when there were 21 people on deck. I cannot see how you can adequately operate it—you can reasonably operate it—with a crew of five and seven. On the quantum of earnings and overtime, with less people on board clearly the carrying out of ship board operations means longer hours, so often the numbers come down and the hours go up. On victualling costs, if you feed the crew to a reasonable standard it matters little where they come from. In order to keep them alive you have to feed them, so the victualling costs are very much the same on a worldwide basis. Very few British employers cut corners like they used to on this particular question. As to docking fees, we estimate they would be an area where our people would tell us of high costs, but it does not matter under which flag you operate; those costs are similar, although some countries do discriminate in that particular respect. As to bunkering costs, we would agree that a reduction in bunkering costs would be an advantage to some owners who are responsible for those costs, but most charter-parties these days make bunkerage part of the charterer's expenses rather than the owner's expenses, and therefore again the owner misses out a considerable sum.

105. Thank you for answering Mr Mudd's question. I must bring you back to the basic point which the GCBS has made, that the industry is in a desperate situation. I follow what you say about the reduction in manning. You have also said that new technology must have improved productivity per man hour, but it follows from what you have said that no reliable method of evaluating that has been developed; in other words, there has not been an effective way of measuring that increased productivity, as in many other industries, so it can become part of the pay for the job. Why is it that the shipping industry has failed to establish methods of evaluating productivity which are common throughout other industries?

(Mr Kinahan) Shipping is essentially a service industry, so in terms of man output per day it is extremely difficult to measure it. For example, if an AB's day at sea is spent painting the ship and maintaining it, it is difficult to evaluate that activity in relation to the overall productivity of the ship. The ship-owning fraternity has consistently said that productivity is capital-induced; in other words, increased ship sizes, automation of engine rooms and improved navigational devices. This is where it is said productivity takes place. What is not measured is the effect or contribution of the labour costs, or savings on labour costs, in relation to that. Why it has not been examined or why a system has not been devised is mainly because, I imagine, no-one has actually asked for it to be done.

106. Why have you not asked?

(Mr McCluskie) We did with the advent of container ships. My colleague used the expression "five or six". One report which came before our Executive Committee said that one container ship would replace eight normal vessels, and at that time both sides, shipowners and ourselves, tried to find ways of gauging productivity because of the loss of jobs. Again, I have to watch my language. We thought we had an agreement with the employers that when they recouped some of the costs involved in building container ships the awards to our members would be increased. I see that one of the experts at the back of the room was at that time representing the employers. We called a meeting of container employers to say, "OK, we have done our job; you needed productivity and have given it to you. You promised us *x*, *y* and *z*", and we got a flat rejection. We were asked to do it and did it on the containers, and at the end of the day we came away with a duck egg.

Mr Bidwell

107. You alluded to the difference in mood of your members in relation to accepting a 3 per cent increase which has no relationship to the move in inflation in general terms, and certainly it would not be accepted by telecommunications engineers, for example. Your members involved in coastal shipping come closer to the scene of general wage movements than members engaged in ocean-going shipping, so there is a difference in mood. But in any case you are able to deal with it in general terms in retraining them to accept 3 per cent. Also, on the question of productivity, it differs, does it not, between ferry services and long-haul ships? That is the general picture?

(Mr McCluskie) Yes, that is it.

(Mr Wilkins) I think most seafarers agree with the view expressed earlier, that if the productivity element had ever been seriously considered they would have been

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[*Mr Bidwell Contd.*]

in a far better bargaining position than they are today, because, going back to the example I gave earlier of the 10,000-tonne reefer, 20 years ago that had a deck crew of 21 and a total crew, including officers, of somewhere in the region of 60. The same ship today would displace at least five of the old break bulk ships and would have a total crew of 16. If you did a calculation based on carriage per tonne mile the seafarer himself on a productivity basis would probably have had an increase of 5,000 per cent; it is that high.

108. You have been a bit slow?
(Mr Wilkins) Very slow.

Mr Mudd

109. That was a point I did not touch on. When one considers pay versus victualling, bunkering and docking costs, it is a fact, is it not, that one of the important elements of the labour cost is the value of the pay earned and the port of signing on and the nationality of the seamen? A Russian seaman might be able to do the same job with the same social status for 60 per cent of what is necessary for a non-Eastern Bloc seaman to seek to exist?
(Mr McCluskie) How do you answer that question? I do not know of any union in the maritime industry throughout the world that negotiates other than against the background of his own particular country and the standards of living which exist in that country, except for the Soviet Bloc, because I do know that in Poland they do not pay against the background of what happens in Poland or the cost of living there; it is based on whatever the trade is, or whatever the ship is trading in. There are bonuses paid for high cost of living areas like New York. Nothing is high for the Poles, but there is always a different rate set, but nearly all maritime countries negotiate against the background of the standards of living in their own countries.

Chairman

110. On the question of limited protection for British shipping, should the Government introduce offshore reservation and cabotage protection, like the Norwegians do? If so, do you feel that the costs of these services would be raised, and would there be any repercussions because of other countries going in that direction? What case would you make—your best case—for cabotage being reserved for British ships and seafarers?
(Mr McCluskie) I would not want it just because everybody else has it but to ensure a fair chance of competition. I think that if we had had cabotage 20 years ago some of the famous companies which went by the board would have been with us today. Unfortunately, it was the wee Dutchman and his family ship that put us out of business. I want British shipping to show its mettle and to operate competitively with other transport here in the United Kingdom, and to get it we need cabotage. But I have to say that successive governments, of whatever colour, have always refused it, and I could never understand why the present Government, or even the last Labour Administration, could not see it was unfair competition. Our shipowners were facing unfair competition, because if they went into Holland they could only trade in one port; Germany was the same. I could not understand, and still do not understand, why they could not protect our own ships.

111. So, you would probably stop short of extending protectionism to deep sea shipping, but you feel that cabotage is something which would be beneficial to your members?
(Mr McCluskie) Yes, even at this late stage, and I would want some protection for our deep sea shippers insofar as imports and exports are concerned, market preference and bilateral agreements, like other nations have.

112. Would you like to say something about the question of financial support for shippers?
(Mr Kinahan) In general?

113. Or in particular?
(Mr Kinahan) I said earlier that the current dilemma facing shipowners was the fact that low freight rates generated low income, which means resources are rapidly eaten up. Ships cannot be replaced and existing ships cannot be maintained in operation and hence they are sold or scrapped. The immediate problem is to consider what might be done at least to keep the fleet at something approaching its present size. The question of growth based on trade is not on for the moment, for the simple reason that world trade is relatively static, so if we go down that road it means either getting some new trade or alternatively stealing somebody's existing trade. Much has been made of wage rates, but these are not the main costs which the shipowner must meet; he must meet, for example, interest charges on outstanding loans and repay outstanding loans. Some modest help in that direction would be very significant; it would be of consequence to the individual shipping companies. At the moment the shipping industry does not enjoy any special tax privileges; they have been taken away since 1984. There is a need to restore some tax benefits so capital can be accumulated, or so that cash flow can be assisted or reserves for future investment can be built up. If we talk of wage costs, we must remember that a number of the wage costs which shipowners have are fixed; the obligation to give seafarers pensions is one example; and the obligation to pay redundancy compensation, whilst it is not directly a state responsibility, is an obligation created by the state. There is an obligation to create a safe working environment and proper safety standards and proper equipment. That is an obligation which has been created by the state. We are not saying those obligations should be removed; what we are saying is that they have been state-imposed and since the state is or should be concerned with assisting the industry some thought might be given to assisting the industry with regard to those costs.

Mr Fry

114. But other industries have exactly the same obligations placed on them but do not get any help?
(Mr Kinahan) That is quite true, but if the question is whether we assist the shipping industry or let it flounder and expire, we move into the question of political decisions as distinct from commercial ones. Purely in commercial terms your point is quite valid, but if we, for political reasons or social reasons, determine that we want a shipping industry of some kind and size, then we need to have some form of state intervention. The question of pensions and so on may not be the correct example, but the point I was making

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was that these were the costs to shipowners derived from decisions made by government.

Chairman

115. Have you given some thought as to what should be the optimum size of fleet that we should not go below? Are we dangerously near that number?

(Mr Kinahan) We are at it now.

116. Urgent steps should be taken to stop the decline?

(Mr Kinahan) Yes. At the moment we have roughly 550 ships over 500 tonnes gross on the UK register. There are many ships below that size, and we are rapidly becoming a small ship nation, as distinct from a big ship nation. This is partly a function of the cost of the investment and also a function of international safety regulations. Safety regulations are applied to certain tonnage levels, and the building of small ships has been encouraged in order to avoid certain standards of equipment and safety. For example, if we talk of ships of 1,600 tonnes, suddenly there is a new breed of ship which is 1,599 tonnes. We have ships of 500 tonnes, and suddenly there is a new breed of ship of 499 tonnes. This magic 1-tonne difference enables shipping companies either to have less men on board or avoid the cost of safety equipment or providing accommodation. The point here is that international legislation of this kind has led to the development of a small ship fleet. We come to the question: Do we need a small ship fleet or a fleet which is composed of bigger ships?

(Mr McCluskie) Earlier on, paragraph 53 was referred to, but in paragraphs 55–56 we say that there should be government financial support and that it should be linked to specific shipping activities.

(Mr Wilkins) Just to remind you, we did highlight some of the assistance given to foreign shipowners in Annex 3 of our evidence. You will notice in there that there are four of our EEC colleagues providing considerable investment subsidies towards shipowners in their own countries. If I could briefly return to the issue of cabotage, one of the things I forgot to mention earlier was the question of the offshore oil and gas sector of the North Sea. Certainly the office has taken an interest in the amount of foreign flag competition in the provision of shipping services in that sector. We have seen some small results; we have chased a little of the foreign competition out of the North Sea because somebody has taken an interest to ensure that some of the charter vessels serving rigs are British manned, so there has been some improvement there.

Mr Fry

117. The Department told us that last year the so-called operating subsidy to the US merchant marine came to $351 million for about 118 vessels. It is all very well talking about support for the British shipping industry, but it is important to have some idea of what level of support is being advocated. That is a pretty high amount of money. Has the NUS got any view of the level of support it believes would be necessary to maintain the British merchant marine at its present level?

(Mr Kinahan) We have not done the sums on it; we put forward the idea as a matter for consideration and further study.

Chairman

118. What you are saying, I think, is that market forces are inevitably leading to a reduction. Are you saying that if there is to be a halting of that reduction market forces must not be the only factor to be taken into account and this is where political considerations come in? I think that what the Committee is interested in is what sort of financial support is needed, and what sort of public control is necessary; in other words, is there a need for some enforcement in market forces? In what way do you see this being best done by whatever government?

(Mr Kinahan) I think the first thing we need is some forum within which shipping can be discussed; its affairs in terms of the public interest are discussed on an ad hoc basis, and it is only when people get concerned and agitated that discussion of this kind can take place. More often than not it is too late. The question then is: can we create a forum in which shipping matters can be discussed? The second question, if we talk of control, is the question of attitude on the part of the Department of Transport. On reading Mr Moore's speech of 10 December and the evidence given to this Committee, with which he has supplied us, it is clear that fundamentally the Department is not interested in the shipping industry as a British entity; it is interested only in creating conditions where individuals who invest in ships may register their ships in whatever country or whatever territory they prefer. They may or may not prefer to do that in the United Kingdom. As to the attitude to internationalisation of the United Kingdom shipping industry, there has to be some assessment of the implications of that, and they are not necessarily the defence implications, because I think that is the Government's back stop, that if defence needs arise we can bring the ships back so there is no need to do anything else.

119. Who knows? If you convince this Committee sufficiently we may make recommendations which could alter Mr Moore's mind.

(Mr Kinahan) If I might touch on the Business Expansion Scheme, two companies have just started operations under that scheme, and I notice in this morning's Lloyds List that with government money UK shipowners, who are not necessarily members of the General Council of British Shipping, can set up business and hire Cape Verdian ratings. To me, it seems disgraceful that public money should be used in this way without any control. If government money is being invested, the question is: to what extent is this generating or creating employment for UK citizens? We hear a lot about job creation, and here jobs are being created for people who are citizens of Portugal.

Mr Mudd

120. Does the NUS see the priority as being the creation of jobs, or is another priority the increase in British grt?

(Mr Kinahan) We want the fleet to expand and grow because without a base, irrespective of what our membership ambitions are, there is no fleet and no union, The stronger the UK fleet the more jobs there must be by definition for British nationals. On that point, may I say that the public purse is paying out something like

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[*Mr Mudd Contd.*]

£40 million a year for the training of officers*..Because there are no jobs for UK officers, they are now being employed on foreign flag ships, so our money in effect is being used to train officers for employment on foreign ships. Therefore, the greater the decline in the number of British ships the more officers will seek employment abroad at the taxpayer's expense.

Mr Bevan

121. I think it ought to be pointed out that many of us would share your grave concern and would certainly wish that not only the size of the fleet should be increased but that there should be more jobs available in the industry. We look back to the time when, in the words of the song, Britain ruled the waves, whereas now that wording might be changed to "Britain rues the waves". To achieve this situation–whether it can be achieved through a committee or not is another matter—will require a tremendous amount of work, organisation, change in attitudes and analysis of attitudes. I would like to ask about some of your own comments with regard to job creation, because I am sure you would like to see the number of jobs increase, not only indirectly by protectionism and financial support, which is one of your recommendations, but also directly by not allowing—I think you say—work permits to be granted to non-EEC nationals and by repealing the exemption for foreign seamen in the Race Relations Act 1979, which allows British shipowners to employ a number of foreign seamen at much lower rates than British seamen to do the same job on the same ship. In itself this is a terrible anomaly, and one can see the reasoning behind your thoughts and suggestions. May I put it to you—I hope you challenge me on it successfully—that by following that line of conduct we might be encouraging British shipowners to flag out, simply because we would be increasing their crew costs? How could British shipowners hope to compete in such circumstances? In other words, would not your suggestions for job creation, which look superficially attractive, be counter-productive?

(Mr Kinahan) I think that, insofar as shipowners are concerned, the employment of non-domiciled seafarers is not necessarily an advantage. In terms of the total numbers employed, they have gone down dramatically over the last 10 or so years. In fact some shipping companies which employed UK officers and non-domiciled ratings were unable to remain in business, so the mere availability of the facility to hire low-wage cost labour from Third World countries does not necessarily guarantee that shipping companies can make a go of it.

122. Further to that, I agree with you about the decline; that has been obvious. How many jobs have actually been created for British seamen as a result of this decline?

(Mr McCluskie) None.

123. Why is that?

(Mr Kinahan) Because the decline in the number of non-domiciled seafarers coincided with the decline of the merchant fleet; in other words, the non-domiciled people did not go down during a period of expansion or relative prosperity; they went down at the same time as a large number of British seafarers went out of the industry.

124. Is there any suggestion that by continuing the policy of non-employment of foreign seamen we can now, hopefully, in better circumstances increase the number of British seamen employed?

(Mr Kinahan) A lot would depend on trading conditions over which we have no control; and a lot would depend on the operating conditions on board ship, and also on the type of ship and type of trade.

125. Can we look, for instance, at the cost of building ships in Britain and running them on the British register, employing British seamen and managing shipping companies from the British mainland? The costs of doing this are much higher than in many other places throughout the world. If the measures you recommend would compel British shipping companies to bear extra costs, how can you reverse the trend? Few companies which currently incur only half these costs in Britain are in fact profitable. Might not the British shipping industry be perhaps less British, but more healthy, if the industry were encouraged to spread its costs by, for example, buying abroad and crewing in Britain or by buying in Britain and crewing abroad; in other words, do we have to cut out both situations to achieve a position of greater capability and competitiveness?

(Mr McCluskie) In looking at what we are supposed to do to redress the situation, again if you refer to Annex 3 you will see we have made some specific references to government aid in the building of ships. As far as Norway is concerned, you will see that for a 12–year period there has been a domestic shipbuilding credit of 80 per cent. I do not know off the top of my head what the British one is. This is the sort of help which we believe British shipowners would need to get work into the yards. If you look further down the page at the UK, after the 1984 Finance Act there has been no significant aid. I believe that if we get more subsidies for shipowners we will come back to the scrap and build policy; I think that is what we have to go into. As far as P & O is concerned, it was probably the biggest employer of non-domiciled labour at the time when the non-domiciled agreement was laid before Parliament. They did reduce the number somewhat. They only have about three crews left who are Indian nationals. As my colleague rightly says, it was not because of any great increase in the salaries or the cost of employing them; it was trade which dictated that these ships should go by the board; some were very, very old ships.

Mr Ross

126. Have you made submissions to the Chancellor of the Exchequer with respect to this year's budget and financial aid for the shipping industry? How are your relations with the DTp on schemes to help you?

(Mr McCluskie) I think we did last year or the year before. We went to the Treasury and got no joy. The shipowners recognised that when you took off the tax benefits which the Chancellor gave to seafarers for being absent from the country for a period of time they had suffered a great reduction and their wage award for that

* *Note by witness* I may have inadvertantly misled the Committee. The figure of £40 million refers to an estimate of the total cost of officer training in the late 1970s as borne by both the shipowners and the Department of Education and Science and by the local authorities.

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[*Mr Ross Contd.*]

year took it into consideration, but we have never made up the ground because there was a 25 per cent rate offered to our people and it was abolished overnight.

(Mr Kinahan) To go back to the question of shipbuilding, the inference is that if UK ships are built in UK yards somehow the UK shipowner will be at a disadvantage. In that case he would not be in any different position from shipowners in Belgium, Denmark, Holland, Italy, Japan or the United States, all of which, from my reading of the shipping press, insist that ships for the national register are built in national yards. In effect, whilst they might be at a disadvantage *vis à vis* having ships built in Korea or Japan, these countries do insist that their own shipping is built in their own yards.

Mr Bevan

127. I agree with the thesis. I would like to buy British wherever posssible, not only ships but also cars, if they can compete and one can get hold of them. However, you compound the problem by having the running costs involved in using the British registry, the employment of British seamen and the cost of managing companies from the British mainland. Regrettably, it has been found that even companies bearing half these costs cannot make a profit, so even if we engaged in this particular policy, with which I agree, what chance do you stand as a shipowner of making a profit? Therefore, what suggestions do you make? You mentioned a scrap and build policy. How do you consider, for instance, the *KOWLOON BRIDGE* and vessels like that, which are not of ancient design, breaking up and having faults? Do you consider there is a need for reclassifications by the leading classification societies and a careful note made of the method of building involved? It might not just be any building but the fact that other building methods are used. You referred to huge size ships bearing unnatural weights which hitherto, in the old days, would not have been the case. Does it mean a possible re-examination of building techniques?

(Mr Kinahan) On the first point, the totality of measures which we have considered will obviously have to be considered in the light of prevailing conditions, including cost, so if we are to get back to a fleet of even 1979 levels when we had 1,200 ships over 500 tonnes, as against a fleet of 550 ships, the investment cost would be enormous, even if there was trade for them. To advocate the wholescale building of the UK fleet to 1979 levels would be crazy, so the scale of help which is given to the shipping industry will depend on the position as it is at any given time. The main thrust of what we say is that the state cannot walk away and leave the industry as it is. I think that is the main point which has come out.

Mr Fry

128. You have explained to us that certain countries specify that in order for ships to be on the national register they have to be built in those countries, but in the present situation, if we adopted that kind of policy, is it not merely likely to lead to even less ships being built in this country and even more ships being registered under other flags?

(Mr Kinahan) It has not led to that position in Japan.

129. I am asking you about this country, having seen what has happened in the last 20 years. I am interested in your honest view on this. If the Government tomorrow said that in order for a ship to be registered under the British flag it would have to be built in this country, what is your honest view about where orders would go and where ships would be registered in future?

(Mr Kinahan) You are saying as a matter of compulsion?

130. I am simply taking the point you have made?

(Mr Kinahan) In these countries it is a matter of inducement. If the construction subsidies either to the yards or shipowners are given, then obviously the owners will go to the UK yards, if the inducement is correct.

131. But, if the financial inducements were there to build ships in this country, by and large it would not matter where they were registered, and the point behind Mr Bevan's question is that if you insist on both to get the inducement then you are in competition with inducements offered by other countries. You have to decide whether you want to encourage ships to be built here or ships to be registered under the British flag. Putting the two together, as I understand Mr Bevan's question, does tend to put British shipowners at a disadvantage, whereas they can get better terms elsewhere. Would it not be better to be realistic and go for a mix to try to see we have a higher number of ships registered and also try to help the shipbuilding industry?

(Mr Kinahan) We would not object to that. If you are looking for absolutism, we are not absolutists; there must be some flexibility. We are saying that present policy virtually ignores the shipbuilding industry and gives the UK shipowners no real inducement to have ships built in UK yards. That is the problem. If there were sufficient inducement given we would be able to help the two or three remaining yards we have got and keep people off the dole queue.

(Mr Wilkins) Mr Fry is quite right in the way he has analysed it. It would not help one little bit without the inducement to persuade the British owner to build in a British yard. One of the fears we have is that shipowners in history have always built in recession so that when the pendulum has gone on an upswing the British fleet has been modernised, up to date and able to cope. What frightens a lot of seafarers to death is that if the upswing comes in the next 10 years all of a sudden we will have an ageing fleet which is not capable of doing the job either for the country or for seafarers. If you look at the Business Expansion Scheme, which my colleague touched on earlier, there are two companies popping their heads over the parapet saying, "We can see advantages here and will go into shipping." One is in chemical carriers and the other in this magical 1,499 tonnes, and those in the industry will know what I am talking about. Neither of those companies has said it will build two or three ships. They have said they are looking for good secondhand tonnage. Again, that does not help our colleagues in the shipbuilding industry, so without some inducement to encourage owners, as in the case of other countries, referring to Annex 3, British shipowners will not be building ships in this country.

Mr Bevan

132. Would you suggest capital allowances on the building of ships of a very substantial nature which would encourage building within our yards?

(Mr Wilkins) Yes.

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Mr Trotter

133. Could I refer to the North Sea ferries, because I think I am right in saying that two large ferries are being built at this time: the one for P & O is being built at Govan and the one for the Dutch is being built in Japan? That seems to be a case where inducements have worked?

(Mr Kinahan) Worked for whom?

134. For Govan; they have got the work, whereas the Dutch one is being built in Japan.

(Mr Kinahan) I am not sure of the extent to which political and social factors influenced the decision of P & O.

Chairman

135. We are going into the realms of shipbuilding. It has been a very long hearing, and I would like to finish off on the role of the Department. You have been critical of the Department from time to time and have said they have got lots of accumulated data for policy-making purposes in the field of navigational safety which they have done nothing with. Would you care to elaborate on that, and at the same time—I am sorry to bring this in at the end—would you comment on the Secretary of State's speech in recent times in which he came up with three main proposals: the question of help for the repatriation of British seamen, support for training, and a reserve of qualified merchant seamen to be called upon in times of emergency? Would you comment on those and give your opinion?

(Mr Kinahan) Would you remind me of the first point?

136. You criticised the Department in the past for not using their data and coming forward with a policy.

(Mr Kinahan) On the particular question of shipping casualties, this came to light as a result of research sponsored by the Department; in other words, the Department accumulated and published a very detailed annual report on shipping casualities, and researchers asked the question: What happens to the data? Who uses it? If nobody uses it, why is it collected? In the same way, the Department turns out two papers, MA8 and MR15: one deals with the size of the fleet and what is going on with the fleet, and the other deals with trade and industry, which is the amount of trade which is carried by ships of different nationalities in and out of ports of the UK. The point is that once all this data and material is turned out the policy implications for shipping are never examined; the behaviour of shipping companies in relation to the data is never examined. On the trade question, the relationship between the trades coming into UK ports is not examined in relation to port policy, so, for instance, European ports are heavily subsidised and UK ports receive no subsidies, and this is a factor to be taken into account in determining where ships go to load and unload their cargoes. These issues are never examined by the Department. The balance of payments is never examined. We get the Pink Book, but the responsible government department never looks at the implications of shipping activities in relation to the balance of payments. These major policy issues are never looked at by the Department unless somebody prompts them or there is a crisis. Our point is that as the responsible Department it should have an on-going responsibility to provide information which can be used and it should use its own information that it collects, and there should be a forum within which the implications of the Department's findings can be discussed.

(Mr Wilkins) Can I have one last swipe at the Department on behalf of seafarers? The economical costs that the Department are telling us now have to be incurred for the certification and examination of people are outwardly ridiculous in our view. The costs are very, very high. With regard to even the discharge book—the record of discharges at sea—they are now saying we have to pay £35 for it, or to replace it after 10 years, because it has to be replaced about every 10 years. We believe that is excessive and does not help seafarers one bit.

Mr Ross

137. Can you say how many of your members are redundant at this time?

(Mr Wilkins) It is never ending; it is an on-going thing.

(Mr McCluskie) It is not like a factory which might be in Sunderland or anywhere. The ship might be in Singapore and the owner decides to sell it.

138. I get letters from constituents who have been turfed off and Filipinos have been taken on. The figure must run into several thousand.

(Mr McCluskie) It can do. When the man reports back to the Shipping Federation, *ie* the place where you employ men, that is the only time you find out.

(Mr Wilkins) The figure is 2,000 as of today; they have been unemployed over 12 weeks.

Mr Fry

139. You have been critical of the Department, but it has not been entirely a one-way process. The Department is now proposing, for example, different tier registrations to take account of the point you and others have made about Gibralter and other dependent territories. There were also proposals by the Secretary of State for help with training, and, thirdly, there have been efforts made by the Government in the EEC to try to get a bigger share of European shipping for our own fleets. In those circumstances, whereas you are quite right to criticise the Department where you think they are wrong, would you not agree that in the areas I have mentioned the Department is trying to help you and British shipping generally?

(Mr McCluskie) I do not know how it helps us, taking your last point, when the EEC not so long ago talked about encouraging flags of convenience and encouraging the prostitution of one's own flag. I do not see how that can do anything but destroy us. I am sure my colleagues will have something to say about it. To take the three points, whilst my colleagues are thinking of answers for you, you mentioned the Minister's statement: repatriation costs and training in Dad's Navy, as we call it—a merchant navy reserve. Any help is better than no help as far as repatriation costs are concerned and indeed as far as training is concerned. Although we could go along in principle with the idea of a reserve fleet, we honestly believe that at the end of the day it will be impracticable. Why? The answer is that technology changes too quickly. What you are going to have to do with this reserve pool is what you do with the Territorial Army—bring them into camps every so often

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[*Mr Fry Contd.*]

to learn what the job is. Technological changes which take place in equipment in more sophisticated ships leave them with a terribly difficult task to do, so in principle we say, yes, we will have a Dad's Navy, but there are practical problems.

(Mr Kinahan) We have not seen what the Department has in mind with respect to repatriation and training. Obviously, a lot will depend on what sort of money they are willing to put up. In fact we have been asking for assistance in these two fields, so if they respond at all positively and at all generously we will certainly welcome those proposals. On the question of the liberalisation of trade within the EEC and between EEC countries, the question is: what trade volume is involved? My impression, for example, is that the maritime trade between, say, Denmark and Spain is very low value. We could also use the same comparison with other EEC countries. The EEC has also yet to bend on the question of cabotage. If we take the wider question of putting an embargo on bilateral and cargo reservation, reading the regulations there is a very careful caveat put on it to the effect that these practices can be continued when in effect they are in the national interest, so it is not a total liberalisation of trade.

Mr Bidwell

140. You could have a Dad's Navy with no ships to put them in?

(Mr Kinahan) That is the way we are going. The other thing is that if all the ships are registered in Bermuda and Bahamas we will be less able to put them on board.

Chairman

141. Gentlemen, it has been a very long hearing which I think has exercised the interest of the Committee and yourselves in getting as much on the record as possible on what we feel is a very important subject. May I say to you, please, during the course of our inquiry, which will take some time, if anything else occurs to you, do not hesitate to submit it to the Clerks? Thank you for your attendance and your information.

(Mr McCluskie) Thank you, Mr Chairman, and we thank the Committee for hearing us.

Memorandum submitted by the International Association of Navigation Schools

DECLINE OF THE UK REGISTERED MERCHANT FLEET

Our Association represents forty colleges worldwide, of which at present seventeen are in the United Kingdom. The overseas members are primarily in Africa, the Middle and Far East and most Commonwealth countries. However, the concentration is within the UK and the Executive, which we represent, has always been drawn from there. We have no salaried officers, we have an Honorary Secretary, an Honorary Treasurer and a Chairman elected from the Executive to serve for one year. We have parallel organisations in the Association of Marine Engineering Schools and the Association of Marine Electronic and Radio Colleges, with whom we work as closely as possible.

The title "Navigation Schools" is slightly misleading. Over the last two decades the industry has discontinued the term "Navigating" officers and masters and mates are now usually referred to as "Deck" officers. Within teaching establishments the departments which educate Deck officers are most commonly referred to as Departments of Maritime Studies or similar descriptions. The national educational courses which provide the career patterns for deck officers are primarily known as courses in Nautical Science.

Confining subsequent comments to the UK, the seventeen members represent a wide range of types of educational establishment; there is one university department, several departments or faculties within polytechnics or colleges of higher education and several departments in colleges of further education. A small number are monotechnics, entirely concentrating on marine work, in association with colleagues in the engineering and marine radio disciplines. One is a department entirely devoted to fishing certificates. Geographically there is one department in Northern Ireland and one in Eire, two in Wales, four in Scotland and ten in England. Two have already disappeared relatively recently, these were a small department in Bristol and a major one in the City of London. One Scottish department is to close at Easter and the previous Secretary of State for Scotland has designated only one college in Scotland as a centre for the future. Others throughout the country are very concerned about the effect of the current decline, which has been greatly emphasised by pressures from local authorities and other bodies responsible for colleges, plus the Audit Commission, to maintain or improve Staff/Student ratios.

STAFFING

Teaching staff in colleges, with the exception of a modest number of servicing staff, are entirely drawn from fully qualified professional seafarers, a large number of whom hold either a certificate as Extra Master, or a degree in Nautical Science plus a Master's Certificate. Most staff would probably regard themselves as mariners first and teachers second, although many will also hold Further Education teacher's qualifications. A number of staff endeavour to return to sea at regular intervals, normally during summer vacations, in order to maintain up-to-date knowledge of ships and shipping and to relate better to their students. This becomes more difficult of course as staff become more senior and this difficulty is emphasised by the current recession. Because of the current educational pressures referred to above, one matter which greatly concerns us is the ageing of teaching staff as staff leave or retire and are not replaced, plus the difficulty of attracting good younger staff for the few posts which become available.

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COURSES

Traditionally, colleges have run courses of preparation for Department of Transport Certificates which are now categorised from Class 1 (Master) down to Class 5. In addition there are examinations for Extra Master, Command Endorsements and three new grades of Fishing Certificates. There is also a whole range of ancillary courses, leading to certificates the majority of which are (statutorily) compulsory requirements. There is at present no mandatory requirement for candidates to attend college, although the majority do so and for the two highest grades, Class 2 and Class 1, the recommended course length is six months. Because of improved leave the age of those candidates is approximately twenty four and twenty nine respectively, on average, but with enormous variations.

From 1970 a major change was introduced for the training of cadets (formerly known as apprentices) with the introduction of properly planned training involving periods of sandwich training interspersed with supervised sea service. The Department of Transport granted considerable remission of sea service for this, enabling young men and women to qualify for positions as junior officers much earlier than hitherto, when a minimum of four years at sea had been required. This training was linked with the award of (then) an ONC or OND in Nautical Science, in due course adapted to the B/TEC and SCOTVEC awards. Subsequently, success on the educational courses leading to the Class 2 Certificate can now lead to the award of Higher National Diplomas in Nautical Science and it is thought generally that these awards have made the profession more attractive to school leavers and, in the event of so many redundancies in the last six or seven years, they have enabled ex-seafarers to obtain posts ashore for which they would otherwise not have been considered.

Currently, as a result of government directive, the Department of Transport examination service is being largely disbanded and most of its operations passed to SCOTVEC, the Scottish Vocational Educational Council, who will operate the system on behalf of the Department. This represents a major upheaval and a lot of work for administrators and staff in member colleges.

COSTS

Colleges have always been very cost conscious and have competed for business from shipping companies. Due to the structure of the courses and the fact that cadets have been paid employees from their first day, they have not been eligible for mandatory, or any other awards. This has been one of the major factors, in addition to the sheer decline in the number of British owned ships, leading to the dramatically reduced intake in recent years.

1975: 1215
1980: 620
1985: 64

Clearly, these numbers are not going to sustain the number of college departments which at present exist. Consequently, considerable efforts have been, and are being made, to devise courses which will attract mandatory awards. To the best of our knowledge however, apart from the degree courses, there are only two such in the whole country at present; these are in Glasgow and in Plymouth. The other field which is being explored is that of MSC-supported courses.

INTERNATIONAL ASPECTS

British certificates appear to be very highly regarded overseas. This has meant that in the present climate British officers holding professional qualifications have had relatively good opportunities of employment on foreign-flag ships when their own British flag employment has disappeared. It also means that foreign nationals are attracted to come to this country to obtain British certificates but these are hedged round with a number of obstacles and, in particular, the government policy regarding overseas student fees turns many away. The current course fees for the Class 1 Certificate are £360 for UK/EEC nationals and £2,360 for overseas students.

CONCLUSION

To conclude this background to our evidence our member colleges are very concerned at the dramatically reduced entry to the profession primarily because of our concern for the future of the British MN not simply for their own future, although obviously we are concerned for the future of staff. Many colleges have attempted to turn to alternative areas of work, the North Sea offered some alternative but even this is now declining. Because of the adverse publicity received by the profession it is now proving difficult to recruit even the modest numbers which British owners are looking for. Certainly, unless it is seriously envisaged that the British fleet is virtually going to disappear, there are already too few young people in training to fill posts as junior officers now. It is sincerely hoped that the current enquiry can remedy this position.

M M CORNISH
Honorary Secretary

28 *January* 1987

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Examination of Witnesses

CAPTAIN D M ROBINSON, Chairman, and CAPTAIN M M CORNISH, Honorary Secretary, International Association of Navigation Schools, called in and examined.

Chairman

142. Gentlemen, may I first apologise to you for the late start of your evidence. I am sure you have noted with interest what has been going on. It is difficult to cut short inquiries with a body which is so obviously involved in it, but I do apologise for the delay and hope it does not inconvenience you too much. For the purposes of the record, would you give your names and describe your positions.

(Captain Cornish) The post for which I am paid is that of head of the Department of Maritime Studies in Glasgow College of Nautical Studies. My colleague holds a similar position in the college in South Tyneside which was formerly the well known South Shields Marine College. There is also, as explained in the submission we gave you, an association of various departments concerned with the training of deck officers known as the International Association of Navigation Schools. This has existed for some time. It has always had an executive; there are no paid officers. I have been the secretary of the Association for three years; Captain Robinson was my predecessor for six years. I was asked by the Association to take over, and now he is our Chairman.

143. Would you care to comment on the Secretary of State's proposals announced on 10 December to provide assistance for the training off seafarers? How do you view that?

(Captain Cornish) I have endeavoured to enquire about the details, but I know nothing more than I have read in a brief report, that he proposes to give assistance for training. I honestly cannot comment in detail because I do not know any more. I have spoken, not to a colleague, but to one of the representatives of NUMAST, the union which represents ships officers, and he was unable to give me further details either. We would welcome any steps taken to improve the potential of training, but I cannot comment in detail because I have been unable to obtain it.

144. When you do get the details you may be able to comment on them in written evidence?

(Captain Cornish) Yes. In principle, it is something we would very much welcome.

145. You have described the Department's disbanding of the DTp's examination service as "a major upheaval and a lot of work". Why do you think the Department is shedding those responsibilities? What effects do you think the upheaval will have?

(Captain Cornish) As to why, strictly speaking it is not a decision; it has come under the group term known as the Rayner proposals whereby a civil servant was given a particular task. I think this was when Mr Mitchell was the Minister responsible for shipping. He was surprised to learn that seafarers were still primarily examined by the Department of Transport and not by a professional body. The civil servant who was commissioned to examine this position was a Mr McCarthy. He came up with some 13 recommendations. My colleague, the chief examiner in the Department of Transport and his staff, were given the particular responsibility for implementing it; he was described as the implementation officer. The work on this commenced approximately 15 months ago. My colleagues and I have been involved in this fairly dramatic change, because it is relieving the Department of the responsibility for the detailed work. Therefore, the answer to your question "Why?" is that they were instructed to do so as a government policy decision.

146. What have been the effects of the upheaval?

(Captain Robinson) If I might go back to the fact of the upheaval, when they examined the costs, which the Department had been examining for several years, of the examination service, which had existed since 1850, they found that they had all these examination centres round the country, and one of the first steps was to transfer the physical examination into the colleges. What Captain Cornish has just described is the Rayner scrutiny, that is, transferring the work, to use some of the educational qualifications which already exist in the education field, the B/TEC and SCOTVEC awards in nautical science, as part of an exemption from Department of Transport examinations. The upheaval came in the fact that the work was transferred to local authority staff. There has been a saving and there will be a saving in future in terms of transferring costs from central government, but much of the costs will have been transferred to local authorities.

147. Are you largely in favour, providing that balancing cost is met for the local authorities?

(Captain Robinson) It is not a question of being in favour of it, Mr Chairman. We are realists in nautical education; it is a situation we are facing.

148. As an international organisation you must be aware of many countries dealing with training in the maritime profession. How does the British Government's attitude to training compare with those of many of our competitors?

(Captain Robinson) The fact of the matter is that the majority of our members on the international market model themselves in the main on the British system.

Mr Fry

149. So, they are going to have an upheaval as well, are they?

(Captain Robinson) Yes. We do not have membership of countries which operate systems which differ widely from our own.

(Captain Cornish) In recent years there have been numerous instances of countries, not simply those in the Commonwealth, sending representatives, usually sponsored and subsidised under the IMO (the International Maritime Organisation), to visit British colleges. They have gleaned a lot of ideas and material from us and have now ended up by setting up schemes which are virtually in competition with us; much of their information has been taken from us. The British

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[*Mr Fry Contd.*]

certification system has a very high international reputation, as do the seafarers, and you still get in some countries foreign nationals facing up to the very high cost of educating themselves in a British college and paying very heavy course fees as overseas students; they still think it is worthwhile coming to this country. We are in the process of advising some of our overseas members who write to me as secretary. I am currently endeavouring to advise them as to what is going on, and equally we try to keep ourselves informed. We have recently had a lot of information from both Australia and Japan as to developments taking place there. There are very, very different systems of training.

Chairman

150. Will this high standard be affected or eroded? After all, this inquiry is about flag fleets and the disappearance of the British registered fleet. Do you see the British training scheme being badly affected by it?

(Captain Cornish) Not in standards, because what is happening is that the Scottish technical education body, SCOTVEC, acting as an agency, is getting staff to set examinations on behalf of, but with the supervision of, the Department of Transport. When candidates eventually pass examinations the final results will be decided by the same men who are doing it at present—the surveying and examining branch of the Department of Transport; they are still going to issue the certificates. One factor we and they are endeavouring to stress is that there will be absolutely no reduction in standards.

151. But we have been told by the Nautical Institute—and the NUS has also mentioned it—that we may run out of trained seamen before we run out of ships. Is there any basis for that?

(Captain Robinson) Yes, there is a great basis for that. I would even put it more seriously, that you could end up with no nautical training provision in this country unless urgent steps are taken. I am expressing a personal view, though my colleague agrees with me. It could well be that forces working in the educational field—nothing to do with shipping at all—could affect the nautical education provision throughout the United Kingdom. There is a body called the National Advisory Body for Public Sector Higher Educaton. That has already reduced the provision in England down to four centres. The same body has one centre in Wales and the Scottish equivalent, one centre in Scotland. You have the Manpower Services Commission monitoring now the non-advanced further education field, and the criteria they are using for this monitoring throughout local authorities are simply class size. You have to remember that the figures for the industry show that over the last five years recruitment has gone down to a tenth of what it was in the seventies. It used to be round about 1,000; it has dropped to less than 100, and this figure spread round the United Kingdom simply does not provide viable classes.

Mr Fry

152. Therefore, does it not cry out for rationalisation of the training of seamen? If you are saying that the number of people applying is few and the courses are spread all over the country, then the only way to do it, as you say, is to take a realistic view and say that we have to concentrate the training in two or three centres to equate the training capability with the number of people applying, allowing hopefully for some increase. Why go on with so many different centres?

(Captain Robinson) The point I make is that the Manpower Services Commission, through its regional agencies, makes local decisions; it does not make national ones. There is no body other than the Department of Education and Science that looks at this on a national basis. We are running so dangerously low that the pressure is on local authorities, because the colleges are operated by local authorities. The financial pressures plus the Audit Commission could eradicate nautical education without anybody realising it is happening.

153. Because there is no co-ordination?

(Captain Robinson) Yes.

154. You are asking effectively that the Department of Transport should look into the question of co-ordination and, presumably, should take it up with the Department of Education and Science to see that those few centres of training do survive?

(Captain Robinson) We have been asking for a national co-ordination package right across nautical education; it is a special need as a national provision.

155. To whom have you been talking? Have you been talking to just one department or both?

(Captain Robinson) We find we have to talk to the Department of Transport, the Department of Education and Science, the National Advisory Body, the Manpower Services Commission and the Audit Commission.

156. I know this is a naive question—and I have been in this place long enough to know I should not ask it—but why do you think it is that what seems to you and me to be eminent commonsense has not been accepted by those departments?

(Captain Robinson) The reason is that nautical education is fundamentally controlled by local education authorities.

Mr Fry: That is not my question. My question is that if you are going to get a change it has to come from government. The Department of Transport has to say, "We require a minimum number of training places because of the needs of British shipping, even though they are reduced, and some arrangement must be made within the education service." If you leave it to the local education authority, they are going to scrub what they consider to be something for which there is low demand, so it is no good doing it at that level; it must be done at government level.

Chairman

157. Captain Robinson, you are saying to us, if I correctly understand the exchange, that you would welcome any approach we would put to the Minister of Transport when he appears before this Committee and we ask him whether he is worried about these inroads and lack of co-ordination between training establishments, and whether he is prepared to put pressure on the DES from his level to ensure that the future seamen are coming?

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[*Chairman Contd.*]

(Captain Robinson) Mr Chairman, you have to appreciate that the training of a ship's master takes 10 years. Captain Cornish talked of the new schemes; we are trying to bring that down, but you can only reduce it by a little amount. We are still living on the fat of the recruitment into the industry of the seventies. The recruitment in the last four or five years is not sufficient to sustain the nautical educational provision in this country.

158. What would you say to the parents of a young lad who had passed his examinations and wanted to become a cadet? How would you encourage a cadet to take on this sort of training in the light of the reduction of the fleets and the number of opportunities available?

(Captain Cornish) This is something with which we are very concerned. We are a nation which has had a tradition of going to sea, and it would be hypocritical of us to take on young men and attend careers conventions if we sincerely did not see a future. Despite the recession and the small number of places available, in fact because they are so small there are likely to be very good opportunities for the number who are taken on. In the years leading up to about 1982, for three or four years, hundreds of very promising young men and women who had been taken on by companies were made redundant. At one time when the industry was flourishing young men would become qualified, go home and often go back to school. I have known instances where they have talked to careers masters. This would encourage others who had an interest in it; you have to have a basic interest in it because it is such a different job, as opposed to just regarding it as any old job. They would encourage people to come forward. We live with the sad fact that so many fully qualified people were made redundant when they obtained their first certificate, the reverse has happened, because those young men and women have gone back to schools and the word has got back, with the result now that despite the very modest numbers being advertised for—in fact companies have virtually given up formal advertising—it is very difficult to get these people into the industry. Last year the English colleges—and I will be guided by my colleague—devised in conjunction with the Merchant Navy Training Board a new scheme for a foundation diploma to be run in England and Wales. The idea was that young people could come forward and do a two-year course and would not even be committed until the latter part of the course as to whether they would become deck officers or engineering officers. It was perhaps a little late in the year before it was finally developed. Leaflets were produced and they were put out, and the net final result was approximately a dozen young people who came forward between Captain Robinson's college and the college in Southampton. Therefore, this year it has had to be abandoned because six per class just would not be viable.

Mr Fry

159. The problem is not only restricted to the Merchant Navy; there is a problem in recruiting Royal Navy officers because we are living in an age when people are not prepared—and their wives are not prepared—to be away from their home base for long periods of time, so the fact there is now a shortage and a concern about recruitment into the Navy is another aspect of this problem. Have you any idea how this can be overcome?

(Captain Robinson) It has always been a young man's profession; there has always been a call to go to sea. There are still young people in the community who want to follow a career at sea, but all the forces are actively discouraging them from doing that. Three or four years ago the General Council of British Shipping disbanded its careers service; the whole link with the educational careers service as far as the sea is concerned has broken down. Colleges in the regions are trying to do a great deal about this, but you are working against forces which are discouraging young people from going to sea.

(Captain Cornish) I honestly do not think that your remark, linking the problem with the concerns of wives of officers or men in the Royal Navy, has a direct bearing on it. Until recently in British ships quite young officers, if they were married young, could take their wives away. In general, wives support their husbands, although they do not like them being away, but particularly for young officers, a lesser proportion of whom will be married, I do not think there is a parallel to be drawn there.

160. You do not think there is a parallel between the Royal Navy and the Merchant Marine?

(Captain Cornish) Not in that respect.

Mr Bidwell

161. There are, as you say, lessons to be drawn. As the Chairman has suggested, this Committee might help in what it has to say about your very valuable evidence when ultimately we draw up our report, reflecting on what needs to be done. It needs a very diligent Transport Department monitoring the effects as to how far people are being encouraged to take up courses in the particular areas where seafaring is carried out. Just as in our area our technical colleges orient themselves towards local industry, particularly towards Heathrow Airport, you will find that that is what has to be done. What I am suggesting is that the logic of it, and the lesson to be drawn, is that the Department of Transport as it is now—and this is what we are doing because we are the Transport Select Committee—has new responsibilities and it has not yet risen to them. That is the position, is it not?

(Captain Cornish) I do not think that is quite fair. I do not mean you are being unfair. I do not think the Department of Transport has ever had any such responsibility; they are concerned primarily with standards of safety and have left it to the industry to cope with recruitment.

162. I am suggesting they have a duty to monitor the situation.

(Captain Cornish) Yes.

163. They have to keep it under their eye, whoever is doing it. It is not satisfactory, is it?

(Captain Cornish) There is one point I would like to make. We are concerned, not just out of self-interest, with the number of young people coming forward. I gave just one small instance of statistics in the submission which illustrates it fairly dramatically. Shipowners are already starting to have difficulty in filling positions. Traditionally, it is true to different degrees—and I include my colleagues in the radio and engineering sections—that people who become qualified as master

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[*Mr Bidwell Contd.*]

mariners have filled many other roles. Captain Robinson and I sitting here are one example: we are in education. In addition, we estimate that regularly—we cannot give you statistics—there are at least a couple of hundred people a year over past decades who have entered such positions as harbour masters, pilots, surveyors—our colleagues in the surveying service—examiners, cargo surveyors, and even charterers. A certain number of mariners subsequently become qualified in the legal profession. It is a spin-off rather than perhaps a direct responsibility of your advice, but if the present cut-backs which have now gone on for five years continue, there is in the foreseeable future going to be a desperate shortage of people coming forward to fill these positions. Almost regardless of the strength of the British Merchant Navy, you must be well aware of the importance of Lloyds internationally, and many of these people occupy positions as advisers to bodies such as Lloyds. That is a matter which we would also like to stress—the loss of these people forming virtually a sort of infrastructure.

Chairman

164. Do you have foreign students in your colleges?

(Captain Robinson) Yes. It varies round the country. They tend always to come to the north of England; they tend to come to South Shields and Liverpool rather than the centres in Southampton and Plymouth. That is only a general statement.

165. What sort of ratio do we have?

(Captain Robinson) At the present moment, in South Shields there are actually students in the college at senior marine level: masters and first mates (classes 1 and 2). There are 180. One third of those will be overseas students; a third will be British students who are serving on foreign flag ships, and one third will be British students serving on British ships. That is an approximation.

166. In the long run what do you think of what has been referred to as Dad's Navy and the concept of manning? How do you view it?

(Captain Robinson) Mr Chairman, if you had sat where my colleague and I sat over the last three or four years writing references and testimonials for young officers who had left the Merchant Navy, you would realise what a ridiculous proposal that is. I mean no offence to anybody, but the proposal is made by somebody who has not got their feet on the ground. I personally know that over three years I have written at least one reference per week for the Police Force, for the Civil Service, for a whole range of disciplines, including further education, higher education and polytechnics. These young people have become disenchanted with the British Merchant Navy and have left to embark on new careers; they are young people who can accept responsibility; they have been trained at sea to accept responsibility. They are making new career paths. Do you really think that at the sound of a trumpet they are going to come running back to an industry which has let them down?

Mr Fry

167. Let us get back to the evidence we have heard this afternoon. We have just been told that the prospects are now good because of the shortfall of applicants. It cannot be both ways. There cannot on the one hand be good prospects for ships officers and, on the other hand, everybody is leaving; it has to be one or the other.

(Captain Robinson) With respect, you are missing the statistics. At the end of the seventies there was still recruiting of close on 1,000 cadets. A cadetship is four years. The recruitment in the last four years has been less than 100. The present recruitment to the industry is not sufficient to man a depleted merchant navy. It is three years since the General Council of British Shipping said that a merchant navy of around 500 ships would require at least 400 deck and 400 engineering cadets. That was why my colleague said that in the last four or five years the few who had been recruited had very good employment prospects. With respect, we have not contradicted ourselves.

168. But nobody disappears overnight. The people who were recruited four or five years ago are not 55 years of age?

(Captain Robinson) Four, five, six years ago

169. But they are not old men. Even if they have done four years' training they are still in their early twenties, so presumably they will be around for a while.

(Captain Robinson) They have gone to other jobs.

Mr Ross

170. If they had gone into the Police Force they are not suddenly going to leave it. My daughter used to teach in South Shields, and she shares your disillusionment. Can I ask whether the recent proposal from the Secretary of State for some support for training has come through to you yet?

(Captain Robinson) We have not seen the details, but we are prepared to say that there is a need for financial assistance of some sort. The problem is that, presuming we can get confidence back into the shipping industry and presuming we can recruit young people—be assured that we have the schemes and the colleges have moved with the times—we do not have the ships to provide what it known in MSC jargon as work experience, or what we called sea time.

(Captain Cornish) I think that if shipowners are asked whether, if the costs were not so high, they would be employing more people, sadly the answer would be "no". I would have liked the opportunity of explaining at the beginning that for deck cadets their training is primarily at sea. Engineers go to college for two years and then to sea. On the deck side they do a short course at college, no more than a month, and then they go to sea because the practical introduction is regarded as very important. Subsequently, sparing you the details, there is a form of staggered sandwich training. Obviously, they cannot do day release at sea and there is a phasing of sea service with college periods leading up to their certification, and this continues throughout their later career. Despite helpful reductions in the necessary qualifying time due to more sophisticated methods of training, it still takes approximately four years, by the time leave is taken into consideration, before young men and women receive their first professional certificates, which is what they are primarily interested in. I think we can sympathise

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[Mr Ross Contd.]

with the shipowner in his difficulty; it would be immoral of him to take on lots of people who would end up as lots have ended up in the last three of four years if he did not see a future for the majority of them. If, as seems likely, there were a more modest improvement rather than anything dramatic, either through economics or through the endeavours of you gentlemen, there is serious concern that there will not be the berths for the deck cadets at sea. There are similar arguments applying to the engineers, but that comes later in their career and it is slightly less urgent. At one time ships had quite a lot of cabins. The previous witnesses talked about the reduction in manning. For a long time ships went round with empty cabins; they were not designed for reduced crews, and there were plenty of spare berths. But I am aware from talking to shipowners' representatives that when they were building new ships latterly they very carefully costed such things as how many cabins were put on, and they had to budget for their own departments and make recommendations to their owners. This was combined with the changing design of ships, and the number of cabins, which we refer to as berths, has been considerably reduced, so there are less ships and those that are there have got less. At least one of my colleagues, who is head of a large college, would like to suggest that the position has been reached where we may need to give serious consideration to having a training vessel—I do not mean sail training, which has relevance and has its place—commercially operated and manned by cadets, which idea exists in some countries. Obviously, they are not generally economic, but they need not be dramatically subsidised. We may need to give serious consideration to that; in fact we would like to put this forward as a possibility.

Chairman

171. Who would finance it and operate it—the industry or the Government?

(Captain Cornish) Where these vessels are run the officers are generally seconded from industry, but it has never existed in Britain. Certainly the Americans have one, the Japanese have one and, above all, the Chinese are developing them and running them. Therefore, the officers are generally seconded from the industry, and it would be run, I think, under the auspices of the Department of Transport as are the modest number of training vessels we have. Obviously, I am not aware of the economics of these various countries and how they do it, but I think it would have to be government subsidised. As an industry, we do not like subsidies; we have always tried to avoid them, but, sadly, I think we have to recognise that the time has come when we have to look to various developments, and this is one we would like to put forward to you, but not lightly. We realise that probably everybody who comes before you looks for more money for everything.

Mr Bidwell

172. I think we would like a paper on that; put in a paper and round it up in broad terms.

(Captain Robinson) I think it would need to be a commercially operated vessel. One of the requirements of the Department of Transport is that sea service must be in trading vessels, and quite rightly so. There is another area of sea service. We have schemes available in the colleges where we could take advantage of educational grants and the long period of 10 years to the master mariner's qualification could be got down to about six, but we would need the help of the Department of Transport in more favourable interpretations of the sea service requirements.

Chairman

173. I am advised that the Marine Society are running a training ship.

(Captain Robinson) Yes, but that is not a trading vessel. Several colleges have their own training vessels. My own college has a purpose-built training vessel, but the *JONAS HANWAY*, which was commissioned in December is not what we mean by a trading vessel. That is to give coastal water training associated with shore-based courses, and several of our member colleges have this facility. When we talk about vessels being deemed as trading vessels we are talking about commercial ships where there is additional accommodation for trainees in the form of deck cadets and also for officers to get their watch-keeping experience.

174. I wonder whether you would care to think about submitting a paper to us on this with some detail; it could be useful, not in the least towards providing skills to the sort of people referred to by the Secretary of State when he talked about a merchant navy reserve. No doubt he will enjoy reading your description of it, Captain Robinson. That is his idea at the moment anyway. Seriously, we would welcome a paper along those lines, if you could put one together.

(Captain Robinson) I was asked only yesterday whether I could accommodate you in March in bringing you from Newcastle to South Shields in my training vessel, but the vessel only accommodates 20 people with the crew—16—and I believe your party is much bigger than that.

175. We are looking forward to coming up and having a look anyway. Is there anything else you would like to put on record?

(Captain Cornish) I would just like to say that reference was made earlier to the fact that there was not any master body to decide the fate of nautical colleges. There are a couple of points to be made on that. The same applies to the training of cadets. I was much concerned at the time of the Falklands conflict. We have deliberately not referred to defence here because we feel that the economic crisis is much more important. Reference has been made this afternoon to the fact that there should be this, that and the other nationally. It cannot just be left to the altruism of shipowners to produce ships, and when shipowners were training it was left very much to their own policy: some were more foresighted than others and some had a good and long-standing history of training students, and some others did not. Although there was not a formal industrial training board in the MN, the most flourishing period was when there was a levy operating, and this was in the seventies and in the early eighties. I am of the opinion that this had a considerable effect in encouraging shipowners to train, and indeed I know of some who did a good job and who came into it

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[*Chairman Contd.*]

because of that. If they trained they actually received from the pool. Some others did not and they had to pay a fee. This has much concerned me. This also affects certain trades. Perhaps there is good reason for it, but, for example, companies running ferries have never trained officers of any sort. This means that those companies which have paid for training have subsidised those which have not, but there has never been any organising body. Returning to the colleges, I was a little bit concerned by one or two aspects that might come across primarily from the conversation between my colleague and Mr Fry. It is not quite as simple as saying that the colleges would welcome a master body to recommend there be only a certain number of colleges. One reason it is not entirely welcomed is that there are such things as local interest, and that is part of the explanation. Also, it has nothing to do with the Department of Transport. My colleague has mentioned the bodies responsible. Some of our colleges are polytechnics; controlled by local authorities. There is quite a lot of local pride in such places, especially in places like Wales, Northern Ireland and Scotland. But there is more to it than this. Although Britain is not a vast country, you do need a geographical spread. I made a brief reference in the paper to a flourishing college in what is in effect Peterhead dealing with fishery training. I have been in the college in Glasgow for five years. Prior to that I spent 19 years in Plymouth. There is quite a flourishing fishing industry in the southwest sufficient to sustain one class regularly. If a college were to disappear in either of those places for reasons connected primarily with the MN there would be very serious problems, because it would be very difficult to imagine fishermen from the southwest going to, say, Hull with what little is left there, or to Scotland, for training. Therefore, there are genuine geographical reasons for this. I realise that there will probably be some further cut-back regardless of our pride and self-interest, but there is a genuine reason for colleges existing with a good geographical spread.

176. I think that point is taken. There is some thinking—and I am not prejudging what this Committee will finally decide—that there has to be some decision made at some stage about what the optimum size of fleet which ought to be maintained should be under the British flag, and indeed what should be the size of British shipbuilding capacity, bearing in mind we are an island nation, to go with it. I know that some people are thinking along those lines and trying to guide government in that direction. I do not know whether or not we should come to that conclusion. Free market forces at the moment are moving against that, so it does mean imposing some interference with free market forces to have that thinking, but it may well be that even this Government may have to think along those lines. Is there anything else you would like to say?

(Captain Cornish) The general impression was conveyed that it would be some sort of responsibility of the Department of Transport. I think that even more so, with respect to the colleges, it would be a matter for the Department of Education and Science where there are two HMIs with marine experience who advise. I think that would really have more bearing on it. I am sure our colleagues in the Department of Transport would agree with that.

(Captain Robinson) There is one thing I would add. Nautical education has always been a civilian-oriented education along with other disciplines in colleges, and it would be a dreadful day if we went for some sort of system that they have in some overseas countries where the Merchant Navy is some sort of pseudo-military organisation. We do not want that. We are under the Department of Education and Science, for all its faults, and that is where we ought to stay, but it does need a national nautical policy.

177. You want a jog in the elbow from the Minister of Transport to the Department of Education and Science?

(Captain Robinson) Yes.

178. Thank you very much. If anything else occurs to you during the course of our inquiry, please do not hesitate to contact us or write to us. Thank you very much for your attendance this afternoon.

(Captain Cornish) Our colleagues would like to thank you for the opportunity to contribute this. We are well aware that training does not always get first priority, and we very much appreciate the opportunity to make a submission.

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HOUSE OF COMMONS

TRANSPORT COMMITTEE

Session 1986–87

DECLINE IN THE UK REGISTERED MERCHANT FLEET

MINUTES OF EVIDENCE

Wednesday 11 February 1987

National Union of Marine Aviation and Shipping Transport Officers (NUMAST)

Mr E Nevin, Mr P J Newman, Mr D R Bond and Mr B D Orrell

Captain C M R Lloyd

Ordered by The House of Commons *to be printed*
11 February 1987

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WEDNESDAY 11 FEBRUARY 1987

Members present:

Mr Gordon A T Bagier, in the Chair

Mr David Gilroy Bevan
Mr Sydney Bidwell
Mr Terry Dicks
Mr Peter Fry
Mr Roger King
Mr David Marshall
Mr David Mudd
Mr Stephen Ross
Mr Neville Trotter

Memorandum submitted by the National Union of Marine Aviation and Shipping Transport Officers (NUMAST)

THE DECLINE IN THE UK REGISTERED FLEET

PREFACE

NUMAST—the National Union of Marine Aviation and Shipping Transport Officers—represents approximately 25,000 members employed as merchant navy officers, shipping company shore staff, and as civil aviation flight engineers.

NUMAST was formed in June 1985 following the amalgamation of three organisations representing merchant navy officers. These were the Merchant Navy and Airline Officers' Association, the Radio and Electronic Officers' Union, and the Mercantile Marine Services Association. The oldest of our antecedents—the MMSA—dates back to 1857.

NUMAST members in the merchant navy are employed on every type of ship—from supertankers to North Sea supply boats, from the QE2 to Western Isles ferries. Traditionally the vast majority of our members have served on UK registered ships but the decline of the fleet has meant they have had to look elsewhere and in some cases have taken jobs on non-UK ships. This means that we are familiar with conditions of employment on foreign flag ships as well as on UK ones.

The fact that ships have flagged out and that we have made agreements with foreign flag operators to protect the interests of our members means that neither the union nor the shipowners is dependent on the continuation of a UK flag fleet. As we point out in our submission the nation *is*, however, dependent on a UK flag fleet.

SUMMARY

The UK registered fleet is in a parlous position. If the present disastrous rate of decline continues, the fleet faces virtual extinction by the 1990s.

The effects of the fleet's decline can be seen in the declining share of UK trade carried on UK ships, in the declining employment and training of seafarers, and in the declining contribution made by shipping to the balance of payments.

Serious and extensive damage to Britain's well-being would result from the fleet's demise—particularly pernicious would be the adverse effects on the nation's economic and strategic interests.

Present government policies are exacerbating the fleet's decline. Other major maritime powers are providing support for their fleets.

Unless immediate action is taken to reverse the fleet's decline, the situation will become irrecoverable.

In this submission NUMAST sets out measures it believes are vital if catastrophe is to be avoided. These measures take the form of assistance with costs and protection against unfair competition.

INTRODUCTION

1.1 NUMAST congratulates the Transport Committee on initiating this inquiry into the decline of the UK registered fleet and welcomes the opportunity to submit evidence to it.

1.2 Sixteen years have elapsed since the Committee of Inquiry into Shipping chaired by Lord Rochdale published its Report. That Report repays re-reading both for its comprehensive analysis of the industry and for the predictions it made of the future. It was published at a time when the fleet was expanding and so some of the predictions now look very dated but the Report stands out not least because nothing similar has been attempted since.

1.3 We would not argue that the frequency of inquiries into an industry is an adequate indicator of the importance attached by government—or indeed Parliament—to that industry but we do feel that the fact that

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sixteen years have passed since the last major report on the industry has meant that the public generally—and perhaps even Members of Parliament—have remained inadequately informed about what has happened in the intervening period and about the scale of the crisis now faced by UK shipping.

1.4 The rapid decline of the UK fleet has many consequences and these consequences have major policy implications. It has seemed to us that these implications have not always been fully understood by those who are in a position to influence, approve or reject the policies. Even a policy of *laissez-faire* should be chosen as a positive decision rather than emerge out of inertia or lack of interest.

1.5 Lord Rochdale has recently been involved in the preparation of another report on shipping—this time on European Shipping Policy—as chairman of Sub-Committee B of the House of Lords Select Committee on the European Communities. That Committee expressed considerable concern about the decline in the UK shipping industry and concluded that:

> "There is a strong case for a wide-ranging examination of the major problems in the shipping industry and of its suppliers and users, taking into account its importance in times of emergency."
>
> (House of Lords Report HL106 1985–86 paragraph 128.)

1.6 In its invitation to submit evidence to this inquiry the Transport Committee lists areas of investigation which it may include. All of the areas mentioned are important and we have attempted to cover them in our submission although our submission is not structured in the order of the terms of reference.

1.7 Our submission examines what has happened to the fleet and what is likely to happen to it in the future; and it then considers the implications for policy. However we begin by considering the subject of the inquiry—the UK registered fleet.

THE UK REGISTERED FLEET

2.1 Even though the subject of the inquiry is "The Decline in the UK Registered Fleet", the Committee is almost certainly going to be presented with a wide variation of terminology including the "UK registered fleet", the "British fleet" the "UK owned and registered fleet", and so on. Sometimes people will mean the same thing, at other times they will not—and this can make comparison between sets of statistics and forecasts particularly difficult. In Annex 1 we have explained what we understand by the various terms and have indicated the pitfalls of comparing apparently similar sets of statistics.

2.2 However we would emphasise that in our view the Committee is absolutely right to pick the UK registered fleet as the subject of its inquiry since it is to this fleet that UK law applies.

2.3 The Committee might wish to bear in mind the approach of the Rochdale Committee of Inquiry in 1970 which concluded that it would not be relevant to its inquiry to regard as part of the UK shipping industry those ships registered in the UK but owned in the Commonwealth since, as the Committee put it;

> "Some of these ships are operated as integral units of fleets of companies based in the UK, but others have little economic connection with the UK" (Cmnd 4337, paragraph 90.).

2.4 In effect what the Rochdale Committee took as the UK fleet was the UK owned and registered fleet and we believe that the Transport Committee should do the same. We have attempted to refer throughout our submission to the owned and registered fleet but where the availibility of statistics requires us to refer to the UK registered fleet, we hope that we have made this clear.

2.5 In recent years government spokesmen have parried criticism about the decline of the UK flag fleet by referring to the "British" fleet as if the latter were subject to same degree of control and influence by this government and, indeed, as if it made the same contribution to the economy.

2.6 For example in replying to the concern about the fleet's decline expressed by the House of Lords Committee referred to earlier, the (then) shipping minister said:

> "I have been discussing the UK registered fleet for that is what the graph on page 10 of the committee's report displays.... But can I take this opportunity to correct a current misapprehension, particularly noticeable in some recent statements outside this House, that this is an accurate measure of the British fleet. The UK registry is an open registry which means a UK company or a company in a dependent territory can join it and sail its ship under the UK flag. A substantial part of the present tonnage on the UK registry is ultimately beneficially owned abroad—in other words, flagged in. Many of the ships flagged on to the UK registry during the boom period, and which have subsequently left it, were also beneficially owned ships and flagged out on other open registries, including dependent territory registries. This is the

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eighth* sector of the fleet available in times of tension and war and must be included in any overall look at the British fleet."

(Earl of Caithness House of Lords 2 May 1986—Hansard col. 524.)

2.7 The minister's words were very revealing. Firstly he was telling us, without any evident qualms, that much of our fleet is owned outside the country. However these ships are in his view within our complete control. He told us too that there are ships which are owned in the UK but registered elsewhere and which are apparently also under our complete control.

2.8 These views are incompatible. If we expect to have access to ships registered under other flags in time of tension or war on the grounds that the ultimate owners (be they companies or individuals) are based in Britain, then it would be reasonable to assume that ships registered under our flag might be subject to the same degree of control by their states of ultimate beneficial ownership.

2.9 The minister's words also reveal that the only area of sensitivity which the government displays regarding the decline of the fleet is in the effect on our defence capability. We do not underestimate the importance of the strategic role of the merchant fleet—we refer to it later in our submission and the issue has been highlighted by the House of Commons Defence Committee—but the minister completely ignores the other effects of the fleet's decline and the fact that ships registered abroad do not make a contribution to our economy. Indeed they are in direct competition with UK registered shipping.

2.10 We suspect that the Committee will hear statements similar to that of Lord Caithness in the evidence from government representatives, and we hope that the Committee will examine such statements very carefully.

THE STATE OF THE UK SHIPPING INDUSTRY

THE FLEET

3.1 While there has been a constant decline in the number of UK registered ships since the beginning of this century, total tonnage continued to grow until 1975, apart from during the inter-war years. However since 1975 the decline has been dramatic. At the end of August 1986 there were 552 UK owned and registered vessels of 500 gross tons and above totalling 10·8 million deadweight tons compared with 1,614 vessels of 50 million deadweight tons at the end of 1975. This represents a fall since 1975 of 78 per cent in deadweight capacity and 66 per cent in the number of vessels.

3.2 The decline has been in all sectors of the fleet with bulk carriers and cargo liners showing the greatest proportional fall between 1975 and 1985—some four-fifths (See Table 1). In the first eight months of this year, of the 86 ships (gross) which have left the fleet 38 were tankers, 10 were chemical/gas carriers and 38 were dry cargo vessels.

TABLE 1: UK owned and registered fleet (500 dwt tons and above) 1975 and 1985

End 1975	*End 1985*
112 Passenger vessels	83 Passenger vessels
89 Container vessels	53 Container vessels
413 Cargo liners	78 Cargo liners
298 Tramps	149 Tramps
248 Bulk carriers	52 Bulk carriers
454 Tankers	212 Tankers

3.3 Annex 2 charts the decline of the sectors of the fleet and forecasts what the past trend tells us about the future. On this basis, one can forecast the virtual demise of the UK owned and registered fleet by the early 1990s. It is easy to be cynical about forecasts made on past trends but there is nothing in those trends—or in the current shipping scene—to suggest that it is wrong to assume that they will continue.

3.4 The reason the fleet is declining is that more ships are leaving the register than are joining it. This may seem obvious but it is easy to overlook the fact that it is a normal feature of the shipping industry that ships join and leave the register each year. However since 1975 the losses have outweighed the gains, as Table 2 shows. On this table, tonnage joining the flag is above the line and tonnage leaving it is below the line.

* Earlier in the debate the Earl of Caithness referred to the seven sectors of the UK registered fleet.

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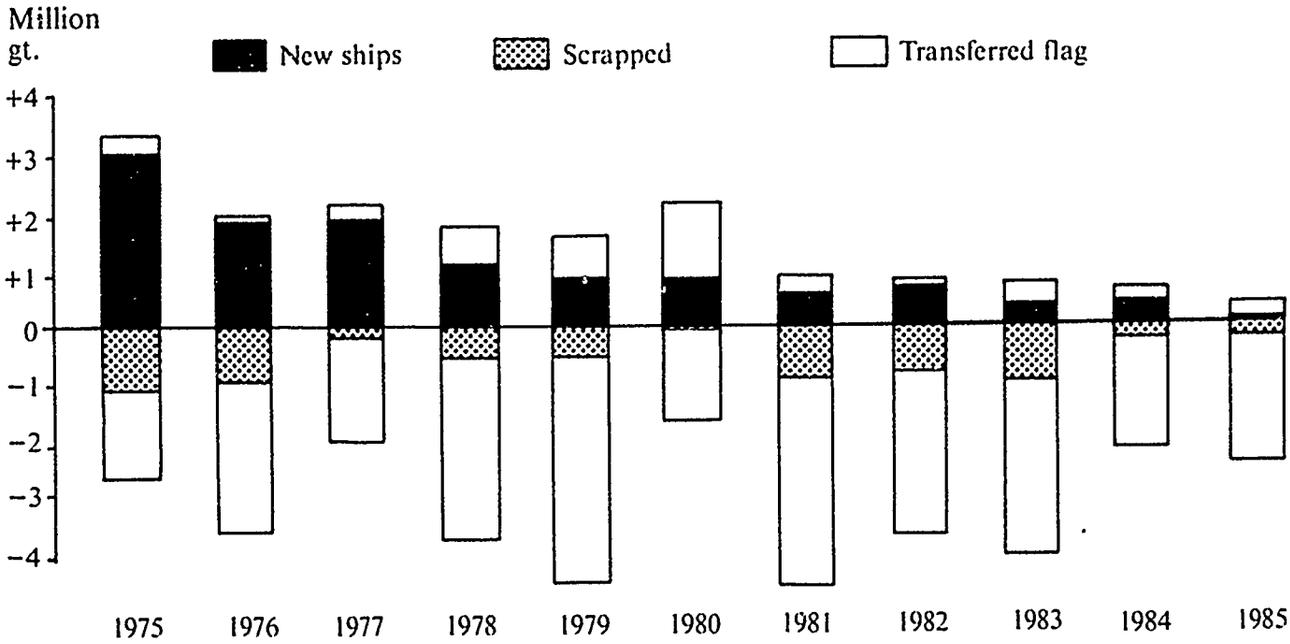
TABLE 2: Gains and losses of the UK registry 1975—1985



3.5 More worrying, perhaps, is what this tonnage represents. Most of the tonnage leaving the register is not doing so to be scrapped at the end of the vessel's useful life. Instead, most of the ships leaving the UK register are transferring to other flags, often to operate as competition against the remaining UK ships, and frequently with cheap exploited crews and under low safety standards, and with various forms of subsidy, tax advantages or cargo preference mechanisms. In 1985 alone, 95 UK registered vessels of 500 tons and above were re-registered abroad for continued trading while the total since 1975 is 1,804. Most of this tonnage has been re-registered under flags of convenience—since 1975, 41 per cent of re-registered tonnage has joined the Liberian or Panamanian registers.

3.6 Another worrying feature of the movement of tonnage into and out of the register is that an increasing proportion of the diminishing amount of tonnage joining the register is second hand ships. This transfer in to the register of second hand ships and the declining number of new ships, combined with the larger number leaving, has meant the fleet is getting older. In 1975, 51 per cent of the fleet was under 5 years old but by 1985 this had fallen to 16 per cent—while the average age increased from 6.5 years to 10.6 years.

3.7 Thus the UK fleet is contracting and ageing and this situation seems likely to continue. At the end of June 1986 there were 13 vessels of all sizes on order for the UK owned and registered fleet amounting to just 0·6 million tons dwt compared with 5.6 million tons on order in 1976 and 3.1 million tons in 1980.

3.8 The position of the UK fleet needs to be set in the context off expansion in the world fleet since 1975—albeit producing massive over-tonnaging—with the UK flag share of world tonnage falling from just under 10 per cent in 1975 to barely 3 per cent in 1985. It also needs to be set in the context of the reducing average age of the fleets of our competitors—for example over the last ten years the age of the fleets of the Federal Republic, Norway and Liberia has fallen while ours has increased and these three flags are the most important non-UK flag carriers of UK trade.

The effects of the fleet's decline

3.9 The fleet's decline means that the UK fleet is increasingly less able to fulfil the functions for our economy which we expect it to perform. The most important of these are:—

a. carrying our trade
b. carrying other people's trade
c. contributing to the balance of payments
d. providing employment

and the effect of the fleet's decline is mirrored in each of these areas. There is also an economic effect on defence expenditure which we do not have the resources to quantify.

a. *Carriage of UK seaborne trade*

3.10 A diminishing proportion of UK trade is being carried on UK flag ships even though the total volume of that trade is increasing. This is shown in Table 3 below from which from which it can be seen that the loss of market share has occurred in liner, dry bulk and tanker trades alike.

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TABLE 3: UK flag share of UK trade (by weight) 1975 and 1985

	All trade %	*Liner* %	*Dry Bulk* %	*Tanker* %
1975	34	40	37	31
1985	23	27	26	18
% change in total UK trade in same period (1975—1985)	+25%	+41%	+18%	+22%

Source: Business Monitor MA8: Nationality of Vessels in UK Seaborne Trade—HMSO 1986.

3.11 The decline in the carriage by UK ships of UK trade has been absolute as well as relative. The UK fleet has not even been able to maintain the volume of UK trade which it carried ten years ago—let alone increase it. The overall volume of UK imports and exports carried on UK ships fell by nearly a fifth between 1975 and 1985 as can be seen in Table 4.

TABLE 4: Volume of UK trade carried on UK ships

	All million tonnes	*Liner million tonnes*	*Dry Bulk million tonnes*	*Tanker million tonnes*
1975	78.3	18.7	22.8	37.2
1985	65.5	20.2	18.9	26.6
% change 1975-85	−16%	+8%	−17%	−28%

Source: Business Monitor MA8: Nationality of Vessels in UK Seaborne Trade—HMSO 1986.

3.12 This trend is even more striking in those sections where there has been a significant increase in the volume of trade. Thus in the case of tanker exports while the volume of UK trade increased sevenfold, the amount carried on UK ships barely trebled.

3.13 Most UK seaborne trade is now carried by cross-traders—that is by ships of countries other than those between which the goods are being moved. (For example, in trade between the UK and Italy, Greece would be a cross trader while Italy would be an own flag carrier.) This is shown in Table 5.

TABLE 5: UK seaborne trade 1985—by flag and by area

	Total Trade m tonnes	*UK Flag*	*Own Flag*	*Cross-Trader*
Total	284.8	23%	15%	62%
Near/Short Sea	204.1	25%	19%	57%
(EC)	(136.3)	(32%)	(12%)	(56%)
Deep Sea	80.7	18%	6%	76%

Source: Business Monitor MA8: Nationality of Vessels in UK Seaborne Trade—HMSO 1986.

3.14 Table 5 also shows that nearly three-quarters of UK seaborne trade is near and short sea trade. That is, it is trade with Europe and North Africa. This represents a marked difference from the position ten years ago when more than half of UK trade was with deep sea destinations.

3.15 The change in the pattern reflects, inter alia, the increasing importance of our trade with the European Community and the decreasing amount of imports from the oil producing states in the Gulf area.

3.16 The implication for the UK fleet of this concentration of trade with Europe is the decline of the 'unlimited' (foreign-going) fleet and an increase in the importance of the 'near-continental' fleet.

3.17 Table 5 shows that three-fifths of UK trade is carried by cross-traders and Table 6 shows the principal flags involved.

TABLE 6: Principal cross-traders in 1985

LIBERIA	18%	GREECE	9%
FRG	12%	PANAMA	6%
NORWAY	9%		

(Percentage shown is percentage of total amount by weight of UK trade carried by cross-traders.)

Source: Business Monitor MA8: Nationality of Vessels in UK Seaborne Trade—HMSO 1986.

3.18 Broadly speaking, the Liberian and Norwegian fleets are important as carriers of our tanker trade, the Greek and Panamanians as carriers of dry bulk goods and the Federal Republic fleet carries both dry bulk and

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liner trade. Further, Norway and the Federal Republic are countries with which we have a significant amount of direct trade, Greece much less so and Liberia and Panama hardly at all.

3.19 To summarise, the declining UK fleet is getting older and is carrying a diminishing share and a diminishing amount of UK seaborne trade. The lost share seems to have been taken up by cross-traders rather than those countries generating or receiving the goods being carried.

b. *Carriage of foreign trade*

3.20 As we have seen, cross-traders carry a significant part of UK trade. Cross trading is, of course, a normal part of international shipping activity and the UK fleet itself has traditionally been a major cross-trader.

3.21 It is difficult to quantify the proportion of the UK fleet involved in this activity and one has to deduce both the level of activity and its pattern from statistics collected by the General Council of British Shipping for use in the calculation of the Balance of Payments.

3.22 Thus, as we see from Table 7, about half of the gross earnings of UK owned ships in 1985 came from cross-trade activity (although these ships may not have been UK registered) but the earnings were not evenly distributed. In 1985 the tanker sector earned 84 per cent of its total receipts from cross-trades and tramps earned 83 per cent while liners only 43 per cent.

TABLE 7: **UK shipping industry's cross-trade earnings 1985**

	Total Receipts £ million	%	*Of which from cross-trades £ million*	%
Liner*	2,007	80	854	43
Tramp	141	6	117	83
Tanker	348	14	294	84
TOTAL	2,496	100	1,265	51

* Includes cruise ships, ferries, container ships and cargo liners.

Source: General Council of British Shipping—Statistical Brief.

3.23 Over the past decade the cross-trade earnings of UK owned and UK chartered-in ships have fallen in relative and absolute terms, as Table 8 shows, and the fall has been particularly severe since the early 1980s. In cash terms these earnings have fallen by more than a third and they now contribute 46 per cent of the gross earnings of the UK shipping industry compared with 56 per cent in 1980, and 61 per cent as recently as 1982.

3.24 This recent fall in cross-trade earnings may well indicate the impact of the loss of vessels in the unlimited trade sector.

TABLE 8: **Cross-trade gross earnings 1975–85**

	1975	*1976*	*1977*	*1978*	*1979*	*1980*	*1981*	*1982*	*1983*	*1984*	*1985*
Total Credits (m tonnes)	2,287	2,796	2,933	2,617	3,187	3,144	3,063	2,527	2,328	1,480	2,457
Cross-trades (m tonnes)	1,205	1,527	1,594	1,427	1,812	1,776	1,754	1,541	1,205	1,309	1,125
C/T % of Total Credits	53	55	54	55	57	56	57	61	52	53	46

Source: Balance of Payments—HMSO 1986.

3.25 Our declining cross-trade activity is not simply a function of having fewer ships. The opportunities to carry goods as a cross-trader are being reduced by the tendency for those countries between which we traditionally acted as cross-traders to restrict the carriage of their trade to their own vessels or to those of their trading partners.

3.26 Thus the potential for our fleet to carry other people's trade is limited by two factors—firstly by the availability of vessels and secondly by the exclusion of our vessels as a result of bilateral and other restrictive trading arrangements practised by other countries.

c. *Balance of payments*

3.27 As has been seen, there has been a significant decline in UK cargo carried by UK registered vessels. This has had important implications for the Balance of Payments current account. Some caution has to be exercised

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when using Balance of Payments figures to gauge the effects of the fleet's decline, firstly because the figures do not differentiate between UK owned and UK registered vessels and, secondly, because the effects of inflation need to be taken into account for an accurate comparison between one year and another.

3.28 Nonetheless a stark picture emerges of a declining contribution from UK based shipping and increasing expenditure on the services of foreign owned shipping. The effect of this is shown in Table 9 from which it can be seen that there is a negative balance in the sea transport account compared with a surplus ten years ago. Indeed the account was in surplus until 1980 (apart from a minor deficit in 1978 of £13 million).

TABLE 9: **Sea Transport Account 1975 and 1985**

	Credits £m	*Debits £m*	*Balance £m*
1975	2,651	2,562	+89
1985	3,272	4,429	−1,157

Source: Balance of Payments—HMSO 1986.

3.29 The reason for this deficit is that in 1985 the earnings from the UK fleet were lower than in 1975 while payments to foreign carriers nearly quadrupled. (See Table 10).

TABLE 10: **Net earnings from UK and foreign shipping 1975 and 1985**

	Ships owned by UK residents	*Ships chartered by UK residents*	*UK based shipping*	*Ships operated by overseas residents*
	£ million	*£ million*	*£ million*	*£ million*
1975	+857	−318	+539	−450
1985	+745	−262	+483	−1,640

Source: Balance of Payments—HMSO 1986.

3.30 This heavy and worsening deficit on the sea transport account has serious implications for the Balance of Payments current account as a whole since the invisibles part of the Balance—of which sea transport forms a part—is responsible for keeping the overall balance in surplus. In 1985 there was a deficit on the visible trade balance of −£2,111 million but this was more than out weighed by the invisible balance surplus of £5,713 million. The invisible trade balance is likely to become even more significant in the Balance of Payments overall as North Sea oil production declines. UK oil exports currently earn £16,050 million gross compared with £734 million in 1975. Without this contribution—some £8 billion net—there would be an overall deficit on the Balance of Payments current account.

3.31 To summarise, the sea transport section of the current account of the Balance of Payments is in heavy and worsening debt. This reflects the falling earnings from our diminishing fleet and the increasing amount we have to pay for foreign operators to carry our trade.

d. *Employment*

3.32 Employment in the industry in not, of course, confined to seafarers. However it is only for seafarers that we can obtain information for the employment generated by UK registered ships.

3.33 The decline of employment on UK ships has been a long term trend and is more closely related to the number of vessels rather than the amount of tonnage. The decline has had a different impact on different grades of labour within the industry. Initially ratings felt that main impact of the loss of job opportunity while officers employment showed a lesser fall. Over the last decade, this situation has changed with a loss of 65 per cent of the officer labour force in the decade 1975–1985, the major loss of 56% occurring since 1980. (See Table 11).

TABLE 11: **Employment of officers and ratings**

	Officers	*Ratings*
1975	41,257	39,551
1980	32,315	30,812
1985	14,333	19,095
% Change	*Officers*	*Ratings*
1975–80	−22%	−22%
1980–85	−56%	−38%
1975–85	−65%	−52%

Source: General Council of British Shipping—National Register of Seafarers.

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3.34 The present attitudes within the industry and the apparent lack of confidence in the future have led to a rejection of the idea of training young professionals. Table 12 shows the dramatic reduction in recruitment into the industry.

TABLE 12: **Employment of cadets**

	Deck		*Eng*		
	Year		*Year*		*Overall*
	1st	*Total*	*1st*	*Total*	*Total*
1975	1,065	3,935	968	3,318	7,253
1980	650	2,916	593	2,757	5,673
1985	80	341	55	424	765

Source: GCBS 'British Shipping Statistics' and 'Fleet and Manpower Inquiries'.

3.35 It would seem that most shipping companies have either taken a decision that they will not require UK seafarers in the medium term or else they view with equanimity the absence of such seafarers. This is not surprising since, as has been the case in other areas of the UK economy, in times of low profitability R and D (research and development) and its human counterpart, training, are the first activities to be curtailed.

3.36 To summarise, the decline of the fleet has accelerated the decline in seafaring employment and, more seriously, it has resulted in a reduction in the recruitment of young people for a seafaring career. This latter aspect may well mean that the fleet's decline is actually sowing the seeds of its continued decline since the non-availability of trained manpower in the future could inhibit efforts to take advantage of opportunities to expand the fleet (whether in response to new trading possibilities or to other factors).

THE IMPLICATIONS FOR POLICY

> "There appears to be little regard in the formation of Government policy as a whole for the implications, in terms of our national freedom of action, of dependence on other nations for merchant shipping."
>
> (House of Commons Defence Committee Report: Statement on the 1986 Defence Estimates—para 105.)

4.1 As we have seen from the previous section, the UK fleet will virtually disappear by the early 1990s unless something happens to reverse the trend—in effect unless there is a change in current government policy. This policy is essentially one of leaving the fate of the industry to market forces and of advocating the adoption of free trade policies in international shipping. The previous Shipping Minister, the Earl of Caithness, summarised it thus:—

> "The Government are convinced ... that the best interests of the UK merchant fleet lie in our policies designed to secure the widest and fairest markets in which British shipping can compete."
>
> (House of Lords Hansard 2 May 1986 col. 520.)

4.2 This statement prompts two questions—firstly is the policy working and, secondly, is it likely to work?

4.3 On the first question the evidence of the previous section is of a declining fleet carrying a declining share of our trade, employing and training a declining number of seafarers and making a declining contribution to the Balance of Payments thus ensuring an increasing deficit on the sea transport account. None of this suggests that the best interests of the UK merchant fleet are being served by present policies.

4.4 Moreover the UK is virtually alone in the world in advocating, let alone pursuing, a policy of *laissez-faire* in shipping and therefore UK shipping is competing at a disadvantage with the shipping of other countries, including other European Community partners and OECD members, which support their shipping in one way or another. Ways in which such support is given include reserving all coastal trade to national flag vessels (ie cabotage), reserving the carriage of certain cargoes to national flag vessels, favourable tax arrangements for shipowners and seafarers, advantageous loan finance and bilateral cargo sharing arrangements.

4.5 Thus the answer to our second question—is the policy of opening up other markets likely to work—seems to be in the negative. There is nothing wrong or surprising about governments pursuing policies which serve their own national interests and if those national interests are believed to be served by the maintenance of a national flag merchant fleet, then we should not be surprised that those governments act to "protect" their fleets.

4.6 This government, and indeed previous British governments, have failed to recognise that this is the reality of the world today. In fact it has been the reality of the world for some time.

4.7 In 1970 the Rochdale Committee Inquiry into Shipping made much the same point. The Committee commented that, in their view, it was likely that the degree of intervention in shipping by governments throughout the world would increase rather than decrease in the coming years. The Committee went on:—

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"Our general impression is that the external policy of the Government in the period since World War II, and the desires of shipping companies in this respect, may have looked too much towards maintaining an existing fabric in a situation in which new forces were already at work and new opportunities were emerging. As a consequence we may have gained only short term benefits at the expense of greater long term advantages. *If discrimination by others continues to grow, the desirability of maintaining the essentials of the existing liberal policy may need to be reappraised.*"

(Cmnd. 4337, paragraph 1443—emphasis added.)

4.8 These prophetic words have been neglected by government and we are now faced with a situation where, while other countries have taken measures to support and protect their industries, the UK government have actually taken measures which have had the effect of undermining the shipping industry. For example in the 1984 Finance Act the Chancellor of the Exechequer withdrew the tax relief which seafarers were able to claim on their overseas earnings and the free depreciation allowance which shipowners were able to claim on new ships. These measures increased the costs of the industry and demonstrated the government's lack of understanding and concern for the problems which already confronted the industry.

4.9 Other actions taken by the government which have been detrimental to the interests of the UK *registered* fleet have been their support for flags of convenience at the United Nations and their plans to give an unfair competitive advantage to the operators of the Channel Tunnel.

4.10 Faced with the decline of the fleet one is led to a number of alternative but not necessarily mutually exclusive conclusions. The first is that shipping policy as a whole is not accorded a particularly high priority by government. As a ministerial appointment it is not one that seems to offer much prestige or indeed much permanency—in the past seven years there have been six Shipping Ministers, three from the House of Commons and three from the House of Lords. Nor does it appear to carry much influence—the effect of other governmental decisions on shipping policy areas do not seem to be taken into account. If they were, the Chancellor would not have dropped his bombshell on the shipping industry in his 1984 budget.

4.11 The other conclusion that one can draw is that our shipping policy is not about pursuing the interests of the UK registered fleet. Indeed if this were the objective, the policy would patently have failed, If, conversely the government's shipping policy is aimed, as it appears to be, at enabling British Shipowners to operate their ships under any flag and for British shippers to have access—in the short term—to cheap shipping, then it becomes evident that the pursuit of such a policy is actually incompatible with the interests of the UK registered fleet.

4.12 Indeed a policy which permits or even encourages shipowners to operate under other flags has, of itself, the effect of militating against the practice of an effective policy for shipping—whether at a national or a European level—because a national authority will not be able to exercise any real influence or control over ship operators who flag out their vessels for the explicit purpose of escaping obligations to the flag state. It may sound facile to say that it is well nigh impossible to operate a shipping policy if you do not have ships under your direct judicial control but it does need restating since this fact is often overlooked. Once the fleet has gone our policy options will be extremely limited.

4.13 Whatever the objective of the current policy it is apparent that that policy, unless checked, will result in the demise of the fleet. What then would this mean?

4.14 Essentially the demise of the fleet would mean that the UK would be vulnerable in two ways—strategically and economically.

Economic vulnerability

4.15 From the economic point of view the demise of the fleet would have both a direct and an indirect impact. The most immediate and obvious direct impact would be that we would be dependent on the ships of other countries to carry the imports and exports on which our economy depends. This dependence would be reflected in a worsening deficit on the Balance of Payments, and also in a propensity to oligopoly and thereby to increased prices for imports and decreased competitiveness of our exports. Other direct effects would be on the employment of seafarers and of shipping company staff ashore, with the cost to the economy which would arise from the loss of their taxes and national insurance contributions as well as from their lost spending power in addition to the cost of their unemployment benefits and other entitlements.

4.16 The indirect impact would be wide ranging in its scope. Some obvious areas would be the institutions connected with nautical education and research but also affected would be insurance, broking and other services. London has established a pre-eminence in these areas through centuries of experience in dealing with the shipping industry, experience which it gained as a direct result of Britain's maritime dominance.These services have managed to minimise their dependence on UK shipping by marketing their expertise on a worldwide basis and by diversifying. However if there were no UK fleet—or only a minimal one—there would be a diminishing

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justification for these services to retain the UK as their base. The potential impact on the economy of the loss of these services can be gauged by the contribution they currently make to the Balance of Payments. In 1985 the Baltic Exchange's overseas earnings were £229 million while Lloyd's Register of Shipping earned £29 million.

4.17 However even more serious than the loss to the economy of the industry's financial contribution would be the fact that the fleet's demise would leave the UK economy vulnerable to economic blockade, sanctions or other action.

4.18 Essentially we would have lost control of our international trade (94 per cent of which is currently moved by sea), we would not be able to influence the price we pay for our goods to be shipped to and from the UK and—most serious of all—we would have lost the capability of ever reversing the position. Once the fleet has gone, skills have been dispersed and the institutions associated with the industry have been run down, it does not seem likely that any policy could be implemented to restore a UK registered fleet, even with a massive investment of resources.

Strategic vulnerability

4.19 The strategic implications of the demise of the fleet relate essentially to the country's ability to maintain its independence—and our vulnerability would arise because we would not have the means to assure this independence. The Government's current defence policy envisages a role for merchant shipping.

4.20 According to the Ministry of Defence's evidence to the House of Commons Defence Committee this role has three elements—firstly, the transatlantic reinforcement of Europe; secondly the reinforcement of Europe from the United Kingdom; and finally the direct support of the Royal Navy.

4.21 In its 1985 report 'The Use of Merchant Shipping for Defence Purposes' the Defence Committee added a fourth element to this role—'economic shipping'.

4.22 The Committee defined 'economic shipping' as supplying the continuing needs of the civil population of the UK and continental Europe in times of tension or war. The Committee has suggested that as the size of the merchant fleet declines the proportion of the fleet taken up for defence purposes (ie as defined by the Ministry of Defence) will rise at a faster rate. According to the Defence Committee, this may have a serious effect on the amount of economic shipping available.

4.23 Returning to this theme in its 1986 Statement on the Defence Estimates, the Defence Committee commented:

"The availability of merchant shipping for defence purposes remains a matter of concern"

(Second Report of the Defence Committee 1986—para 100.)

4.24 In view of the continuing decline of the fleet and specifically of sectors of the fleet required for defence purposes such as tankers and ro-ro ferries the position is likely to worsen as Shell follows BP out of the registry and as the unfair competitive advantages offered to the Channel Tunnel undermine the viability of cross-channel ferries.

4.25 However of even greater concern, we believe, must be the question of the availability of merchant seafarers if our defence policy is to envisage—as ministers say it should—the use of foreign merchant ships to supplement UK flag vessels. In our view the government has grossly underestimated both the legal and the practical difficulties of requisitioning British-owned foreign-registered ships, ships which would probably be under the command of and crewed by foreign nationals. For example Polish nationals are currently employed as officers on ships flagged out by BP from the UK to other 'British' registries and Poland, of course, is a Warsaw Pact country.

4.26 Serious consideration does not seem to have been given to the question of who would man these foreign flag ships even if we were able to requisition. British seafarers would not be available because they would have left the industry as the jobs went and their seagoing qualifications would have lapsed. It seems barely credible that we can even countenance a policy which envisages the use of—even the dependence on—foreign registered, foreign manned ships for the country's defence.

4.27 We feel that the work of the House of Commons Defence Committee on the use of merchant shipping for defence purposes is relevant to the current enquiry by the Transport Committee and we hope that the Transport Committee will take full account of the various Reports of the Defence Committee and of evidence received by it.

4.28 In particular we hope that the Transport committee will have made available to it a joint memorandum prepared by the Department of Transport and the Ministry of Defence on the availability of merchant shipping for defence. This memorandum has been prepared in response to a request in early 1985 by the Defence

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Committee for a formal statement of government policy. The issues which the Defence Committee asked that the memorandum should cover are listed in Annex 3. We understand that the memorandum was passed to the Defence Committee just before Parliament's summer recess in 1986 but, at the time of preparing this submission, we have been unable to obtain the memorandum which we believe is to be discussed by the Defence Committee.

4.29 We would just add one observation on the relationship of the fleet's decline to Britain's defence policy. The role of the fleet is as part of our conventional forces. The undermining of those conventional forces makes it more difficult to be able to make a meaningful choice between a conventional and a nuclear defence policy or even to retain both options and is more likely to lead to a dependence on nuclear weapons.

4.30 We do not believe that the decline of the fleet can be halted or reversed without the political will for it to happen. The 'hands off' approach adopted by this government will not stop the decline and government has to accept its responsibility.

4.31 Criticism and even blame for the decline of the fleet is often aimed at seafarers and their unions because, so the argument goes, our wage costs are too high and militant unions have brought this about—Mrs Thatcher said something along those lines in Parliament on 23 October. This is not borne out by the facts—our wage costs are not high by comparison with most other OECD countries (as was pointed out in the latest edition of OECD's 'Maritime Transport'), wages are a small proportion of a ship's costs and, except for passenger ships and for low technology ships, are also a small proportion of operating costs (see Annex 4). It is evident from the reduction in manning levels and changes in working practices over the past twenty five years that the unions have continually co-operated in improving the competitiveness of the industry.

4.32 Criticism is rarely levelled however at the shipowners whose responsibility it is to manage the business and to ensure the success of the shipping industry.

4.33 Perhaps the fact that we still refer to the operators of ships as 'shipowners' is part of the problem since it obscures the reality of what has been happening in the industry. It is, frankly, rare for us to deal with what could truly be described as 'ship owners'. Ships these days, by and large, are owned by financial institutions or large, diversified companies and the people responsible for operating them are more likely than not to come from a non-shipping background.

4.34 It can come as a surprise to realise that what we may regard as shipping companies are now far from being so—and especially that such companies do not even want to be thought of as shipping companies.

4.35 For example Ocean Transport and Trading issued a press statement in December 1985 which announced:

> "Ocean has been known as an international shipping group for over 100 years. However since the early 1970s we have been diversifying into a number of non-marine activities.
>
> We have now reached the stage where we consider that the title 'shipping group' is no longer appropriate and that a better description is 'a provider of industrial distribution services'..."

while Lord Cayzer, Chairman of the British and Commonwealth Shipping Company PLC, said in his introduction to the Company's 1985 Report:

> "During the last few years, there have been those who have questioned the merit of persisting with the inclusion of the word 'Shipping' in the name of the company. I can confirm that, in view of the further reduction in this activity... active consideration is being given to a change to a more descriptive title."

On 23 October 1986 British and Commonwealth announced that it was selling its last vessel.

4.36 We fully accept that the industry needs management skills of the highest calibre and that these skills can be acquired in a non-shipping background but conglomerates which may be controlled from abroad and which may have predominantly non-shipping interests cannot be expected or trusted to have the best interests of the UK fleet at heart.

4.37 In any case such is the nature of the crisis currently facing UK flag shipping that action by seafarers and owners alone cannot bring about its recovery.

4.38 It is therefore imperative that government accepts its responsibility to work with the industry to ensure the fleet's future. A policy which simply enunciates what we are not going to do at home and what we, piously, would like to happen abroad is no longer supportable.

4,39 We believe that the Committee should ask the government to state clearly whether it is committed to the retention of UK registered shipping. If the answer is that the government is not so committed, then it should explain how it will protect the areas of vulnerability (ie economic and strategic) outlined earlier.

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4.40 If the government states that it is committed to the future of UK registered shipping, then it should explain how it will bring about that future—and such an explanation should take as its starting point the self-evident fact that the current policy is *not* in the best interest of the UK fleet. In the concluding part of this submission we suggest ways in which immediate action can be taken to arrest the decline of the fleet.

THE NEED FOR ACTION

5.1 In our submission we have shown that the UK registered fleet is in a rapid and accelerating decline. We have argued that the situation is critical and that the consequences of the fleet's demise would be profound and probably irreversible.

5.2 But this is not a post mortem. Britain still has a fleet which is one of the largest in the world, it still has a large number of seafarers by comparison with other countries and—most importantly of all—it still has time, although not much, to arrest the decline.

5.3 However action is needed *urgently* if it is to have any effect—further delay could be catastrophic. The Committee will no doubt receive many suggestions about what action it should recommend; indeed it will undoubtedly receive suggestions that it should not recommend any action or any change to the current policy. We believe that the Committee should recommend action to reverse the decline and we believe that such action should be in two main areas—assistance with costs and protection against unfair competition. The objective of both sets of measures would be to give UK registered shipping the type of supportive regime enjoyed by many of its competitors.

a. *Assistance with costs*

5.4 The following assistance should be available to operators of ships registered in the UK in which seafarers were employed at nationally agreed rates. A breach of these conditions should result in the immediate withdrawal of the assistance and in liability for the refund of past assistance.

* a special tax and social security regime should be introduced for seafarers involving a reduced rate of income tax and a lower rate of national insurance contributions for both employers and employees. (There should not, though be any reduction in the level of provision of social security and other benefits)
* transfer of the cost of training seafarers from employers to central government. This would apply not only to initial training but also to higher level courses and would cover the full cost of attending courses, including course fees, exam fees, and salaries
* provides financial assistance for the repatriation of seafarers at the end of tours of duty not exceeding 4 months. Such help would not only help owners with their costs but would ensure that there was no delay in repatriating seafarers because of their location and would thus ensure that the full back up ratio was maintained
* assist shipowners to modernise their fleets by providing assistance with the scrapping of old vessels (so that these vessels are not sold abroad to become cheap competition with UK shipping), such scrapping to be undertaken where possible in the UK or other EC countries
* a financial package for the construction of new tonnage in UK yards
* disregard the scrap value of ships when calculating tax allowable depreciation. The allowance would therefore cover the total original cost less any direct subsidies
* raise the present level of allowable depreciation to make it more competitive with the effective rates prevailing in some other OECD countries
* allow British shipowners to be able, like their counterparts in most other OECD countries, to set aside from profits special tax-free reserves as a contribution towards the cost of replacement and heavy repairs
* ensure that the benefits of government sponsored or initiated research into ship efficiency and economy are restricted to UK flag tonnage, at least initially, so that it has a competitive advantage.

b. *Protection against unfair competition*

5.5 Again, the benefits of action under this heading would be directed to the operators of the UK registered shipping

* enact legislation (section 14 of the 1974 Merchant Shipping Act—'Protection of Shipping and Trading Interests') to exclude from trading between UK ports—including fixed structures in the UK Continental Shelf—the vessels of countries which do not permit full reciprocal access for UK flag vessels to their trades
* use the same legislation to prevent the use of our ports by flag of convenience vessels
* restrict the carriage of UK aid cargoes and ECGD insured cargoes to UK flag vessels
* ensure that only UK registered vessels are chartered by the Ministry of Defence for naval exercises and other purposes
* ensure that any European Community regulations referring to non-discrimination between nationals (individuals or companies) of EC Member States include a stipulation that they will not apply where the national operates vessels under non-EC registries

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* eliminate any distortions of competition between cross-Channel ferry operators and the Channel Tunnel Concessionaires (such as differences in customs and immigration facilities, the application of legislation on competition and safety requirements)

* seek immediate agreement with other European Community members that third flag operators will not be allowed on ferry routes between the UK and the other Member States except where that third flag operator is another Community member which, itself, allows third flag operators to operate services to or from its country.

* eliminate the use of UK ports by substandard ships by ensuring full port state enforcement of ILO Convention 147 (concerning minimum standards on merchant ships) so that vessels which are not up to international standards and whose crews are not qualified and/or employed in accordance with internationally agreed standards cannot undercut more reputable operators carrying out trade. In addition it should be made an offence for any company or individual based in the UK to cause such ships to be bought into UK waters whether by ownership or chartering of such vessels.

October 1986

Annex 1

FLEET DEFINITIONS

The *UK owned and registered fleet* comprises vessels registered at ports in the UK and directly owned by UK resident companies, including the UK subsidiaries of foreign companies.

The *UK registered fleet* comprises the above **plus** vessels registered at ports in the UK but owned abroad in the Commonwealth (mainly, in effect, in Bermuda and the Bahamas).

The *British fleet* includes, in addition to the UK registered fleet, vessels registered in British Dependenceis. These Dependencies are:

Anguilla	Gibraltar*
Bermuda*	Hong Kong
British Antarctic Territory	Montserrat
British Indian Ocean Territory	Pitcairn Islands
British Virgin Islands	St Helena
Cayman Island*	South Georgia and South Sandwich Is.
Falkland Islands	Turks and Caicos Islands

* These registries are classified as flags of convenience by the International Transport Workers' Federation (ITF) on the basis of the criteria in the Rochdale Report (para 184).

Statistics for the UK fleet usually refer to vessels of 500 gross tons and above since these vessels are generally regarded as constituting our trading fleet—although of course vessels below this size take part in important economic activities such as in the offshore oil sector.

Other size thresholds are used, the principal one being 100 gross tons which in the usual basis for Lloyds Register of Shipping statistics, but sometimes a 1,000 gross ton threshold is used. For example the Ministry of Defence uses this threshold when comparing the relative sizes of Warsaw Pact and NATO merchant and fishing fleets in a table published in the Statement on the Defence Estimates 1986 (volume 1, page 39). However in Volume 2, Table 1.3—'Defence Statistics'—the MOD's table 'UK Merchant Fleet: principal categories required for defence purposes', no indication of the size threshold is given, an omission which caused the House of Commons Defence Committee to express its concern.

Finally, a threshold of 200 gross tons is used by the General Council of British Shipping for its annual Fleet and Manpower Inquiry. Specifically the inquiry covers all UK flag vessels above 200 gross tons entered with the GCBS plus non-UK flag vessels owned or managed by GCBS member companies and covered by the GCBS manning policy.

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Annex 2

The UK owned and registered fleet of vessels of 500 tons and above: 1975–85

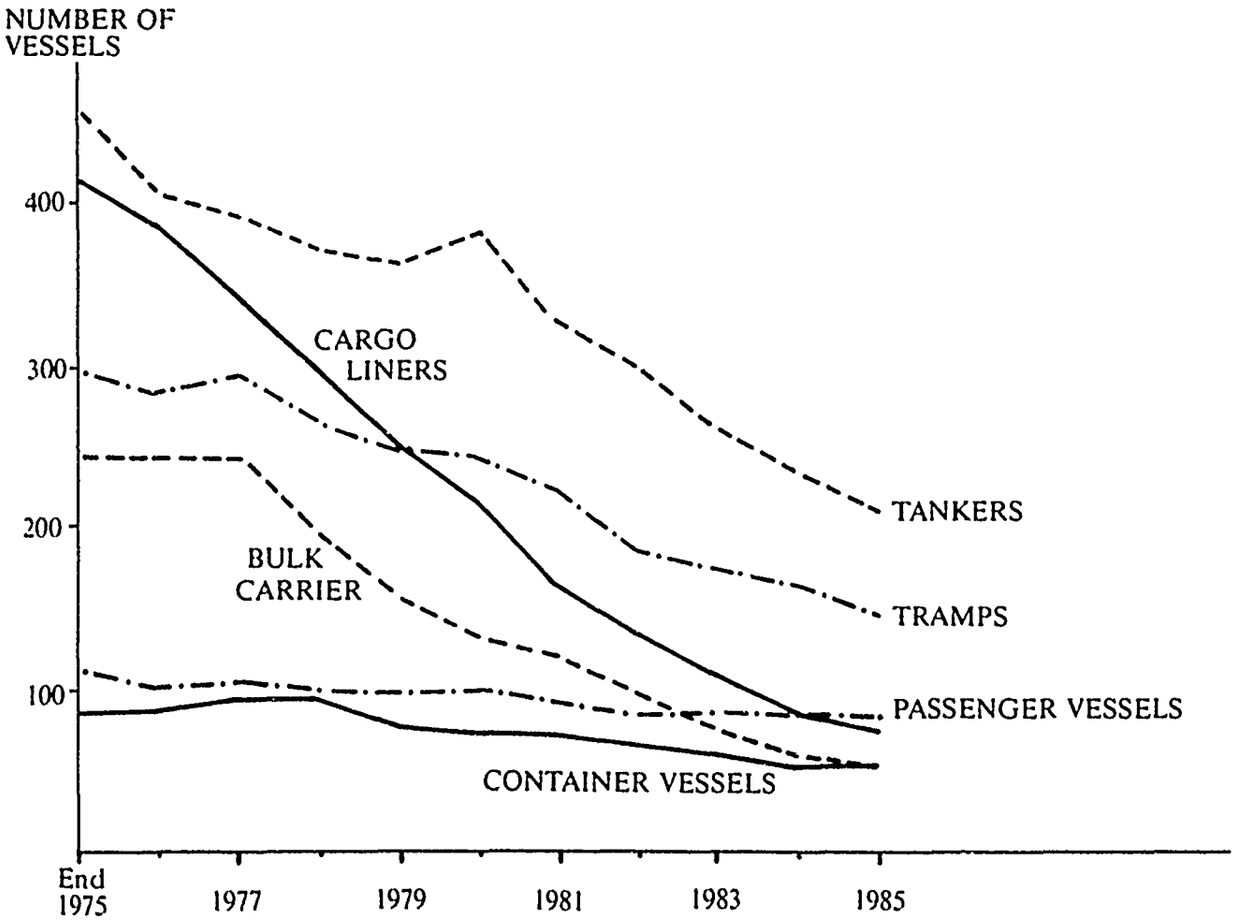
1. The number of vessels in the UK owned and registered fleet fell by two-fifths between the end of 1975 and the end of 1985. As Table A shows, the decline has been greater since 1980.

Table A

	number of vessels			*% change*		
	end 1975	end 1980	end 1985	1975–85	1975–80	1980–85
Total	1,614	1,143	627	−61%	−29%	−45%
Tankers	454	383	212	−53%	−16%	−45%
Bulk Carriers	248	131	52	−79%	−47%	−60%
Tramps	298	243	149	−50%	−18%	−39%
Cargo Liners	413	215	78	−81%	−48%	−64%
Containers Vessels	89	71	53	−40%	−20%	−25%
Passenger Vessels	101	100	83	−18%	− 1%	−17%

2. The graph in Table B shows the same information but indicates more clearly that the decline in the fleet has not been uniform across the various sectors.

TABLE B



3. *Tankers*

(*a*) About a third of UK owned and registered ships are tankers (ie vessels designed to carry liquid cargoes in bulk including liquid gas and chemical carriers) compared with a quarter in 1975.

(*b*) Overtonnaging in this sector has been particularly severe in the past decade. The fall in demand for oil in the 1970s following the quadrupling of prices in 1973, together with the development of production areas nearer home, reduced the need for tanker capacity. However capacity continued to grow thus depressing freight rates.

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(*c*) Flags of convenience predominate in the sector with about one third of the world tonnage. In the UK fleet independently owned deep sea tanker tonnage has virtually disappeared while oil company tonnage is being drastically reduced as companies such as Shell follow BP out of the UK registry virtually leaving on the UK register, as far as foreign-going tankers are concerned, only ships ultimately owned in and controlled from the USA.

(*d*) Within the UK registered fleet—which contained at the end of 1985 a further 30 tankers in addition to the 212 in the owned and registered fleet—the average age of tankers in 1985 was nearly 11 years compared with just over 5 years in 1975.

(*e*) The average size of the vessels has fallen from 65 thousand dwt tons in 1985. Whereas nearly half the tanker fleet is now vessels under 10,000 dwt, these accounted for only a quarter of the 1975 fleet and, at the other end of the size range, there were 99 vessels in 1975 of 100,000 dwt and above compared with 28 in 1985.

(*f*) A time series analysis of the UK owned and registered tanker fleet between 1975 and 1985, carried out by the City of London Polytechnic, suggests that the tanker fleet will reach zero by 1993–94.

(*g*) This assumes of course that all sizes of tanker will experience the same rate of decline. However this does not seem likely on past experience—the tanker fleet below 10,000 dwt has fallen by 14 per cent since 1975 compared with an overall fall in tankers of 53 per cent, and of 72 per cent in tankers of 100,000 dwt and above.

(*i*) The foreign-going UK tanker fleet is unlikely to continue into the next decade and, at best, those tankers that remain will be in coastal and short-sea trades.

4. *Bulk Carriers*

(*a*) Bulk carriers account for just one-twelfth of UK owned and registered ships compared with one-seventh in 1975. Bulk carriers are defined in government statistics as dry cargo, ore/oil and ore/bulk/oil carriers of 10,000 dwt tons and above. (Bulk carriers of under 10,000 dwt are classified as tramps.)

(*b*) Although some bulk carriers are capable of carrying both dry and wet goods, the over capacity in the wet bulk sector has meant that there is very little demand for such 'combination' carriers and they are increasingly used solely for dry bulk cargoes.

(*c*) Demand for the principal dry bulk cargoes (iron ore, coal, grain, bauxite and phosphates) was particularly depressed in the first half of the 1975–85 decade. Low cost competition, particularly from flags of convenience (which, again, represents one-third of the dry bulk fleet), overtonnaging and reduced demand have all squeezed the UK bulk carrier fleet.

(*d*) Within the UK registered fleet—which contained at the end of 1985 a further 30 bulk carriers in addition to the 52 in the owned and registered fleet—the average age in 1985 was 9 years compared with just over 5 years in 1975.

(*e*) The average size of vessel has increased from 52 thousand dwt tons in 1975 to 68 thousand dwt tons in 1985. The proportion of the number of vessels between 20 thousand and 150 thousand dwt tons has remained at about three quarters.

(*f*) A projection by City of London Polytechnic based on the number of bulk carriers in the UK owned and registered fleet between 1970 and 1985 suggests that the bulk carrier fleet will reach zero by 1994.

(*g*) There do not appear to be any major factors to contradict this projection since the decline of the bulk fleet has been fairly uniform across all sizes of vessel.

5. *Tramps*

(*a*) Tramps accounted for about a quarter of UK owned and registered vessels in 1985 compared with about a fifth in 1975. Tramps are defined in government statistics as dry cargo vessels not used for providing a regular service, including bulk carriers of under 10,000 dwt and general purpose vessels (usually multi deck).

(*b*) Although much of this sector is involved in carrying similar cargoes to bulk carriers, the tramp fleet decline has not been as severe, reflecting in part the increasing importance of near and short sea trades. Between 1975 and 1985 the volume of near and short sea dry bulk cargo trade increased by 20 per cent (from 36 to 45 million tonnes) while the deep sea dry bulk cargo trade fell by 2 per cent to just under 29 million tonnes.

(*c*) Within the UK registered fleet—which included at the end of 1985 a further 6 tramps in addition to the 149 tramps in the owned and registered fleet—the average age has increased from ten and a half years in 1975 to eleven and a half years in 1985.

(*d*) The average size of the vessels has fallen from 4,700 tons dwt to 3,300 tons dwt reflecting the fact that 96 per cent of the tramp fleet is now smaller than 10,000 tons compared with 83 per cent in 1975.

(*e*) On the basis of the number of vessels in the UK owned and registered tramp fleet between 1970 and 1985 the City of London Polytechnic forecasts a zero tramp fleet by 1995 or 1996.

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6. *Cargo Liners*

(*a*) Cargo liners are defined as vessels, other than container ships, but including ro-ro vessels, which carry dry cargo over a regular route on fixed schedules with an average speed of approximately 17 knots. These ships now account for one-eighth of UK owned and registered ships, compared with a quarter in 1975.

(*b*) Much of the trade carried by these ships is now carried by container vessels with their more efficient carrying capacity. It is estimated that one container ship can do the work of five or six breakbulk vessels.

(*c*) Liner shipping was the traditional basis of the UK fleet serving not only the trade routes to the former Colonies and Empire but also the trade between these countries and others.

(*d*) The UK registered fleet includes 9 cargo liners owned abroad in addition to 78 in the UK owned and registered fleet. Between 1975 and 1985 the average age has fallen from 10 to 9 years (although the 1975 figure has to be treated with some caution since it includes container vessels as well as cargo liners).

(*e*) The average size has fallen too—from 95 thousand tons dwt to 11 thousand tons dwt and whereas two-fifths of the vessels in 1975 were under 10,000 dwt, four-fifths were in this category in 1985.

(*f*) City of London Polytechnic's projection for this sector of the fleet gives a zero fleet by 1987 on the basis of the trend since 1970 for the owned and registered fleet.

(*g*) While not impossible, the complete demise of the cargo liner fleet by next year seems unlikely since not every trade is suited to containerisation. However the rate of decline of this sector is evidently very rapid, and those vessels that remain beyond 1987 would probably be engaged in near and short sea trades and the average size of vessel is likely to continue to reduce.

7. *Container Vessels*

(*a*) Container vessels represent a twelfth of the UK owned and registered fleet—compared with one-eighteenth in 1975. However this sector is the only one in which deadweight capacity has increased from nearly one-fortieth of the fleet in 1975 to one-twelfth in 1985.

(*b*) As noted earlier container vessels have largely replaced the traditional cargo liner in many trades. Stability in the liner sector has been assisted in the past by the operation of the conference system and, in more recent times, by the deterrent effect to small outsiders of the capital costs involved in the development of containerised services. However the rapid increase in capacity in this sector—by a few large operators, particularly as a result of 'round-the-world' and 'pendulum' services and of larger vessels, is likely to undermine this stability and threaten the existence of the established operators and their fleets.

(*c*) In the case of container vessels, the UK registered fleet is the same as the UK owned and registered fleet—in other words there are not any UK registered vessels owned abroad in the Commonwealth.

(*d*) The average age of these vessels was eleven and a half years in 1985—we cannot trace the equivalent figure for 1975—while the average size has increased from 14 thousand tons deadweight to 26 thousand tons dwt.

(*e*) City of London Polytechnic's projection shows a zero container fleet by 1997–98 based on 1974–85 trends.

(*f*) This projection—and that for cargo liners—is particularly alarming in view of the 15 per cent increase in the volume of UK liner trade between 1975 and 1985, and of the increasing importance of near and short sea trades—from 62 per cent in 1975 to 73 per cent in 1985 of liner trade.

8. *Passenger Vessels*

(*a*) Passenger vessels in 1985 accounted for nearly an eighth of the owned and registered fleet—compared with one-fourteenth in 1975. Passenger vessels are defined as any vessel permitted to carry more than 12 passengers and thus are involved in two very different activities, viz as short-sea ferries and deep sea cruise ships.

(*b*) The major activity in the former is in the Anglo-European and Anglo-Irish routes and these are important in the carriage of goods as well as of passengers. It is estimated that over one-third of UK-European liner trade travels in ferries while in 1985 23 million passenger movements were recorded on short sea routes compared with 14 million in 1975. The major threats to this part of the sector came from two sources; namely the operation of third flag carriers—such as Spanish flag vessels on routes between Great Britain and Northern Ireland, and Bahamian and Finnish flag vessels on Anglo-French routes—and the Channel Tunnel. The Tunnel is being promised by the UK Parliament an operating regime which is considerably more favourable than that permitted to ferries, thus allowing it a competitive advantage. Moreover the only response of the House of Commons Select Committee on the Channel Tunnel Bill to complaints about these advantages has been to attempt to circumvent

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the possibility of support being given in the future to cross-channel ferries. (cf Statement by Alex Fletcher MP on behalf of the Select Committee—House of Commons 5 November 1986.)

(*c*) The cruising sector of the fleet had until recently, been regarded as one of the few healthy parts of the UK shipping scene with the UK's pre-eminence in the 19th and early 20th century in passenger liner shipping being translated into 'up market' cruises. However these ships are very heavily dependent on the North American—notably the United States—market which traditionally has supplied 80 per cent of the customers. The cruise sector has therefore been particulary sensitive to the reluctance of US holidaymakers to travel abroad because of the perceived risk of terrorist attacks. Moreover overtonnaging in this sector has been exacerbated by the transfer of cruise vessels from the Mediterranean to the east and west coasts of North America—again in response to the reduction in US travellers continuing to Europe.

(*d*) Again, as with the container fleet, the UK registered fleet is coterminous with the UK owned and registered fleet with 83 ships. The average age is fourteen and a half years compared with eleven and half in 1975. However since age statistics are linked to tonnage in government statistics, they can be particularly misleading in the case of this sector as most of the cruise ships are older than the rest of the fleet—the QE2 for example is 17 years old.

(*e*) Caution, too, has to be exercised in examining the size figures—these showed that the average size in gross tons (a better indicator in this sector than deadweight) has grown from 6,400 tons to 7,400 tons. Only 12 of the 83 vessels are above 10,000 gt.

(*f*) City of London Polytechnic projects a fleet of 41 vessels in 2005 on the basis of the trend between 1970 and 1985. However this forecast cannot take into account the impact of the Channel Tunnel on short sea ferries, of attempts to change US legislation to allow foreign built but US registered cruise ships to operate between US ports, or of 'flagging out' in either part of the sector—as recently attempted by Sealink on its Channel Island routes.

9. *Conclusion*

All in all a picture emerges of some sectors declining less quickly than others but declining all the same. The immediate trend is towards a fleet which is older than those of its immediate competitors and operating principally in the near and short sea trades with a few container vessels trading deep sea. Whether or not this represents a 'bottoming out' of the fleet—a readjustment to the changed role the UK has in the world economy and a changed trading pattern—or else a pause before the fleet collapses completely—remains to be seen. What needs to be considered however is whether a reduced, near/short sea fleet could meet the country's economic and strategic needs, whether it could sustain the training programme necessary to secure the future supply of seafarers, and whether it could reduce the deficit on the balance of payments.

Source: MR15 General Trends in Shipping—HMSO 1977 and 1986.
MA8 Nationality of vessels in UK seaborne trade—HMSO 1976 and 1986.

Acknowledgements: to Dr James McConville and Bryan Eales of the City of London Polytechnic for their time-series analysis of the sectors of the UK owned and registered fleet.

Annex 3

REQUEST BY THE HOUSE OF COMMONS DEFENCE COMMITTEE FOR A FORMAL STATEMENT OF GOVERNMENT POLICY

The following is an extract from the Second Report of the House of Commons Defence Committee, Session 1985–86—'Statement on the Defence Estimates 1986':

'103. In our First Report of Session 1984–85 we concluded that since the Merchant Navy touched so many Departmental interests, the problem should be tackled at the highest level of Government. A formal statement of Government policy should, we believed, cover the following issues:—

—the likely future numbers of vessels in the categories needed for defence purposes;

—the categories of ownership and registration which the Government is confident will be available for requisition;

—the legal powers under which it is proposed to requisition, including means to prevent precautionary flagging out, if necessary by the introduction of a Defence Register where Government approval is required for transfer;

—the extent of genuine availability in terms of geographical position and serviceability and the methods by which this is monitored;

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—the legal powers over crews;

—manpower trends and the availability of trained officers and ratings;

—the means by which forecasts of ships and manpower will be updated;

—corrective action intended should there be forecast shortages of ships and manpower needed for defence purposes;

—economic shipping: the extent of the requirement for it and the degree to which this can be filled once the more specific defence needs have been met.

The Secretary of State told us that a joint memorandum by the Ministry of Defence and the Dapartment of Transport would be submitted to us in the near future. We will examine this memorandum in due course.'

Annex 4

Costs

2,400 teu* container ship (46,000 dwt) 1982 annual costs in US $000

	Japan	*Fed. Rep. Germany*	*UK*	*Greece*	*FoC*
CREW	2,800	1,595	1,100	965	623
M & R	656	656	656	656	722
INSURANCE	825	825	825	867	867
OVERHEAD	150	150	150	150	150
	4,431	3,226	2,731	2,638	2,362
(CREW %)	(63%)	(49%)	(40%)	(36%)	(27%)
CAP.	9,375	9,375	9,375	9,375	9,375
	13,806	12,601	12,106	12,013	11,737
(CREW %)	(20%)	(13%)	(9%)	(8%)	(5%)
FUEL	8,720	8,720	8,720	8,720	8,720
	22,526	21,321	20,826	20,733	20,457
(CREW %)	(12%)	(8%)	(5%)	(5%)	(3%)

Value New: $45,000,000 (US built $126m), second hand: $7,800,000.
Financing: New: 100% 8 years, 13% = $9,375,000
Secondhand: 80% 8 years, 13% = $5,000,000
Fuel 260 dly × 172tpd × $195p.t. = $8,720,000

* Twenty foot equivalent units.

Source: 'Crew Costs', D Moreby, in Maritime Policy and Management Vol 12 No. 1 January-March 1985, UWIST.

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Examination of Witnesses

MR E NEVIN, General Secretary, MR P J NEWMAN, Deputy General Secretary, MR D R BOND, Assistant General Secretary, and MR B D ORRELL, National Secretary, NUMAST, called in and examined.

Chairman

179. Mr Nevin, on behalf of the Committee may I welcome you and your colleagues from NUMAST to this hearing. For the sake of the record, would you first give the names of yourself and your colleagues together with a brief description of their responsibilities?

(Mr Nevin) My name is Eric Nevin, General Secretary of a trade union which is known by the initials NUMAST which represents mainly ships officers and also some other categories of shore staff in civil aviation and shipping. On my right is John Newman, Deputy General Secretary of the Union. On my left is Derek Bond, Assistant General Secretary, who particularly looks after the safety and technical work of the Union, as well as its welfare work, and is responsible for looking after the estate on Merseyside. On my far right is Brian Orrell, National Secretary of the Union whose special responsibility is the negotiating of conditions of service for our members with particular employers.

180. Mr Nevin, you have interest in both UK ships and ships which have been flagged out; you negotiate on behalf of your members in both fields?

(Mr Nevin) Indeed, and other foreign flag ships as well which have not actually been on the UK register before.

181. Is there anything you want to say to us as an opening remark?

(Mr Nevin) Of course, we have given evidence to quite a number of different committees within Parliament over the years, and one really finds it a bit strange going over the same ground year after year, wondering whether to keep on saying the same thing or change one's ground because of the possibilities which exist with particular governments. However, one thing we have noticed, which we put in our submission, is the way that the fleet is defined. I think you have already had some discussion on that in the past. Our first section is in fact devoted to the way one can speak about "the British fleet" and mean different things. We have found it important to get across to every committee we have ever met, and indeed every outsider, that there is a difference; otherwise, statistics go flying backwards and forwards and we are not comparing like with like. We see the problem facing the British merchant fleet now as one which is really a matter for government and for the state rather than for shipowners or seafarers particularly. Although they are affected, there is a bigger problem, we believe, for the state, so we approach these sorts of submissions on the basis that we have some knowledge of the industry which we are willing to impart to those who are responsible for it, but in the meantime if nothing is done we will do our best within our own area to try to survive.

182. Thank you, Mr Nevin. I appreciate there have been other inquiries, but my Committee has launched into this inquiry because of the apparent and serious problem of UK registered shipowners walking away from the UK to elsewhere. We are trying to find out why that is and what can be done about it. To put this into context, you have argued that for both economic and defence reasons a UK registered and owned fleet is essential to the nation, that government policy, such as it is, has been ill thought out and has failed, and that "Even a policy of *laissez-faire* should be chosen as a positive decision rather than emerge out of inertia or lack of interest." They are fairly strong words. You also point out that you would like to say something about the definitions of "the fleet". What would you define as "the fleet"?

(Mr Nevin) There are three types of fleet mentioned. One is the British registered fleet, and that includes ships registered in dependent territories, even if those territories have their own separate registers. The second type of fleet is the UK registered fleet, and that includes ships registered in the UK but owned in sovereign Commonwealth countries, as well as owned in the UK. The third one is the UK owned and registered fleet which includes ships owned by UK companies, even if those companies are subsidiaries of foreign companies, so none of these descriptions, or the way the statistics are compiled, actually totally encapsulates what is required by Britain for its own purposes. If I could use a phrase from a different piece of legislation, none of them actually includes all those, and only those, ships which could be available for our defence, but we have chosen the UK owned and registered fleet as being the one to which we should address ourselves because it seems to be the one which the British Government is most likely to have control over.

183. Why do you feel it so important to have that stated? What is so important about an overall name, for the sake of a better expression?

(Mr Nevin) Because statistics are collected for each of these fleets and when one is looking at perhaps a newspaper report, or any sort of document, it is easy to assess the movement from one month to the next using different statistics, so that is why it is important to latch on to one of them and to say, "Right, we will stick to that." If one is considering what the Government could do in times of defence need one can count those ships over which it has some element of control. Other ships registered even in dependent territories and certainly in sovereign Commonwealth countries can be taken out of the register very rapidly, and there is very little that the Government can do about it.

184. You feel it is not just tidiness but having something which can be specifically acted upon by the Government, if it so wishes?

(Mr Nevin) Yes.

Mr Bevan

185. If I might come in here, even that would not cover the categories of ships which might be required for defence purposes. You remember as well as I do that in a previous inquiry we travelled with a Danish company that carried the British Army to the continent by contract. How would such a classification be encompassed?

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[*Mr Bevan Contd.*]

(Mr Nevin) Of course, that is a ship on a foreign register. I am not suggesting for one moment that it would not be possible at any time actually to hire in ships from somewhere else complete with crews, but then you are at the mercy of the government of the other country as to what it will do, if it does not take the same line as you on foreign policy.

186. That is exactly the position we have as regards the transference of the British Army at the moment. I am leaving that on the record, because one of the vital requirements which Mr Nevin has instanced as being necessary for the marshalling of defence forces cannot be covered by any of these categories under present arrangements.

(Mr Nevin) Indeed. We are talking here specifically in a UK context, but some of what we say here concerning the decline in the fleet is also true of the decline in other North European fleets, particularly the NATO countries.

Chairman

187. On the question of the economic vulnerability of shipping, you have suggested that there is a larger and larger amount of traffic going by other shipping lines than British and UK shipping lines, and yet some countries say, "Okay, as long as there is sufficient capacity in shipping throughout the world we do not really need a merchant fleet." How do you view that option?

(Mr Nevin) Each country in its own economy is dependent upon something or other. A country may well be dependent on some agricultural product, be it from the trees of the tropics or from the plains of North America; it may well be dependent on a product like that. In our country we are dependent upon our trade and have growing dependence on the service industries with oil as a third factor. As oil runs out, as our manufacturing base declines, the service industries become more important. Shipping is one of the service industries, in fact, and as we use more foreign flagships for our trade, so we eat into the favourable balance which is coming to our current account from the service industries. Indeed, we could well overtake the favourable balance from those industries and make our current account actually in deficit for a long time.

188. I think most people would probably agree with that summary and that we want to carry as much of our own goods as we can. How far would you go towards the policy of protection in this field?

(Mr Nevin) I tend to agree with those who say that free trade in shipping is the best sort of regime in the world, but I also have to accept that it is very far from being free at the moment and so my Union comes to thoughts about using some element of protectionism with a view to bargaining one's way out of it again. If you stand there when somebody else is fully protected and say, "Please don't do that", they will say, "Well, this is in our best interests, go away"; but if you say, "Look, you are fully protected, we are going to be fully protected," then see where you stand and bargain your way into a free society again.

189. You are arguing that there is an unfair competitive element happening throughout world shipping at the moment. Would you say that is largely confined to unfair trading within what we call the NATO fleets or those of the Western countries, or would you say there is also an element of unfair competition coming in from the Eastern Bloc?

(Mr Nevin) I think there is unfair competition coming from more than just those categories. Certainly a state trading nation has a different concept in setting its standards, its freight rates and its general requirements; but also with the NATO countries' merchant fleets there is an element of protection in most of those that I think Mr Sunderland mentioned. If one goes through them, one can see practically all the NATO countries are mentioned. But also flags of convenience ships have an unfair advantage in that they have escaped from any legislation and taxation and so have that advantage over the ships of more traditional maritime countries, or indeed of countries which are developing and wish to have a slice of the action.

190. One could see the danger or the difficulty in overall trading, but do you feel that there should be at least some protection in the question of cabotage?

(Mr Nevin) Indeed, but I believe that Britain by itself operating some cabotage protection would be unable to make it stick. I believe that should be done on a European Community basis, although even within the Community of course there are some problems one has to negotiate away and, if one has within a Community directive something like ten years to get rid of cabotage restrictions, then I suspect that at the end of that ten years those cabotage arrangements will still be in place and, indeed, there would be an application for an extension and by that time we would not have anything to bargain with anyway.

Mr Dicks

191. I would like to ask for the record what exactly does your Union mean by legal protection and financial support. What do you mean by "protection"?

(Mr Nevin) I mean to cover the whole range of possibilities, in fact. "Protection" is a generic term which could encompass cargo reservation or subsidies, either direct or indirect.

192. Would you suggest if a company wanted to ship some goods abroad they would, under some kind of protection, have to use a British ship and, if it was cheaper to go in a foreign ship, perhaps the Government should give a subsidy to that company to offset the additional costs?

(Mr Nevin) I think we have in our evidence suggested some sort of protection in the cabotage trade with a view to negotiating out of them rather than protectionism for the foreign going trades, the trades out of this country to other parts of the world except in respect of the Government generated cargos, that is, either aid cargos or military cargos, which we believe should be restricted to British ships.

193. Why is it your view that the British merchant fleet appears not to be able to compete in some areas now with foreign ships?

(Mr Nevin) I think that varies according to the type of ship. For instance, we have a fairly stable fleet of

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[Mr Dicks Contd.]

container ships and a fairly stable fleet of passenger ships, mainly ferries, not cruise liners—there are only about a dozen of those. The rest are the bulk trades and the tramps. The [illegible] where we cannot compete on equal terms, largely because most of those are, in fact, registered under flags of convenience and get the advantage of being without any sort of restriction.

194. I understand it costs less in terms of quarters for the crews and wages paid to the crews on some of these foreign vessels. Do they have slave labour in order to undercut?

(Mr Nevin) There is certainly slave labour on some of these ships, but not on all. There is certainly a generally lower wage, and different conditions arrangements on flags of convenience ships, but there is also an absence of regulation enforced against them.

195. That would include safety as well?

(Mr Nevin) Yes, indeed.

Mr Trotter

196. That question of safety presumably does depend somewhat on which country we are talking about. I presume Hong Kong, for instance, is well run, as we are responsible for it—at least, one likes to hope it is well run as we are responsible for it. Would you basically agree with that?

(Mr Nevin) I myself believe Hong Kong is not as well run as the United Kingdom fleet was or is, but I do accept that Hong Kong under the guidance of the United Kingdom Government is, in fact, making more efforts at that than most other countries; although we do know, of course, that many Hong Kong owners do not register their ships in Hong Kong, they register under Liberia and Panama and as Liberia endeavoured to raise its standards of enforcement then ships started to move away from the Liberian flag on to other flags, particularly that of Panama. So there is some difficulty in those countries actually trying to enforce standards by themselves; they really need to have the countries where most of the trade is coming to taking a hand and helping them, like North Europe, exercising very strong port state control over sub-standard ships. That would indeed help countries like Liberia to strengthen their safety requirements.

197. Is Cyprus becoming an increasing problem in that respect?

(Mr Nevin) Cyprus has always been a problem as long as I can remember. I span something like 27 or 28 years in the business and from the moment that Cyprus started taking ships on to the register they tended to be very old ships and very unsafe.

198. The freight rates, if I read them rightly in Lloyds' List, are about the same for general cargo for tramp ships as they were nine years ago. They have been up a lot in the meantime, but they are down again now to roughly what they were nine years ago in cash terms, not allowing for inflation. It must be extraordinarily difficult for any Western operator to compete in that type of market?

(Mr Nevin) Yes, indeed. Of course, at one time we did find an analyst with one of the chartering brokers that put a fairly strong argument that a new ship built just two years apart from a sister ship could have cut the daily rate by half merely by having cheaper interest rates at the time of the second year and by having more fuel-efficient engines. Just by that, without any contrast of labour, a ship built two years later could halve the freight rate required to break even, so that it is not easy just to look at two ships and say they are competing on equal terms because one has to examine the financing of the capital as well and also what engines they are using.

199. One final comment on protectionism: we were told in this Committee that 80 per cent of the light dues on ships coming into British harbours are paid by foreign vessels. That is a worrying statistic. It seems to indicate that we would not suffer if we introduced protectionism because so much of our own trade is now being carried in and out of the country in other people's ships. Surely there is an increasing argument in favour of protectionism as a policy.

(Mr Nevin) I believe that is so. A few years ago I did produce a paper on the subject whereby I differentiated in terms of cross-trades—those trades from somewhere else in the world to the continent of Europe—and those trades, shall we say, from Australia to Japan. It was the Australia to Japan type of trade which I said were the real cross-trades, and these days we should not be thinking of trade from Australia to Rotterdam as being part of the cross-trades, especially if we try to develop a European level of maritime policy. If one does think in those terms, then the receipts from the cross-trades assume less and less importance and, in fact, we could get more advantage by having a regime which would enable us to retaliate against those that are protecting themselves against us. It is not the developing nations that are the problem. One might expect that, as our fleet declined, it was because the developing nations doing business with us were saying, after a hundred years of being done down by us, they were going to get their own act together. But it is not them. In fact, as our fleet declines, the problem is with the growth of flags of convenience.

Chairman

200. Do you think the Secretary of State was right to increase light dues by 14 per cent?

(Mr Nevin) I cannot say it would be right to increase the light dues unilaterally. We have to remember that ships going into European continental ports do not pay light dues, but that is of little concern to my Union because it affects the ports rather than the ships, and makes for what has been described as ports of convenience and not flags of convenience.

Mr Fry

201. Could I ask about your attitude to protectionism generally. First of all, what is your reaction to the British Government's attempts to open up trade particularly with our EEC partners? I have noted that in your evidence you say we should restrict local trade, just as our EEC partners do, so I think from that you have your eyes open to the fact that perhaps protectionism is not necessarily the way to go but fair competition is. From the evidence we have had so far, fair competition seems to be highly unlikely in any set of circumstances. I am talking generally in terms of world shipping. Therefore,

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[*Mr Fry Contd.*]

it seems that what you are advocating is a return to protectionism at a time when in so many other areas the British Government in terms of its overseas trade is desperately trying to stop the rest of the world from moving towards protectionism. Do you think it is credible for a British government in its negotiations to improve world trade to be going in one direction against protectionism and yet in respect of shipping to be going in a totally opposite direction to protect one particular industry in this country?

(Mr Nevin) Shipping has been described in the past as a strategic industry, and to allow a strategic industry to disappear would, I think, be seen by even our partners as being rather foolish. If our partners are doing something which inhibits us from keeping our fleet then I think we would be on fairly safe ground, even in talking to the Americans who restrict their coastal trade and exercise a tremendous amount of protectionism. I think the recent discussions with the European Community over protectionism have shown a realisation on both sides by the negotiators that one can in fact take a strong position and be seen by the other party to the dispute merely to be fighting one's own corner and not doing something drastically wrong.

202. Let me pursue the policy you have advocated which is that in effect provided other countries allow the same sort of treatment to our ships we will give them the same rights here. If that circumstance existed in Northwest Europe and the EEC, do you honestly think our merchant shipping would be able to gain extra trade, or is there a danger that by leaving it completely open in this way we would lose even more?

(Mr Nevin) I do not think we would lose any more because we are already losing a tremendous amount, and the probability is that there will be a demise of the British fleet in terms of the UK owned and registered fleet in the very early 1990s, so, faced with that prospect, it seems to me we have to do something if we want to retain a merchant fleet. Clearly, the country needs a merchant fleet for three purposes: defence, the balance of payments and the reduction in outflow of foreign exchange once the oil runs out.

Chairman

203. What size of fleet?

(Mr Nevin) I noticed Mr Sunderland's response to the same question, that it was easy to decide the size of fleet for military needs. I do not find it quite so easy because it is extremely difficult to get the information. I would tackle the problem of the size of fleet required from the other direction, by trying to find some way of putting a tap on it which can be turned on and off, or like an accelerator in a car so you can stop and go, until you get the desired result. I believe the result should be measured by the effect on the balance of payments rather than in terms of the number of ships.

204. A lot of publicity is given to the size of ships and the dramatic fall in the number of ships which are UK registered. Various commentators seem to suggest or ask the question: What is the optimum size? We are talking about the import argument against the defence argument when the Government would be called upon to take some extremely costly measures in order to define that fleet?

(Mr Nevin) I think that if we had a fleet carrying 40 per cent of our trade we would probably find it would be all right.

205. But we do not have it. In your section 5 dealing with protection against unfair competition you list a series of things which you would like to see brought into operation. For example, as I understand it, the United States has tried to protect its merchant marine and it is costing them $351 million for a mere 118 vessels. Has the Union attempted to cost the implementation of the protection you are talking about?

(Mr Nevin) No. We do not have the information or the facilities to do that, and there is no way of getting at the information to do that costing. I suggest it requires a partnership between government, shipowners and unions to find out that information. We were about to start a study on the Little Neddy for the movement of exports when that committee was disbanded a few years ago, so that opportunity went by, but we talk about the number of ships these days because of the fact that it is the number of ships by which you determine how many seafarers you have. There is very little difference between the crew required for a ship of 30,000 tonnes and a ship of 80,000 or 100,000 tonnes. In fact we did not get concerned at all about the reduction in the number of ships, which reduction has been going on since 1921 until after the tonnage started to go down in 1975. That was the first time I started alerting people to the structural change which was happening to the merchant fleet, but from the Union's point of view it is the number of ships which matters as far as its members are concerned.

206. On the question of salaries, you have obviously read Mr Sunderland's evidence to this Committee. When questioned about that he said he did not believe British seamen were now overpaid; in fact he said that that very day some agreement had been reached with the NUS at something like three per cent, which was much lower than the going rate being agreed in other industries. What proportion of the salaries bill do you feel is to blame for the flagging out system?

(Mr Nevin) The reasons for individual shipowners flagging out are probably different, in the same way that to assist one you have to offer something different from another in the way of tax incentives. There is not one thing which will cover the whole lot. As far as wages are concerned, it is true that British wages and general conditions are more expensive than those of a crew from the Far East.

Mr Trotter

207. By what sort of factor? What is the difference?

(Mr Nevin) To give general, round figures, for North Europe generally there would be a figure of about £1 million a year, shall we say, for a handy size vessel; for Britain it would be in the region of £850,000; for the Philippines it would be about £400,000 or £450,000; for mainland China it would be £250,000; and for Poland it would be somewhere round £350,000–£400,000. The fear that I see as a citizen of this country is the way in which it is possible for a country which is determined with a large population actually to ensure that its citizens are on a key number of ships or on key types of ships around the world and can, therefore, because of the

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[*Mr Trotter Contd.*]

relationship between merchant fleets and naval fleets actually exercise control over foreign policy.

208. Can I just follow that? It is presumably not just rates of pay but Western holidays, national insurance contributions, travel home and all those additions as well as the actual pay cheque?

(Mr Nevin) But those seafarers coming from Poland and Yugoslavia will have pretty much the same sort of conditions but the whole lot will be subsidised by their government.

209. But not the ones from the Far East?

(Mr Nevin) Some of the ones from the Far East have similar types of conditions but they are usually worse. Some of them are exploited in a way which I, from my background as a child, find terribly offensive.

Mr Fry

210. Can I come back to the question the Chairman asked you just now about the possible cost of support? It is all very well, if I may say so, for yourselves and other people to come before this Committee or the Government and say so-and-so should be done but we have not the faintest idea of what it is going to cost. I trust you accept that no government could possibly embark on a policy without some idea of what this was going to involve. If I look at the list of things you propose, there is a special tax and social security is cheaper for seafarers, lower rates for most insurance contributions, but not lower benefits, I think the rest of the trade union movement might have some comments to make on that particular proposal. Whether you ever get it through this place is another matter, but that would be very expensive. Transferable training: that would probably be a known cost. Financial assistance with repatriation: the Secretary of State has already mentioned something about that. The assistance of shipowners to modernise, and with the scrapping of old vessels: that could be a very expensive exercise indeed, and surely it is right that the Government—and I think you are absolutely right to shout the warnings and I agree with the warnings—is entitled to have some idea of what bodies like yourselves expect this is going to cost because otherwise it might be a bottomless pit. You might, for example, do all these things and we would still find the British merchant shipping declining and then we would not be very much better off, would we?

(Mr Nevin) Chairman, I fully agree with all that. I would come back to what I said at the start, that we are coming to this Committee as concerned citizens to tell you what is going on and make some suggestions to you. We will endeavour to survive ourselves and so will shipowners, so that if something is not done, I very much doubt if the shipowners will suffer. So far as the Union is concerned we will continue to exist so long as our members want us to exist, and many of our members, of course, if there are no seafaring jobs will in fact find jobs elsewhere in the community, either here or on foreign flag ships so that our concern is to come to you and tell you something is going wrong and here are some suggestions for going forward. If I turn to the tax matter, so far as seafarers' tax is concerned most seafarers at some time will not be paying tax, they will so arrange their affairs on foreign flag ships and their residence that they will not be paying tax. So one might as well face up to the fact and say "If we are not going to get the tax at some future time, let's try to find some way now of giving them a tax-free regime which hopefully will keep something else going", and that is the supply of merchant seamen available for the nation. It would be a lot cheaper, in fact, I think, to do it that way than to try to keep a supply of merchant seamen by a reserve of people who are going to be clamouring for the opportunity to go to sea now and again to keep themselves up to scratch. So far as training is concerned, I understand the Secretary of State has already said that he will be giving some sort of assistance on training though I have not yet had the opportunity of hearing the details of that. Many industries, of course, do get assistance with training through the local education authority grant arrangements, whereas most of the seafarers who are trained for British ships do not, in fact, qualify for the grant arrangements. So far as scrap and build is concerned, we are suggesting that there should be some subsidies for building new British ships but, if you just stop there, you would in fact be increasing the number of ships in the world and there are already too many of them so you have to start saying "No, not just a subsidy for building ships but a subsidy for building ships provided you scrap some" and then you want to get some advantage out of that. If you direct that those ships that get the subsidy should be built in your own yards, you get some additional benefit. You get the opportunity to maintain a shipbuilding ability, you get the opportunity to maintain a home-based fleet, especially if you insist that it should be under own flag, and you get the ability to maintain a college faculty which is able to train seafarers because you need that as well in the future if you are going to say that there is a need for merchant ships in time of war.

211. I follow all that and my feeling is, provided everybody else stood back and did nothing, such a policy might well be successful. May I put it to you it is exceedingly dubious, for example, that the Koreans would stand back and see us subsidising our shipbuilding without perhaps taking some contra-assistance to their own shipbuilding industry and we would end up with a situation in which British shipowners might still order their ships in Korea and we might still have poured goodness knows how much of the taxpayer's money into the sea, effectively. I asked last week representatives of the NUS whether they honestly thought that there was any possibility of getting international fair competition or would there always be a new country coming onto the scene offering better terms for flagging out and it was their view that that would always happen. In those circumstances, in the circumstances they stated—I did not state them, I appreciate your view but it does seem that unless one can take steps to see other countries do not do as much as or more than we will be doing, there is no guarantee whatsoever that the proposals being put forward will in fact be successful.

(Mr Nevin) The European Commission, of course, has suggested a special tax regime for seafarers largely because the other European countries actually do have special tax regimes for seafarers; they recognise that seafarers are away from their home country most of them for something up to two-thirds of the year anyway, and so that is not something which is extraordinary. So far as Korea is concerned, it is my understanding that

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[*Mr Fry Contd.*]

Korea actually did subsidise its shipyards and part of the problem of the overtonnaging of the world is due to countries like Korea although quite a lot of it is also due, I believe, to the banks in the 1974–75 period actually going round begging people to take money to build ships without any strings attached to them, and more and more ships were built at that time, and it seemed to be the wrong way round. Although I am not a banker, I think the banks ought to work by people coming to say, "Please can we borrow money based on this particular project?"

212. With respect, you still have not answered the main question I put to you. Okay, we go along the line of all these proposals you have put forward, but if other countries take similar measures and they have said up until now they are prepared to do all kinds of things to get flagging out or build ships in their own countries, if they do that, all these measures may not do the trick—that is the point I am putting to you. Surely a government, before it embarks upon a policy, should at least try and see what degree of success there might be in following recommendations such as you put forward.

(Mr Nevin) I think we would welcome a recommendation from this Committee that government should in fact get the various parties together to work that out.

Mr Bevan

213. Could I put a supplementary to the question Mr Nevin answered, because it is a rather interesting point. He says that some or many countries do give concessions to seamen because they are away from home for long periods of time. Can he tell us which countries they are and what the proportion is?

(Mr Nevin) The ones which come to mind immediately are Norway and Sweden; how much it is, I do not know.

214. No EEC country?

(Mr Nevin) I believe some EEC countries in North Europe do have special tax arrangements for seafarers; they are not as extensive as the two I have mentioned.

Mr Dicks

215. The danger of that is: Where do you stop? You would have groups of workers throughout the country who could claim special reasons for tax concessions, whether it be unsocial hours or whatever. I do not think that is a starter, but what concerns me—and this is something Mr Fry implied just now—is that you cannot expect the Government to take the actions you suggest if another country is going to take similar measures to make sure there is competition. If you are to say to potential users of British ships that by law they have to use them even if it is not economically viable and it would be better for their sake if they went to Korea, it seems to me that the cost will fall back on the producers and exporters. In our yards they would have to pay more, or the taxpayer would be subsidising their business decisions. You have mentioned the contraction of invisible earnings; I accept that. What proportion of the invisible earnings can be related to shipping, and how has it moved, say, in the last five years? That was the third part of your argument but you have, in a sense, glossed over it and have not given the details. I understand you have a vested interest, and I accept that, but I am concerned that the things you want to happen will take us further away from recognising and reacting to the problems of competition and move us into the area of subsidy which many of us here find worrying, even if we believe it is a sensible policy?

(Mr Nevin) As far as the balance of payments is concerned, on the sea transport current account, one can have two graphs. One can take UK residents, that is, the contribution from the shipping activities of UK residents, whether they are using their own ships or somebody else's and some will be positive and some negative. One can do another graph showing the shipping activities of overseas residents which enter into our balance of payments account, or the sea transport account. I have done it from 1975 to 1985; I did not have the 1986 figures. One finds a situation where the graph of UK residents' shipping activities is what I can only describe as bumping along the bottom not knowing which way to go; sometimes it goes up and sometimes down. The graph of overseas residents from 1980 is entirely negative; there is a strong downward trend, so it is increasing in a negative direction. The activity of UK residents is just continuing along, sometimes up and sometimes down, but it is being overwhelmed by the overseas residents. the balance between the two in the period between 1975 and 1980 was almost zero, and from then on it has gone down, so the picture is that the more we use foreign ships the more the negative balance starts to eat into the positive balance produced by other invisibles, like insurance and services.

Chairman

216. On the question of the support given by Norway and Sweden, we are advised that the Netherlands also has tax incentives. Could I pursue the question you raised of this Committee recommending that interested parties should get together and discuss a scrap and build policy. I represent Sunderland, so, as you can imagine, shipbuilding looms large in my heart. Do you really believe you would reach some agreement with the General Council of British Shipping on a policy of scrapping?

(Mr Nevin) I think the GCBS might take one view but shipowners who are members of it would take another view, if there were incentives to do almost anything.

217. It has been suggested that if investment allowances were introduced the GCBS would naturally welcome them, but they would not welcome any strings attached to them which said they would get those tax incentives provided the ships were built in Harland and Wolff, Sunderland or Govan?

(Mr Nevin) I would expect that response from the GCBS, but I would expect a different response from individual shipowners making decisions as to whether to build ships for whatever traffic. Individual shipowners will make decisions based on what is available, in the same way that somebody who wants to build a factory finds out what the best available deal is. If there is a string attached to something a British shipowner will take that string as well as the subsidy if it is to his advantage to do so.

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[*Chairman Contd.*]

218. Are you suggesting that the GCBS is out of touch with its members?

(Mr Nevin) From what I have heard from shipowners generally, I believe that when the GCBS puts a proposition to the Chancellor each year it is an amalgam or balance of interest in the industry and does not necessarily coincide with the views of certain members. That is what happens in a union, but what happens in the case of shipowners is that it may well be the Government might make some effort which the GCBS would see as taking shipping in a particular direction and might not welcome, but individual shipowners would most certainly welcome it.

219. Were we to recommend a get-together, naturally we would suggest that the organisations representing shipowners, ships officers and so on should be the ones to be consulted. We could not possibly call in a whole bunch of people to get together on this, so a rather important point to bring out is that if we are suggesting this get-together we have to be realistic about what that get-together should be about and what its terms of reference should be, and hopefully something would be agreed so some strong recommendation could be made to the Government about what is worrying all of us?

(Mr Nevin) I responded to something Mr Fry said, by saying that I would welcome a recommendation that a group should get together to follow up the costing of the various proposals. It was at that point I was suggesting a get-together. I am not averse to getting together on other proposals, but I see the point you make. Our suggestions is that there should not be one fiscal opportunity to shipowners because they have diverse interests; each company is quite different; each company would like something different in the tax regime in order to get going, so there should be a variety of ways in which shipowners should be able to reduce the tax payable on any profits made.

Mr Fry

220. I agree it might be helpful if at least the Government made its own position clear particularly in relation to the allowances. It seems to me that the GCBS keep making these submissions in the pious hope that the Chancellor will listen. However, it seems to me that for other reasons which have nothing to do with the shipping industry, the Chancellor has probably set his mind firmly against that form of allowance. In those circumstances, you have two alternatives, one of which is, "This is how we will help", and the other is, "if you do not agree the other alternative is that you will meet an unpleasant end", so one of the things which might be helpful is for the Government to say, "These are the areas we are prepared to look at, but on this area we will not give." Now, from what you have answered already, that might well be going to make the various factors in industry get together and say, "Okay, we haven't got the ideal but let's look at things upon which we can agree". How would you see that approach?

(Mr Nevin) I would welcome that approach, but I also have recognised for quite a number of years that the Government has been quite categoric that there will not be any assistance whatsoever and yet we now have the Secretary of State making some suggestions for assistance, and I think he is doing that from the very realistic position that he sees that, in fact, there is a national need to have a shipping fleet, even if there is no commercial need for individual shipowners to have fleets or have ships on the British register.

Mr Bevan

221. It is interesting to follow this point up a little. The line of argument seems to have developed that over and beyond having a specific ship grant there should be a whole variety of fiscal concessions, to use, I think, the phraseology you did, to allow competition with those countries which already have them and attract from us our own ships under other flags. However, because they have these things, it could equally be argued, could it not that they give rise in themselves to various iniquities, slave labour you described one as, a lack of proper protection and facilities in some other countries, abuse of employment and so on and so forth. So if we adopted those same policies which are all of them interventionist in their nature and which would interfere with the flow of variety, could not they themselves inculcate the same drawbacks and the same inpingements upon human rights and dignities?

(Mr Nevin) I think, sir, that the list that you have just mentioned arises from the opposite of intervention rather than from intervention itself. Those sorts of practices occur on the ships of flags of countries which do not actually enforce any standards of either safety or labour. In this country we do have labour standards, they may be too high for some or too low for others, but there are some standards and I would hope that, if we were going to have any arrangement for the maintenance of a British fleet, we would do it without the need to have a pressgang, that there was some inducement for British people actually to sail them.

222. Thank you very much indeed. I do not necessarily agree with those conclusions. I would have thought it could equally be argued that the giving of lower tax burdens is dependent upon the giving of lower yield systems for the protection of labour. However, on the one subject of subsidies for shipbuilders, it is not unknown in this country that there have been subsidies for other forms of transport. I am bearing in mind the bus grant which has now been phased out, but that was a subsidy given to encourage a specific type of vehicle built in a specific type of way to a specific specification and, if one even went along the road—which I would have thought was dangerous—of giving such a grant to ships, would one not be encouraging the building of a specific type of ship which might be inappropriate for many, of the purposes for which the owners would wish to use it?

(Mr Nevin) I think that would depend upon the conditions one attached to the giving of any sort of grant or subsidy or other arrangement. Certainly so far as the seafarer's tax is concerned, I would have envisaged some sort of condition that there was a reductiion of the gross figure anyway so that the seafarer would come out of it with the same as he was getting before but that would be a tax benefit to the shipowner.

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Mr King

223. Mr Bevan talked a moment ago about employment. Could I ask one or two points in connection with that? Did we determine exactly the total membership of your organisation?

(Mr Nevin) It is about 24,000.

224. There seems to have been increasing difficulty recently in recruiting young people into the shipping industry. Is this a concern to you and, if it is, what steps are you taking to attract young people?

(Mr Nevin) It is not just the young people that are a concern to us because it is from the recruitment of young people that we get our membership in later years. So that, as the number of cadet recruits has dropped dramatically over recent years, we can see that this is going to cause difficulties in the future. In fact, there is already difficulty now. My Union advertised only last week for junior officers in order to comply with some of the commitments we had made to shipowners. There is a shortage now of junior officers.

225. Why is that? Why are people not going to sea in the way they used to?

(Mr Nevin) Because, as shipowners change their flag, some of the seafarers decide to go ashore and others decide to leave the company and transfer to a foreign flag or—

226. Can I follow that up by asking your views on the fact that when BP transferred its vessels from the UK register it offered all its seafarers redundancy payments and re-employment through managing agencies in Hong Kong, Geneva and Bermuda? Is that a trend that is being followed?

(Mr Nevin) I do not think there is any other major company we know of which would follow BP's methods. In fact, some companies who are going to go on the Isle of Man register have recently told us that they were horrified when they heard what BP had done and would not go in that particular direction. Can I just point out that it is sometimes said that ships which are owned in the United Kingdom which are under flags of convenience would be available for defence purposes, but if those ships actually have on them crews from East Europe, it is highly unlikely in our view that those crews would bring the ships to a friendly port.

227. In the event of hostilities?

(Mr Nevin) In the event of hostilities or tension.

228. Would not that master be obliged to if it was owned by a British company?

(Mr Nevin) If it was owned by a British company and flying the flag of Liberia, the master might well be a Pole or a Yugoslav.

229. He would not be expected to obey the instructions of his employers?

(Mr Nevin) In law he would be required to obey the instructions of the shipowner, but in practice at a time of tension he is more likely to obey the instructions of his government.

230. NUMAST represents shore-based management staff as well as ship's officers. It has been suggested that relationships between ship and shore are very bad. Would you agree with that?

(Mr Nevin) They are certainly bad in some ways, but the members that we have in shipping company offices tend not to be the personnel managers. We do have some very good relations with some shipowners' representatives and some very bad ones with others.

231. A sort of give and take?

(Mr Nevin) They try to take more than they give.

Chairman

232. The bad relations relate to the question of personnel relationships and employment problems and things like that but have nothing to do with the trading side?

(Mr Nevin) It is not normal to have bad personnel relations, but shipping companies may well try to change conditions without having any consultation with the Union.

Mr Ross

233. Could I follow up Mr King's question on crews. You did say you could have a Polish skipper on a Liberian ship. What about actual crews? Are they not normally Philippinos, Chinese, or do you get any East European national crews?

(Mr Nevin) Yes, both Poland and Yugoslavia tend to be able to provide crews at very much lower rates than the general North European rates, in fact, fairly equivalent to Far East rates.

Mr Trotter

234. You referred to exploitation of crews. I am sure that does happen, but surely there is a fundamental problem in that the going rate for somebody in China is so much less per hour—probably a third or a quarter of what it is here—and that must be reflected in ships that are manned by people from that sort of background?

(Mr Nevin) Yes, that is true. In fact we find that in countries like the Philippines they think in terms of exporting their seafaring labour; they think of it as an export commodity, and the rapid attempt to increase output has led to a lowering of standards of officers. We did have quite a number of complaints from captains with Filipino junior officers that the standards were not even up to that of the seamen, never mind ships officers. That will vary according to the particular ship at the particular time.

235. You mentioned the number of your members. By how many has the number gone down in recent years?

(Mr Nevin) We had 47,000 members in 1979; now it is 24,000.

236. Of those 24,000, how many are on British ships? I know it is difficult to say what a British ship is, but you get the gist of my question?

(Mr Nevin) It is exceedingly difficult to find out the figure. We work on the basis of about 8,000–10,000 on foreign flag ships.

237. That would include flags of convenience?

(Mr Nevin) Yes.

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[*Mr Trotter Contd.*]

238. You would not find many serving on Italian or German ships?

(Mr Nevin) No, mainly on flag of convenience ships.

239. Do you find that officers are more able to get jobs than British ratings because they still like European officers?

(Mr Nevin) Yes.

240. In particular, senior officers?

(Mr Nevin) Yes. When a ship is flagged out we try to persuade the shipowner to use the same crew, officers and ratings. If we are unsuccessful in that our next level down is to try to persuade them to use the officers. The third level is to try to persuade them to use the senioir officers. What we do tend to find is that a company which agrees with us that there shall be NUS ratings and our members as officers on board its ships several years later actually takes the NUS members off and puts Far Eastern ratings on board, and several years later might take some of our members off, leaving only the senior officers on board.

241. Can you tell us anything about the Isle of Man registry? This seems to be coming up quite quickly. It has not got quite the same image as Bermuda?

(Mr Nevin) It could have had the same image except for the fact that the vast majority of the shipowners registering their ships in the Isle of Man have agreements with the trade unions; that is the main difference. I can say that the Isle of Man is very keen to ensure that the safety standards and the standards of inspection of those safety standards are kept high and are kept the same as those in the United Kingdom.

242. Finally, on port state control, we frequently hear from Ministers that they are keen to implement it. Would you suggest that in this country and Western Europe more can be done?

(Mr Nevin) Yes, because port state control from our point of view is an international agreement stemming from three conventions: the Safety of Life at Sea Convention, the Marine Pollution Convention, which is held by the IMO, and also ILO Convention No. 147 which deals with the standards to be observed on merchant ships. Regrettably, I do not believe the inspectorate is in fact enforcing all the provisions of ILO No. 147. The other element of that is that if you have a harsh inspection regime in one country and not in another you create ports of convenience. If we were to inspect very harshly every foreign ship which came to Britain and they did not do it in Rotterdam, most ships would go to Rotterdam, especially those on the margins, so there is a need to have agreements on the standards of inspection. I believe Britain is doing as much as its commitments at the present time.

Chairman

243. You are a man after my own heart. When I was on the Council of Europe acting as *rapporteur* I produced a report on what constituted sub-standard ships and suggested that if all the nations comprising the Council of Europe got together and had a port standard which was enforced by them all there would be very few sub-standard ships which did not have to call at one of those ports. On the question of safety, the difference between UK flag ships and those which are not has given rise to some concern. I notice that reference has been made to the Institute of London Underwriters who are expressing grave concern about the safety aspects of ships which are flagged out to places like Gibraltar and elsewhere. You have just given the Isle of Man almost a clean bill of health. Although Gibraltar might adopt the standards, it is suggested they cannot enforce them. How much does this apply? My colleague Mr Trotter talked of changing crews so they are of lower standard. How much does that actually affect a first class ship constructionwise? Does it mean that a ship can become sub-standard because of the quality of the crew and because bad communication and language barriers make it unsafe?

(Mr Nevin) If I may answer the last question first, we did have experience a couple of years ago of a ship which was only two years old being sub-standard as a result of a total lack of maintenance and bad running. As far as insurance is concerned, it is my belief that the hull insurers could do a lot more than they are doing to their own benefit as well. If they were to offer some indemnity against loss of employment to captains who declared ships to be unsafe, then captains might take the plunge. At present, a captain who made such a declaration would be likely to lose his job, as in the recent case of a captain who went on board a ship, having been unemployed for two years, and was replaced when he refused to take it away. If he is going to blow the whistle he has to have some sort of indemnity against loss of employment. I believe the hull insurers are the ones most likely to stand to gain by that sort of whistle being blown.

244. What about classification societies? Do you believe they do the job properly, or do they leave something to be desired as far as safety is concerned?

(Mr Nevin) I believe there is a conflict of interest as far as the classification society surveyors are concerned. It is a commercial organisation which sometimes is asked to do a statutory job. In that situation there is bound to be some conflict of interest and pressure placed on surveyors. In our view, if one is talking of the safety of ships one ought to have an independent inspector, such as a government inspector, doing the job.

245. Is there anything else you or your colleagues would like to add to what you have already said?

(Mr Nevin) No. Thank you very much for listening, Chairman.

246. You are happy that you have put everything on record?

(Mr Nevin) Yes. We are meeting the Minister for Shipping anyway next week, and if there is something I have forgotten I will tell him about it, and perhaps even write to the Clerk.

247. During the time of our inquiry, if there is anything you feel you want to submit in writing, please feel free to do so.

(Mr Nevin) My colleague Derek Bond would like to say something about classification societies.

(Mr Bond) Reference has been made to the London Institute of Underwriters. I may say that I am arranging a meeting with them to discuss the subject which has

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[*Chairman Contd.*]

been raised today. As far as classification societies are concerned, there is no doubt that many of them do an excellent job, but there has been a proliferation of such societies which are subject to commercial pressures. We have carried out surveys amongst our own members and, in my case, there has been contact with ships' masters. There is no doubt that in some instances classification society surveyors undertaking statutory safety checks on behalf of, say, the Department of Transport are just as stringent as our own surveyors, but this does not happen in every case. We are now amassing a certain amount of evidence showing that commercial pressures on non-UK flags are quite severe, and we have to be able to identify it clearly and bring that forward to the other areas within the industry.

(Mr Newman) Just for the record, Chairman, I was interested in the difficulties which some Members of the Committee experienced in assessing the validity of some of the proposals we were putting forward. Would they work? How much would they cost? We explained that we found it very difficult, indeed impossible, from our own resources to cost the measures we are proposing or to give firm guarantees that these would in fact meet the disastrous situation which currently faces the UK fleet. I personally think it would be difficult if all parties within the industry and associated industries were brought together. It would probably take a very long time for us even to agree on the minimal item of terms of reference. I wonder, Chairman, whether there would be any merit in your Committee trying to look much more closely than perhaps it has done so far at the situation which prevails in some other North European countries. For example, last year in 1986 the Dutch merchant fleet grew overall by 1 per cent. Now, I find it very difficult to understand how a merchant fleet comprising relatively well-paid seafarers—and our wages are often blamed as the cause here; we are less well paid than the Dutch—can expand during that time, albeit by only a very small margin and, furthermore, how do the West Germans cope? How is it that 68 per cent of the West German fleet is now less than ten years old and it can now boast the most modern fleet in the world whereas we in the United Kingdom have reached the position of having 60 per cent of our own fleet being tonnage more than 10 years old? It cannot be wages. Wages cannot be the factor in those sort of circumstances because if we had the West German wages we would feel much better off than we currently do.

Mr Dicks

248. West German productivity.

(Mr Newman) As to how West Germany manages and Holland manages and others, we understand there are investment incentives provided by governments to shipyards and the like, there are special tax regimes for seafarers. Perhaps this Committee could learn a lot more about what could be done for the United Kingdom by studying some of the things that happen, as I know you are anyway, very closely. I think it might be helpful.

Chairman: We are most grateful for those remarks.

Mr Bidwell

249. We are not an agent of the Government. I think this should be pointed out. We as a Select Committee are answerable to Parliament. Mr Nevin said "meet a shipping minister".

(Mr Nevin) As soon as I said it I realised. I corrected myself and said I would write to the Clerk.

Chairman

250. Thank you very much, Mr Nevin. We are most grateful to you and your colleagues for appearing in front of us this afternoon. It has been very useful to us in trying to draw our conclusions.

(Mr Nevin) Thank you, Chairman.

In the absence of the Chairman, Mr Fry was called to the Chair.

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Memorandum submitted by Captain C M R Lloyd

Educated: Manchester Grammar School, HMS Conway.
Qualifications: Master Mariner.
Experience: Seagoing since 1957. Experience on Cargo, passenger, bulk. container and the off shore oil industry.
Held three executive positions ashore in Technical, operations and personnel.
Master for 15 years on varied ships
Younger Brother of Trinity House,
Liveryman of the Honorable Company of Master Mariners,
Fellow of the Nautical Institute,
Fellow of the Royal Society of Arts.

Council member of the Nautical Institute,
Council member of The British Maritime League.

Commander Royal Naval Reserve.

Published papers on the following:
Manning for the Future;
Defence;
Safety and lifeboats;
Education;
Pilotage.

EDUCATION.

The officer training structure of the Merchant Navy has always been diverse, ranging from the 2 to 3 year officer cadet training ships, Conway and Worcester; the one year courses at various pre-sea training schools; to no pre-sea training at all. Age of entry has varied from 16 upwards and the entry qualifications entirely dependent as to the individual company requirements, some wanting pre-sea training, others not; some wanting 6 GCE's, others not very fussy. The training on board ship was decided by each individual company again with extreme ranges and Deck and Engine cadets training separately with little known about the other side. Throughout this period the traditional pre-sea training school was of generally similar type; emphasis being placed on uniform, responsibility and discipline, and considerable basic training in seamanship of a practical nature to give familiarity with the sea.

In any review of these schools it must be said that while they did not necessarily prepare cadets technically well for the future, they did produce cadets of officer quality confident in leadership and well prepared for their seamanship duties. The constant stream of cadets trained in similar ways from these pre-sea schools provided a nucleus around which the Merchant Navy as a whole could found itself. Further these young men knew the Merchant Navy, the life and sea that they were joining. They were joining a service, not an industry.

The seventies saw the move towards an industry rather than a service and a standardisation in nautical education. However this was more to do with costs than a real desire for improvement. The traditional training ships closed down and nautical education fell to the colleges and polytechnics, some of which were well prepared for this task, and others not. Empire building amongst these colleges in competition with each other at a time when the shipping boom was over gave us too many colleges, lecturers, too much money invested in buildings and equipment that now local councils were loath to scrap and not enough students. This gave us the nautical education industry. Courses began to proliferate as the colleges saw these as a way of filling places and keeping grants and employment. The fact that many of these courses were poor from a professional viewpoint was disregarded as by now the colleges were not listening to the profession at sea, rather they attempted to dictate professional requirements. This possibly could have been acceptable except few colleges employed lecturers with command experience or attempted to arrange refresher training at sea for their staffs.

The final withdrawal of the companies from our education is in the last stages, with the GCBS having already stated that its members canno continue with the costs and responsibility. Colleges continue to add courses to their curricula but it is inevitable that more closures will follow and while any decrease in our education must be regretted, perhaps we will at last have the opportunity of the professions as a whole deciding what form our education should take without having this dictated to us by Colleges and commercial companies.

Two questions must be resolved before decisions regarding the structure of our nautical education can take place. These are:

1. Is the ship's officer to be regarded as executive level with such responsibility within the shipping industry as a whole or is he to be trained for a future as a ship driver?
2. The level of education required to efficiently become a ship's officer.

Presently it can be argued that high intelligence or qualifications are not required to become a ship's officer. The proliferation of Liberian and Panama certificated officers, having passed examinations the highest of which a British 2nd year cadet can pass, would seem to support this argument together with the willingness of British

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shipowners to employ them and insurers to cover their ships. Following this argument, the case could then be made for no certification at all, as many ships are officered by Philippino officers who, while having certificates, have not necessarily sat an examination.

World trends would seem to provide a case against such arguments however. Newly emergent maritime nations as well as many traditional ones are anxious to provide a high standard of nautical education with a number of these countries giving as standard a study course leading to a degree. Thus while we seem to be moving away from a high academic standard of entry, others are moving towards this. Further, the increasing degrees of control and concern over safety standards being shown by national and international bodies points to a need to increase the abilities of those at sea rather than decrease.

The increasing urgency to move towards high technology ships together with low effective manning if only now to compete with other countries also should require officers capable of efficiently operating such ships.

Presently we seem to be confused as to what we are training officers for an I offer the following as evidence.

Some companies are moving away from cadet officer sponsorship to use of the Gravesend sea school for ratings and then to train these young men through class 4 certificates. They give the reason as opening up the opportunities for advancement to boys of lesser education. However I suggest that lower training costs is nearer the truth.

In the other extreme, my present third officer joined the industry with 8 'O' levels and three 'A' levels including Maths and Physics and therefore could in all circumstances be called good university entrant material. Prior to joining the industry, he could find no information either at school or at his local careers service on going to sea (the only careers service for the Merchant Navy was run by the GCBS and closed down some years ago). He joined his company on an A level course of some 3½ years duration and studied at Plymouth Polytechnic. During his entire formal training, including his class 3 certificate, he received not one lecture on the following subjects:

Computer studies with or without marine applications
Maritime Affairs
Maritime Insurance
Ship Brokerage
Chartering
Labour Relations
International Maritime Law
National Maritime Law
Defence
The Industry in General
Maritime Operations
Port and Harbour Operations
Maritime History

Neither did he meet any official or receive any information from or about the following:

The GCBS
The Merchant Navy and Airline Pilots Association (now NUMAST)
The Marine Society
Trinity House
The Honourable Company of Master Mariners
The Nautical Institute

He can hardly, by any standard, be said to have been prepared to enter the shipping industry. Unfortunately, he cannot be said to have been prepared to be a competent seaman officer either for his only introduction to the sea was a two week "induction" course on which most of the time was spent sorting out his paperwork for entry. He did however spend two hours in a boat for the first time in his life and freely admits that as third officer he is not confident at taking charge of a lifeboat which is his responsibility on board.

We are now one of the few countries in the world which sends our officer cadets to sea with no form of adequate basic training. We are also one of the few maritime countries without a proper training ship.

If one looks logically towards the end of the century, ships will inevitably become technologically advanced with considerably reduced manning levels, certainly towards the 8 crew number with few if any ratings carried. Even if we accept the route that we train ships officers as drivers then still a high degree of intelligence and training will be required. The airline pilot of today could well be called a plane driver and yet few airlines if any are willing to accept low standards and I doubt that many of the committee would be willing to travel on aircraft flown by pilots who have purchased their pilots licence.

Once we have decided what we want the future ships officer to be responsible for we then need an adequate educational system to prepare him for this. Whatever is decided good basic training must be given pre-sea for this cannot be done on our ships.

We cannot recruit boys with 3 or 4 GCEs and boys with degree capabilities for the same job and career expectations.

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The obvious choice for cost effectiveness is to establish a National Nautical College where this essential groundwork can be done with cadet officers of all branches being trained commonly where possible. Entry to this college should not be until boys have completed their formal secondary education at the age of 18 and are of course of suitable educational background.

LABOUR RELATIONS AND MORALE

To consider the present poor state of ship-shore relations within the industry and morale at sea, it is necessary to examine the beginnings of our industry for the development of our present attitudes. At that time, when seamen were directly employed by the owners on a casual basis without the existence of unions or contracts, undoubtedly many abuses were practised, both by the owners and indeed by the Masters and officers on the ratings, but then the times were not noted for their humanitarian concerns. The brutalities of seafaring life and the hardening of the men who engaged in it became established in the nation's mind and the seamen were regarded as a race apart from 'normal' people. In other countries, such as Norway, although apart, the calling was respected with national days being established to honour the seamen while in contrast in Britain, Magistrates were giving prisoners the choice of prison or the sea. This was the beginning of our country's second class citizenship for its merchant seamen. The men at sea could do little about this as there was no one to speak for them and so many became what the country wished them to be with the image becoming reality which did little to further their cause.

The relationship with the owners of the ships was slightly different for a very good reason, for owners had to know their men and their ships, thus at least there was established a bond of respect however begrudgingly. Owners had to place considerable trust in the hands of their Masters and therefore knew them personally. The Master acted as agent, charterer, broker and banker for his owner when abroad and many could earn a higher proportionate salary than is possible today. This of course did not stop the numerous abuses and eventually, as in most of our labour intensive industries, unions were born in anger.

At the beginning of the century we have a different scene. With the advent of good communications the owners were able to control their ships and movements from their main offices and establish branches abroad. Agencies were better able to handle the port affairs for ships, Officers training ships were established and ratings' training followed shortly after. The ship owners became companies and expanded their staffs, but they still, although varying in their prestige, mostly remained family concerns who remained dictatorial in their controls and intensely proud of their fleets which by now were providing the major proportion of world shipping. Thus the loyalties remained between ship and shore. What is important to remember, is that the loyalty was given to the owners of the ships, not the staffs.

By the end of the Second World War and the rebuilding of our merchant fleet, not a great deal had changed. The companies through their controls of the GCBS, the Merchant Navy Training Board, the training and career structures were still able to dictate to our professions and trades and these were subject to their wishes. The unions, especially the officers', often had their attempts to improve or change the existing order, frustrated by their own members, as still existed the traditions of loyalty and duty. The majority of officers, with the service style training ships producing hundreds of cadets each year, and tempered by two world wars, the merchant navy was the fourth service and, although the nation did not have pride in it, the men serving there did.

By the sixties, cracks were appearing in the traditional fabric. As the companies had expanded, the vast gulf of middle management came further between those who controlled the companies and those at sea and the strengthening unions began to get their message across; that their loyalty was misplaced.

Although the management of our companies has always been a variable factor and efficiency never too high on the priority list, those at sea did respect strong leadership. After all, the Masters and officers were trained in leadership so who better to judge? The sixties saw a weakening of the strong leadership shown by the chairmen and boards in the past and, encouraged by good profits and the increasing size of their companies, the weaknesses were quickly taken advantage of by the associated branches of the industry. Port services costs rapidly increased with little increase in efficiency and situations often occurred of ships arriving back in the UK after a four month voyage with the Chief Officer, who had been responsible for all the loading and discharging of the cargoes seeing stevedors working a 40 hour week being paid more than himself. The seafaring unions, responding to this, increased their demands, often for payments that surprised the seamen themselves. More surprisingly the companies gave them.

By now, however, the discontentment was growing at sea over the attitude of the companies towards them and the leadership of these companies began to retreat into remoteness with the buffer of middle management eagerly filling the gap. Masters and officers lost their ability to speak their opinions openly for now, in many cases, the Master no longer reported directly to the Chairmen and the boards but instead to new titles such as Fleet Managers, Operations Managers and similar titles. It must be said that many of these came from the sea professions but quickly adopted the shore office postures to ensure their own survival. This need for survival was to the detriment of the companies and their leadership, for criticism of company operations honestly expressed for the good of the company became translated by the middle management as criticism of themselves as indeed in many cases it was. Opinions thus expressed by the ship management therefore in many cases became smothered and as far as ship related matters were concerned, many boards began to exist in a world divorced from reality. Attempts to sound the alarms on this often were explained by those ashore as that the best come ashore while the rest remain at sea. Unquestionably, many of our best officers did and still do leave the sea but

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others remain. Those at sea could just as easily state that the ones who leave are those who could not do the job at sea and have the same element of truth in their statement. Often those going ashore have little or no command experience and for those who have, as time goes by, their understanding of existing circumstances declines. Attempts to persuade companies to adopt a rotation system to keep experience and knowledge fresh have never been accepted as those already ashore and established have fought any attempts to impose a creditable system.

The seventies saw further rupture in ship/shore relations. Companies began their retreat from shipping with diversification and retrenchment with new boards often comprising men who knew little about ships and those who served on them. This was the last chance of management to prove it knew its business. Regrettably, except in a few isolated cases, with OCL as an example, there was little attempt made to aggressively meet the challenges and instead we saw retreat. Morale at sea now became seriously affected. The lifestyle was changing dramatically with ships now not necessarily returning to their home ports at the end of each voyage, the stay in ports becoming in many cases measured in hours whereas before it was measured in days. Cadets were coming to sea with no idea of the life that was to meet them and with no pre-sea training to guide them. The lifestyle was changing and with that change came the shift of priorities from a way of life to doing the job for the money. Sadly this change coincided with the start of redundancies and economies.

The eighties have now seen the almost final collapse in the ship/shore relationship and with it the subsequent appalling morale at sea. Personnel departments ashore now have to act more as hiring and firing agencies, notably the latter. One famous tanker company, in possibly one of the worst examples of personnel management in any industry, after holding a referendum as to joint messing and recreation facilities in their ships and being soundly given a "no" vote both by the officers and the ratings, amazingly still went ahead with their plans with the resulting bitterness and chaos. A few years later we see the same company dismiss its entire seastaff in favour of foreign crewing agenices. Today, companies still attempting to run ships are eager to provide the excuse for flagging out by claiming crew costs are the reason they cannot compete, as if their inept management has nothing to do with their predicament, thus we find ourselves being replaced by Philippinos, Chinese, Indians in fact anyone who is the cheapest. Regrettably the same cannot happen to those ashore in the offices and boardrooms for just as those ashore seem to think that our jobs can be done just as well by cheap labour from the third world and are indifferent to our predicament, then, as their management has placed us here in the first place, it seems only fair that they should share in the results of their inefficiency.

Those companies that still continue under the UK registry look to reducing the manning on their ships as the answer to continued trading and indeed, on ships designed for this there is no question that this cannot be done and those at sea accept that. Regrettably crew reductions have been applied in an arbitrary manner regardless of the operational, technical and safety requirements leaving men at sea in the bewildering position of attempting to do their jobs under impossible circumstances with their ships deteriorating around them. It must be said that this has happened with no resistance from those of our own professions ashore in these companies, indeed they have actively supported it regardless of professional ethics or the consequences on the ships, seamen or the professions.

Random reductions in manning, redundancies, insecurity, constant cost cutting exercises, reductions in benefits and pay, flagging out of ships and employment through agencies, these, applied not as part of an overall plan of recovery, but as emergency patches on an old rubber tyre, have played the part of reducing our status and morale even further. There is no attempt to keep us abreast of company affairs, instead we are supposed to consider ourselves lucky to have employment and of course it is employment that is used as a weapon by the personnel departments.

In any review of the position today it must be said that the ship/shore relationships are, except in a few isolated cases, non existent. The seamen view those in management ashore with dislike, distrust and in many cases contempt for what they see as failure. Even the Masters, who are *de facto* the company representatives on board, are now in no position to defend company attitudes and with the collapse of morale and the resulting loss of respect can but retreat themselves. Junior officers seeing this are further determined to leave the industry as soon as possible. Of those older officers who remain, many see themselves trapped at sea in an environment they dislike, and bitterness grows. Very few now receive job satisfaction. If there is no security, how can there be satisfaction? In 1986, to find yourselves as members of an honourable profession treated with such disdain and as casual labour is a disgrace to the shipping industry and to the nation which over the years we have served so well.

THE MERCHANT NAVY AND DEFENCE

Having written so much on this subject in the past, it seems pointless repeating it. In summary the position is as follows;

The Merchant Navy in war has four strategic tasks to fulfill:

1. The Atlantic reinforcement of Europe.
2. UK/European mainland reinforcement.
3. The continuance of economic shipping.
4. The supply of STUFT (Ships taken up from trade) for the Royal Navy.

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We presently would seem to have around 800 ships including coastal shipping to distribute between these four requirements. For the Atlantic reinforcement alone NATO has identified 1000 ships each month as its requirement. The UK contribution towards this figure is around 260 with the rest being made up by the USA and other NATO countries. If we assume our deepsea fleet being around 400 to 450 ships by the end of this year, and many of these ships being bulk carriers, gas, chemical and oil tankers, in other words unsuitable for reinforcement, it is obvious that we do not have enough shipping to fulfil our obligations and that is without any contribution of the attrition rate which in some cases has been estimated as high as 50 per cent. Further, in all the assessment of ships available, no account has been taken of the geographical disposition of the ships when they are required.

The Government reply to this position is to claim that any shortfall can be made up by requisitioning ships that are British owned but flagged out, ie under Liberian and Panama flags, and ships that are registered in the dependencies such as Hong Kong and Bermuda. However the Government has not explained how they will requisition these ships. Of course owners will agree to place their ships at the disposal of the nation at a price during peace but what guarantee is there that they will do this if we find ourselves at war? We will only know we have the ships when they are in our physical possession and therefore cannot include these figures in our known resources.

Another matter of equal importance is who is going to man the merchant ships? Thirty per cent* of the UK registered shipping is foreign crewed with British officers. Are those crews really going to remain on board with mounting attrition rates and the threat of atomic weapons ever present? Is a neutral country such as India going to allow its citizens the choice? When we look at the ships the Government intends requisitioning from flag of convenience and the dependencies the situation becomes ridiculous. In most of these ships we are lucky if there are two or three British officers. In the case of Bermuda, no requirement is proposed for any British if the ship is not trading there. Are all these foreign crews going to remain in their ships? Certainly not. I doubt very much if they will allow the British officers on board to even take the ship to where the Government can requisition it and believe me if the crew says no there is nothing we can do. What about Hong Kong registry? Even at this moment shipowners there are allowed to replace their Hong Kong Chinese crews with crews from the People's Republic of China and this is on British Flag vessels!

We will need around 25,000 crew members alone to make up the shortfall of crews and even if all the ratings who have left the industry over the last 10 years volunteer to return, which is extremely unlikely, we will still be thousands short. There is no call up system for these ratings nor records of their whereabouts.

Without reference to the attrition rate, there is presently no defence equipment available for our merchant vessels nor is there any plans to provide this equipment. Arguments that the merchant ships would not be capable of using it are not valid when we are dealing with basic defensive equipment such as anti-missile chaff dispensers and torpedo decoys.

In short, not only do we not have enough ships, we do not have sufficient crews, we do not know the geographical disposition of the ships and the Government's present arrangements for supplementing both ships and crews are completely reliant on foreign workers. Finally, we cannot provide the required escorts or air cover and we do not intend providing them with any defensive equipment.

THE MASTER AND THE LAW

In all my years at sea and in command, it is debatable as to whether I am better at following the law or in circumventing it. For the following of most of the laws, rules and regulations which govern ships, the Master is ultimately responsible. In actuality, much of maritime law is an immense grey area in which the Master is liable but the company is responsible. From my earliest days as a cadet I remember being taught how to hide from the surveyors. I thought then that this was strange as these surveys were mostly being done in our interests and I still think the same way but then this was what was required by the company and who were we to argue.

More seriously in a major British management company, one not noted for its over concern for the law, I protested that a ship was in no condition to pass a loadline survey, two small details being that all the hatches leaked and most of the airpipes on deck were broken off and had been plugged with pieces of wood. These defects and many more had been reported to the company many times with no resultant repairs or spares. As I had undertaken surveys of a similar nature on behalf of Lloyds I felt that as the company insisted on the ship completing the survey I had to inform the surveyor of the situation. He noted the situation and after seeing the airpipes and the first two hatches leaking profusely refused to pass the ship and required the repairs to be carried out. My reward for attempting to follow the law was this company making a serious attempt to interfere with my next employment but then this is standard practice amongst maritime personnel departments. These are but two examples of what are countless everyday occurrences in the British merchant navy that most Masters and officers can tell of in all companies.

It is a very difficult position. Various authorities lay down the regulations and laws that we are required to follow and yet the companies require us to apply these in an ambivalent manner and as the economic crisis deepens, the ambivalence must increase. The codes on discipline are a good example. The companies today do not want the problems dealing with the unions and certainly do not want the expense of flying crew members

* Witness's correction: Fifteen per cent.

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home therefore many offences which merit action are ignored. How many prosecutions have our cruise companies carried out against passengers in the American cruise market for drug related offences? I would suggest very few if any and yet those ships are under the British Flag and are exactly the same as regards the law as a high street in the UK. Similarly, if you do not prosecute the passengers how can you prosecute the crew?

Too often, maritime laws and regulations are made with little regard for our ability to carry them out or for adequate inspection to ensure our compliance. With all companies, if there exists a good possibility of inspections with the resultant heavy fines and publicity, then the companies will be insistent on all the requirements being carried out. The US coastguard inspections are a good example of this. Where there are few or no checks, especially as regards shipboard environment regulations, then they are not so anxious. An example of this is the recent required rest periods for duty officers before the ship sails. This is a well intended regulation and much needed as far too often ships with tired officers are proceeding on the coasts in busy waters but there is no system for checking that this has been complied with. The only way in which this regulation can be complied with is to occasionally delay the ship and any Master that does that will soon find himself redundant. Why should British ships comply if Panama flag and Liberian flag vessels do not? In all fairness to British companies too often they have to comply with regulations that others ignore. And so the regulations look good on paper and the ships sail on regardless.

If for a period of time we could stop making new laws and regulations no matter how worthy and spend time on ensuring that the present ones were being complied with by all ships then time would be better spent. It would also be helpful to review the existing ones and decide which are applicable in 1986.

Until the various regulations I am supposed to comply with can be supported by an adequate system that ensures compliance which in turn will support the Master with his professional duty, the Master will have to carry on using commercial common sense in the application of regulations. Responsible companies do not break laws nor do they want to, but when so many regulations are being issued by so many countries it is almost impossible to put to sea without contravening some rule or other often without our knowledge. In common with other professions working in the commercial world, it is our job to assist the owner in making profit, not to hinder him and indeed, that fact should also be borne in mind by those departments of Government concerned with legislation on maritime affairs.

THE FUTURE

It would seem, from any viewpoint, the industry is in a mess and our mistakes have contributed to it. From the shore management we have seen complacency, lack of leadership, inefficiency and a lack of aggressive spirit. On the ship management side we have seen a desire to cling to the past, a reluctance to accept new ideas and poor application of the commercial approach required from us. From the Government disinterest in the nation's maritime health, over-legislation and an unwillingness to accept the fact that we are a commercial industry which must compete in the world marketplace to survive.

We are also a bewildered industry with no mainstream of approach for survival. Each sector has differing opinions and within those sectors there is little unity either which is probably why we fight each other. Amongst all the differing ideas there is one requirement in common and that is for Government assistance. Without doubt, if we are to encourage ship owning as a commercial enterprise in the nation some actions are certainly required by the Government but I find it difficult to understand how we can expect the taxpayer, for that is who we mean, to give money to an industry whose management cannot produce a joint plan for survival and recovery and many of whom have taken every opportunity to diversify their own money out of shipping. Assistance has been given in the past and where is that now?

Presently we know that there are too many ships on the world market. This coupled with a world depression and low freight rates has reduced the profitability of shipowning not just in this country but all the others as well. For those countries with the highest costs and without nationalised shipping this has meant lower profits and for some none at all. To cope with the decreasing profits the companies took random measures as the need required rather than any long term planning. These measures were often done in haste, without adequate thought of the consequences or consultation. Some worked and others did not but in no way can this be called planned management. Presently we wait for an upturn in world shipping which will not come for a few years yet, further, few have looked ahead to what then? We therefore have no plans for the present and none for the future.

We are not going to see the Merchant Navy of the size it has been in the past, at least in the foreseeable future. A large part of the reduction in the fleet was caused by the foreign owners moving away from the British Flag as we were once a flag of convenience. Other British owners are also moving their ships into other flags. It all seems rather pointless. Why can we not create the same conditions in the UK that these other flags offer? If the same financial advantages are offered and the foreign owners can see long term stability in the conditions of registry and in our labour market, and also are willing to give a long term commitment themselves, would we lose anything by this? From the seafaring side we must be willing to sign non strike agreements, accept reduced manning on the sensible issue of how many men required to make the ship work and not attempt to create jobs that are not required. Also a willingness to accept proportional British crew representation.

Another cost cutting exercise presently being attempted is the reduction and interference in pilotage. Apart from saying that the Government Green Paper was a very naive document and question how any committee enquiring into pilotage can do so without calling on the maritime profession through their Institute as witnesses,

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I fail to see how by further destruction of a sector of the industry we can possibly claim to be considering the future. Surely it is now time that in agreement with France, the English Channel and approaches were made a compulsory pilotage area with exemptions for European shipping. Not only would this considerably increase the safety thus lessening the risk to the environment in this area, but would increase the costs of our competitors. Shipping is not a fair business, further, Japan has done exactly this to their competitors by considerably extending their compulsory pilotage areas and exempting Japanese shipping. It is not as if Liberia or Panama are in a position to retaliate either.

The establishment of a compulsory Channel pilotage will also give a source of revenue that did not previously exist and this could be used to offset a proportion of the pilotage costs for British ships at our ports. The final benefit is in employment. All this at no cost to Government.

Another long overdue requirement is the licensing of all private boats. It is rather ridiculous that cars have to be licensed but not boats. Yet these private boats make use, possibly more so than commercial shipping, of the lights, buoyage and navigation facilities on our coast without paying one penny towards this while the commercial shipowner subsidises them. Whether this is done on a sliding scale based on size or possibly more simply a set fee, a yearly boat licence will provide considerable revenue that again can be used to lower the light dues payable by British ships. This is not at all an unreasonable suggestion as at least those who use the facilities pay for them. Carrying this further it is way past time that we adopted a yearly inspection of these boats similar to the MOT tests for cars and as in many countries a certificate standard for those who use them. All this with the resultant employment benefits and with no cost to Government.

Some years ago I wrote a paper on future manning and suggested ships with 15 to 17 crew which appeared fairly radical at the time. While other countries have operated such ships for some years now, we are just beginning to accept this concept. Regrettably once again, because of our traditional approach to shipping we are now behind other countries in future ship thought. What is now required is a major leap forward in ship design. Government funding is required urgently for future ship design and development projects. After all, a considerable amount is given to the aerospace industry for this purpose while shipping receives a pittance in comparison. It is not as if major new steps forward are new in the transport industry as we have prime examples in Concorde. At least our ships will prove themselves so why not give shipping the same chance?

If we could now initiate the design of advanced ocean going ships designed for the 6 to 8 crew operation and at the same time prepare the changes in legislation required for their operation under the British flag, offer encouragement to owners present and new to operate them, it could well give us the breathing space we need and attract others to our flag. I assure you that the operation of such ships is perfectly feasible and safe with equipment that is available today and the ships could start building tomorrow with the right funding. Our maritime legislation is the result of hundreds of years of accumulated history that we seem to think is important but other countries do not and they are going ahead while we deliberate. Our attitudes to shipping must drastically change. If the airline industry had to operate under similar restrictions it is doubtful if any aircraft would have ever flown.

Equally those at sea must accept the fact that we are now in a new age. Smaller but still comfortable accomodation, pre packed meals, no cooks or stewards, an all officered ship with all capable and willing to use their hands as well as their heads when required for securing or repairs is now the only way we can compete. Sadly I say this at a time when the officers union is desperately fighting to retain radio officers on ships when all at sea know that with the modern equipment available, the radio officer is needed as much as a sword.

In following this path it must be accepted that we, as the seagoing officers, will become ship drivers similar to the airline pilot and in all honesty and with regret I feel that this is the way we must go. We cannot compete on crew costs with the nations that are pouring their surplus labour onto the seas whilst expecting a reasonable salary by European standards. That is an inescapable fact and shippers will continue to ship their cargo at the cheapest rate.

If we do not design, build and operate such ships, others will and by the year 2000 we will be wondering why we did not. It is really the last chance to lead again.

18 *October* 1986

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Examination of Witness

CAPTAIN C M R LLOYD, called in and examined.

Mr Fry

251. Captain Lloyd, can I first of all welcome you here on behalf of the Committee and thank you for the memorandum you have submitted. Secondly, I must apologise for our normal Chairman Mr Bagier who has had to leave a little early, but it is because we feel this whole inquiry is so fascinating that we have tended to overrun. I hope you will accept the apology. We would like to ask you a certain number of questions but one particular point in your evidence struck me when you actually said, "Why when we can offer the same standard, can we not create the same conditions in the United Kingdom that these other flags offer?" Is it your own honest opinion that we are able to create the same conditions, particularly those which foreign shipowners have found so attractive in transferring their allegiance to other countries?

(Captain Lloyd) In the past, if we go back to the 1960s, we did have a regime in this country that *de facto* made the United Kingdom Registry a flag of convenience. The decline of the merchant fleet, if you take the figures from 1975 to now, is really an artificial decline because part of that decline was inevitable. It was inevitable because we joined the Common Market; it was inevitable because of North Sea gas and oil, and it was inevitable because of the world overtonnaging. We did have these shipowners, foreign owners, who believed in and fully enjoyed registering their ships with us. Indeed, we still do have quite a number but many of them have left us. Now, they must have left us for reasons. If we could find out the actual reasons why they have left the British flag and analyse those, sit down and see if we could attract them back, perhaps then we would know better what to do to get these foreign owners back because I do believe the foreign owners have always been a very important part of the UK fleet.

252. If I can put it to you that the obvious reasons for decline in shipping worldwide are too many ships to carry the available trade and that it is possible to operate a ship under another flag much cheaper than it is possible to operate under the British flag, is that not a fairly obvious reason why many people transferred their allegiance?

(Captain Lloyd) Yes, it is indeed. I stated that.

253. Agreed. In those circumstances, are you suggesting that we would be in a position to get the same kinds of costings for our ships or British-owned ships as is possible under many of the flags of convenience?

(Captain Lloyd) If we instituted certain ideas on our ships, then possibly so in costing, but that can only be achieved by accepting modern technology and a reduction in the manning on our ships.

254. That does bring me on to the point about advanced technology. What you say is "What is now required is a major leap forward in ship design". I wonder whether to start with, you could elaborate on the nature of the leap you have in mind. Secondly, can I ask you if you think the British shipping industry is at the moment in a position to take advantage of such a design if it is indeed realised.

(Captain Lloyd) On the first question dealing with this, it is not something I like suggesting, believe me. I am looking at something here for our survival. It is all very well talking in terms of scrapping ships but that is a long term business which can take effect maybe in ten years. We have to survive for the short term of ten years and compete. Regrettably I would start by suggesting now we have to look at the ten-man ship. I know possibly I am going to be in a lot of conflict with my colleagues in making that suggestion. In 1979 I wrote a paper on the 17-man ship which was printed by our Institute and I ran into a lot of problems then. We did not do it, but Taiwan did. If we can look at what is available to us and we look at our legislation—and I am not saying we reduce safety because, indeed, many ships today with large crews could well be called unsafe; you could argue also in the cause of safety the less people on board, the less there are to drown—if we could consider a ship in terms of the people on board doing the essential maintenance for the movement of that ship and driving that ship, I believe we would be looking at a considerably reduced crew. If at the same time unions could come together, discuss the issues with the owners—which rarely seems to happen; it rarely seems that we get any agreements between anybody—I believe it is fully feasible to consider the ten-man ship as an operating unit. We have to change ideas, like the insistence on having a lookout on the bridge for 24 hours a day with the officer of the watch. This is unnecessary. I am sitting here with two hats; I am a member of a number of institutes and working on behalf of the British Merchant Navy, although I represent myself. I am also with the opposition to an extent; I work for a major international company which sales under the Liberian, Panamanian and Hong Kong flags with international crews. I see what goes on under other flags. We seem to be maintaining an historical tradition of excellence. That is jolly good provided the rest of the world is also willing to agree that our standards should also be adopted. The trouble is that they do not; they look at their shipping as an industry and adopt rules so that that industry can survive. We are stuck with hundreds of years of tradition and it seems as if we cannot move away from it. We really have to look at the crewing and manning of ships. I am quite certain, and am willing to state, that a 10-man ship is safe to operate; it certainly would be efficient. If safety is the criterion then I am certain that between our various institutes and our naval architects we can come up with a 10-man ship.

Mr King

255. You are talking of a new type of ship?

(Captain Lloyd) I believe we have the technology now to start building such a ship tomorrow if the legislation allowed it.

256. You could not use existing ships and de-man them?

(Captain Lloyd) I have seen so many British shipowners go the reduced manning way; they have

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[*Mr King Contd.*]

taken a ship designed for 30 men and reduced it to 20, putting the crew on board into the terrible position of not being able to do their jobs properly. The profits are still falling and the ship becomes neglected; it does not work. If you want ships with reduced crews you have to build ships for those reduced crews.

Mr Bidwell

257. In a throw-away line you talked of not having lookouts round the clock. How do you do that?

(Captain Lloyd) By not having them; other ships do not have them.

258. You are suggesting we should dispense with them?

(Captain Lloyd) Yes.

259. How do you dispense with it and retain safety and prevent ship collisions?

(Captain Lloyd) We have radar; we have had radar at sea for a long time. There is no way that a seaman on the bridge of a ship can see a ship before the officer knows it is coming over the horizon, because he has his radar. Too often we hear the argument: what if the officer has a heart attack? This is super stuff, because nobody ever says: What if a coach driver on the M1 has a heart attack? A coach does not have dual controls, and more people get killed in coaches than in ship collisions. If there were a dead man's button on the bridge and the officer had to press it every 15 minutes, at least you would know he was awake. It we have a situation whereby there is a cabin built on to the bridge and one seaman must sleep there each evening—he can do it in rotation—then you have a seaman who is instantly on call to the officer of the watch. For heaven's sake, we have radar with a range of 120 miles. I cannot see 120 miles.*

260. Radar that can wake him up by way of an alarm?

(Captain Lloyd) Yes.

261. To say that another vessel is around?

(Captain Lloyd) Yes. You can have radar which sounds an alarm and will alter course itself if nobody else alters course. This technology is with us today.

Mr Ross

262. Surely, they are doing it in the Royal Navy?

(Captain Lloyd) Yes; but the Royal Navy tend to put 20 people on the bridge.

263. When I was in the Navy nobody was on the bridge at all; they were all in the middle of the ship?

(Captain Lloyd) Yes.

Mr Fry

264. Last week we had the benefit of hearing representatives of the NUS. One of the points they made, as one would expect, was that one needed a certain number of highly trained people on board, not for the day-to-day running of the ship, but for the exceptional circumstances which can arise: for example, ships have been known to catch fire, and with 10 men on board it might be difficult to cope with a major fire. But you are saying that is looking at it from the point of view of ships as they are now; you are looking to the time when ships are designed to be almost man-free in operation?

(Captain Lloyd) Yes. I also remember that the NUS said safety seemed to be a big issue in relation to foreign crews. On the ships I have sailed in we have fire drills the same as anybody else, and the business about the Liberian flag or the Panamanian flag being less good is nonsense. It depends on the particular case. I can assure you that Liberian standards are higher than those of this country, and the inspections and surveys you have to go through as the master of a Liberian ship are tougher than anything you get from Lloyds.

265. Are you saying that some of the criticisms made of the so-called flags of convenience are unfounded?

(Captain Lloyd) Yes, absolutely; it is entirely dependent on the management. If the management wants a good ship it gets a good ship. My own company is an example. We have to have two safety meetings a month on board the ship. We have a safety officer who comes to me and tells me if I have not done something which should be done. We lower the boats every week at the embarcation deck, which is different from the British Merchant Navy. We have a boat drill every week; the British Merchant Navy does not. I can go on like this. On the question of safety, we come to crewing. Without doubt, if you turn to any British officer and say. "What crew do you want to have with you if you have problems?" he will say he wants a British crew because when you do not have problems by golly they can be a damn nuisance but when things get hairy and dicey they can do the job and pull out the stops. If we look at many Far Eastern ships, coming into our waters, I am willing to bet anybody that the level and standard of leadership on ships is pretty low by our standards. The level of officer training can be pretty appalling. If you do not lead men properly they are not going to do their jobs properly. Furthermore, in any real emergency, with many of these foreign crews you can have your fire parties set up and you may have done your exercises. But when a fire does break out they are the first in the boats and it is the British officers who end up fighting the fire. Give me a ship with 10 good men on board and you raise the standard, not lower it.

Mr Bidwell

266. How does language figure in this?

(Captain Lloyd) Communication can be extremely difficult with some foreign crews. To give an example, quite often among a Korean crew you will have only one man who can speak English. A better example is the PRC (People's Republic of China) crews who are now going onto British flag ships. How they fit in with the defence effort heaven only knows. These people are supposed to have been trained by the People's Republic of China, but, frankly, they are poorly trained and skilled; they do not have a clue about lowering boats or about derricks; they have to be taught on the ship as it is sailing. There is usually one man with them who is an officer. Now, this chap will speak English to a certain extent and he is your only communication with the crew. There is still a bit of a problem. You can tell him certain things, you have not got a clue what he is telling them.

* *Note by witness:* Radar has a theoretical range of 120 miles, but practical range at sea for observation of surface craft is approximately 30 miles.

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Mr Ross

267. Can I ask about your own ship? You said it is Liberian registered, but I am interested in who sets the rules. Do the Liberian authorities set the rules, or does the ship's owner, that are carried out by yourself as captain and the officers of the ship?

(Captain Lloyd) The owners of the company are Hong Kong Chinese. It is a major shipping company, one of the biggest in the world. Some of the ships are registered in Hong Kong, but some are registered in Liberia, each as a separate company. The crew can be changed. I think some of our ships have been through different nationalities of crews in the last five or six years, several depending on prevailing labour costs. Crew duties do vary according to their abilities. Take a 150,000-tonner bulk carrier, that may have on deck six men and those six men with sprayguns can paint that ship without a problem. Now, they are not any more expected to be first class seamen. On our British flag ships we keep on wanting this first-class seaman, we are getting him, yes, but some companies do not care. They put on six people who might be able to do something, and off the ship sails.

Mr Bevan

268. I would like to follow this line up a bit, it is very interesting, Captain Lloyd. I appreciate some of the things you are saying. Could I ask you this—I think you are making an undoubted contribution—what persuaded you to volunteer your services to this Committee to make that contribution?

(Captain Lloyd) I have read and heard so much of what was being said by groups, unions, things like that, and when talking to many of my colleagues at sea, both those serving on UK flag ships and those on foreign flag ships, it seemed to me what was being said was not what we were thinking. From that I sat down and wrote out some of the things I have written, which I do not necessarily agree with, about the attitude to management, the attitude of officers and men to the management. I understand a little bit more about management problems but they do not. That does not mean to say I am anything special. I have just had to read the stuff. Purely because of that, I decided to submit this. I have consulted now nearly a hundred master mariners and officers. Indeed, I had the unanimous agreement at a luncheon recently of 42 masters.

269. Did your Chinese owners know of this?

(Captain Lloyd) They have heard about it, yes. But they are quite good because we operate a different management structure and system from that the UK management does.

270. But this different system, amongst other things, surely involves two principles regarding manpower. One is that you do not need the standard of training and seamanship. The second is that you do not need as many crew. Thirdly you do not need them carrying out the same functions that traditional naval seamanship has been required for?

(Captain Lloyd) It could be said a little bit that way.

271. Am I not right—do correct me, you are a full time master mariner and so forth—was not one of the reasons for one of the most severe impacts in the Channel the fact of a large tanker under a flag of convenience steaming up the English Channel without a watch on board, which caused one of the biggest disasters recently?

(Captain Lloyd) Undoubtedly. I could possibly say there are a lot of other ships sailing around today where the watch of the ship is totally inadequate because the officer's certification standard is totally inadequate.

272. I am asking about that particular matter?

(Captain Lloyd) The one tanker?

273. Yes.

(Captain Lloyd) Could you give the name of the tanker?

274. Was it the Torrey——The Amoco Cadiz?

(Captain Lloyd) Yes, all right. What did the inquiry on it state? Did it state the watch on the bridge was totally inadequate?

275. Yes, as far as I recall.

(Captain Lloyd) That was what the inquiry said, therefore it was so. I cannot see why——

276. So there might be dangers in the principle which you are advocating in certain circumstances because, to be fair to you, you did not use the phrase that there should be no watch, you said the watch should not be on the bridge 24 hours a day.

(Captain Lloyd) If the officer is well qualified, that is the criterion. If the man on the bridge is well qualified—accidents will still happen.

277. *Not used.*

278. If I might go on from this point, I want seriously to examine some of the theses you are putting forward as being able to help because you are representing a form of multi-nationalism in its extreme——

(Captain Lloyd) Yes.

279. ——as being a reasonable method to pursue in this context?

(Captain Lloyd) No.

280. Are you not, in fact, going further than that and saying that the company which you happen to work for at the moment is one which separates its controlling companies under flags of convenience and, if so, for what reason? Is it to limit the liability?

(Captain Lloyd) I would say limitation of liability possibly, tax reasons possibly, the ability of having other crews apart from Hong Kong Chinese, there are a number of reasons why companies do this.

281. Some of them thoroughly undesirable possibly?

(Captain Lloyd) Please understand me. If you said to me, what do I want—a well found ship, properly manned, adequately manned with British officers and British seamen under the British flag, that is what I want. I cannot have that today, shipping is international. I cannot have it, therefore I have to compete if I am going to survive as a master. If any of us are going to survive we have to compete internationally, that is the point.

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[*Mr Bevan Contd.*]

Therefore, I am advocating the ten-man ship on that basis of competition. If you could persuade the other countries of the world to come up in their standards and adequately man their ships and all these things, I would be the happiest man alive, but you are not going to do that. If you cannot do it—— I will give you just one example with the Iranian Government. We were operating in the Iranian Merchant Navy, that was at the time when there was the oil crisis and I always remember that we never had a problem with the Iranian flag in any port because no government dared touch us. All you had to say was, "I am going to ring the Iranian Embassy" and everyone ran off the ship as fast as they could. We ran a ship there with no seaman knowing anything about his job. When we sailed from the port of Khorramshar officers' wives would steer the ship down the river because nobody else on board could do so. These were modern German-built ships doing 24 knots. On the way—hopefully—to Europe we could teach them enough to get the ship secured at the other end. Derricks used to fall down occasionally, but the Iranian Government did not mind, it paid, we were not operating commercially, the Shah wanted a merchant navy *de facto*, we gave him one. He wanted British officers, we were there. But when it came to the commercial aspect, no one wondered much about the commercial side, we were competing there and taking cargos. Up to then P & O ships had been taking them to the Gulf.

282. You were running, would you not agree, what might in effect be held to be a gunboat without the guns?

(Captain Lloyd) Yes, I think we were on one or two occasions.

Mr Bevan: I will not comment, but I would thank you very much indeed for having been so explicit in the evidence which is now on record.

Mr Dicks

283. We have had evidence given to us virtually saying that protection and subsidy both to the merchant fleet and to shipbuilders is really the only way of securing a future for a reduced merchant fleet. What is your view of that approach and what relevance do you think it has, bearing in mind what you have said?

(Captain Lloyd) Please bear in mind I am just a simple sailor.

284. Sometimes a simple sailor—put it that way—gets to the heart of it where all the so-called experts miss the point?

(Captain Lloyd) I cannot see how protection can be applied. You see, if you look at it and say protection, we can probably protect our exports, put them in British ships, but I think our exports have fallen quite a lot, and if we then want to bring something from the other end to this country, those countries retaliate. The whole basis of what we are doing has gone. The shipping industry is also all about subsidies. Whom do we subsidise? I think we did subsidise in the 1960s. The answer is that the profits made in the 1960s and 1970s were not reinvested by companies into modern ships, good ships that we can compete with. Instead, this money was invested in office blocks. We are expected, as taxpayers, because that is what we are talking about, to give money to people who have taken their money out of shipping. I fail to see how this "protection" idea can work. I would rather look at better management, which is something we have not heard a lot about. I can assure you that my company operates safe ships commercially with excellent management; we are surviving and making a profit, though not a great deal. We have a very good system of co-operation between those at sea on ships and those in the office on shore. One of the reasons I moved from British shipping to the international sector was the poor management I had worked under in the British sector. I was becoming more and more expected to do nothing as the master of my ship. On one ship I worked on I had to send a cable to see if I could get permission to buy a kettle; we had only one left, and at that time the company was advertising itself as one of the most go-ahead companies in Europe. In the international sector people said, "Look, we are appointing you because you have the necessary training and intelligence and we intend to use it. You get a ship and you run it and we will support you in your decisions. If you make mistakes and they are honest ones properly made in our interests we will point them out to you." That was how we started, and it works; it works because you have people at sea interested in the company and you have people ashore interested in the company, and together you are working as an efficient unit. Under the British flag I believe we are finding more and more that the people at sea are becoming divorced from the management of the companies. The leadership of the companies has failed because it has not been able to express itself properly to the people at sea. Whether that is a failure of the boards or not I do not know. I have always been quite critical of the personnel arrangements in the British shipping industry. Quite often the boards have wished to communicate things but the personnel department has been made up of second-rate people; it is a case of, "Well, here is Jim Bloggs; we have to have him as a director because he is the son of Joe Bloggs." Personnel is a dumping ground for people, and I think it has reflected itself in the failure of shipping companies to communicate properly with those at sea, and the divisions have grown to the extent where it is affecting the efficiency of our ships. If the officers at sea do not trust management any more and do not believe in or support management, how on earth can you have a proper, efficient unit operating?

Mr Fry

285. You have talked about improved technology, and I think you compare ships' captains to airline pilots, ie drivers of ships rather than executive representatives of shipping companies, but would that not actually increase the role of shore management and also increase the tensions already there?

(Captain Lloyd) No, not the tensions because those at sea would know where they stood. If you read my section on education, you will see the dilemma facing us. We are told we are in an industry and we are trained to be supposedly part of an industry, and yet we are not in fact trained to be part of it. A young man with university qualifications (he might not have a degree) chooses the sea; he expects his intelligence and brain to be used. He goes to sea and finds that it is not used; in other words, we have recruited him rather falsely. If we encourage somebody to go to sea and say, "Look, you are being recruited to drive ships, not to take part in management.

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[*Mr Fry Contd.*]

You drive ships, and just go and pick up your bags and go home or go ski-ing", then he knows from the very beginning what his job is. It is only with increasing technology that we will still need intelligent officers because they will be expected to look after sophisticated equipment and use it properly. It is not a question of not having the technology; it is how it is used, so officers will still need to be intelligent. Again, it is not the way I want to go; it is the way we have to go. If you are to run a ship and make profits you have to match the costs at which a foreign company is running its ship; if you do not, that company will take cargo from the British ship.

286. You have given your views on education and training. You were present last week, I believe, when we took evidence from the International Association of Navigation Schools. You advocate the establishment of a national nautical college which is directly contrary to the geographical imperative of local interests which demand, according to IANS, a spread of colleges round the country. Do you think these local interests should be overridden in order to establish one clear national priority?

(Captain Lloyd) Can I state that the reason why I suggested the establishment of a national college was, I suppose, the idea that we would have more control over what was done and said there as a profession rather than college lecturers dictating to the profession what it should do. I appreciate the geographical considerations, and I am quite willing to accept them, possibly. We have a situation where boys are not being recruited into the industry in many cases because the shipping companies do not want them. Without doubt, there is no way that shipping companies are going to pay for the education of our marine officers any more. I do not believe they ever should have had to pay for them. This was always, as a maritime nation, a state obligation in my view. However, if, as is already happening, we have a new approach to the entry of our seamen, officers and engineering officers and they do not actually join shipping companies as cadets but are sponsored by the Marine Society by way of grant paid by government to the Marine Society, and the Marine Society then sends those cadets to any college of its choice, that would be a check on those colleges and on how they operated. Those cadets would be appointed by the Marine Society to ships which presently do not have cadets, and by sending them there at least we are ensuring that more cadets are being trained than at present. The Marine Society will be in charge of their administration whilst they are cadets and the companies will only be responsible for paying their wages whilst on board. This is a novel suggestion, but I suggest we look at it quite seriously. I feel quite certain that the Marine Society would do that if they were asked.

287. May I say I find it very interesting. Similarly, I found your attitude towards management interesting. I find it slightly surprising that you appear to regret the passing of traditional training methods to prepare cadets for entry into a service and not an industry?

(Captain Lloyd) Yes.

288. Everything else you have said appears to suggest we ought to treat it like an industry and take industrial-type decisions. I find the two viewpoints contrasting?

(Captain Lloyd) I am sure we are allowed regret at the passing of something. Although some officers of the Royal Navy regret the passing of the 6-inch gun, it does not mean to say they do not support the modern frigate. I regret the passing of it.

289. You think it should be treated as an industry?

(Captain Lloyd) Yes, although in time of war you will undoubtedly want a fourth service again.

290. On safety, you are very critical of the classification societies and the surveys for which they are responsible. Can you give us some ideas on how the failings of the present system might be rectified?

(Captain Lloyd) Brother! The rectification, surely, can come if we stop them competing with each other. The insuring and classification of ships is a commercial business. In my own sphere, seeing things being passed on board ships, as a master I am often appalled at what classification societies do, and I am also appalled at what is insured. If you look at it, it is quite possible today to take a ship that is worth £7 million and insure it for £45 million. It is a great temptation to wreck the damned thing, is it not? It is possible to do that today. Surely that is wrong. But is is not being investigated, It is still possible to take on a ship under the British flag and for six months have nobody go near it and examine it, so you can take any old wreck under the British flag for six months and that can be registered in London. So you have to be careful about what is sailing under what flag as well. Bear that in mind. The classification societies to me are not the insurers because the insurers are businessmen; they insure things, you pay the premiums, why not? But when things are passed on board ships this is a worry. I think that we have to have a greater control internationally on what is passed and what is not passed and bring these classification societies and their surveyors into line. It is a question of the employment of individual surveyors by classification societies who have no obligation to any insurer or owner or classification society. I have always wanted to know who is the chap in London in the Lloyd's Classification, when a surveyor comes on a ship and details something is to be done to make that ship comply with its classification and then the shipowner's people go away and make a phone call and an hour later the surveyor who has done his job is called away on the phone to someone in London and comes back and changes his entire specification. These things do happen. It is not necessarily my company because, I would not stay with them if I did not admire their attitude to shipping and safety, but these things are happening and I do not think you can say it is happening in the foreign sector and point to them with an accusing finger, because it probably happens just as much with the British flag. Each one is competing and there is your problem. If they are competing they want the business. If I have a fleet of 20 ships, when they start being awkward with me the first thing I do is decide to go somewhere else.

291. You particularly praise the US Coastguard inspections?

(Captain Lloyd) Yes.

292. Would you like a similar system or comparable system to that of the US Coastguard to be produced in this country or the EEC generally?

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[*Mr Fry Contd.*]

(Captain Lloyd) My golly, that is a hot one, is it not, upsetting the National Lifeboat Institution and everything.

293. You have been pretty free in your ideas so far, so why stop?

(Captain Lloyd) We have port state control at the moment. Look, it is a move in the right direction. It is the same as the merchant navy reserve thing. I do not agree with all of it but at least it is a move in the right direction, somebody trying to do something and therefore should be praised rather than shot down. If we had the US Coastguard, one, it is going to cost you a fortune, whichever government is in power, to run it. We have the Royal National Lifeboat Institution doing a lot of the work for free at the moment. I do think, all right, if we were back in the 1960s flush with money, do anything you like—I do not think at the moment it could be done and I think that the Royal Navy might even object because a lot of the work they do on our coasts where they train their young officers would instantly revert to that coastguard and we would end up with the Coastguard as a third-rate navy. I just do not see it. I see it as something that, if possible, would be jolly nice one day, if we could afford to set it up properly, but I do not see it now as helping our situation over the next five or ten years.

294. Thank you very much, Captain, for a number of very stimulating ideas. I am sure we shall bear what you had to say both orally and in writing very much in mind when we come to consider our report.

(Captain Lloyd) Thank you. I would like just to say one closing word. I did mention in my paper light dues and the fact that at the moment our commercial shipping is having to bear the cost of the light dues, while all the privately owned craft on our coast are not paying one penny towards this. If you assume that we could get for a £100 licence from all those private craft £50 million coming in and you could use that to offset the light dues paid by British flag vessels in our ports, this is a way of helping that does not cost the Government a penny. Similarly with the compulsory pilotage of the Channel; Japan has made their coast compulsory for all ships except their own and theirs are exempted. I honestly see no reason why we cannot together with France and our European partners do the same in the Channel, and then give all our European Common Market shipping exemptions for their ships. If you look at protectionism in that sense, where we are doing really nothing that other countries have not done, and furthermore it is not costing the Government one penny, I would have thought that would have appealed a lot to government.

Mr Fry: Time has gone on. You are not tempting us to discuss pilotage again—the Committee had a lengthy and very detailed study of that. Thank you very much indeed, Captain Lloyd.

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HOUSE OF COMMONS

TRANSPORT COMMITTEE

Session 1986–87

DECLINE IN THE UK REGISTERED MERCHANT FLEET

MINUTES OF EVIDENCE

Tuesday 24 February 1987

Captain L A Holder

British Shippers Council

Dr A H McQuillan, Mr A R A Cooper and Mr O H Thomas

Ordered by The House of Commons *to be printed*
24 February 1987

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TUESDAY 24 FEBRUARY 1987

Members present:

Mr David Gilroy Bevan
Mr Sydney Bidwell
Mr Terry Dicks
Mr Den Dover
Mr Peter Fry
Mr David Marshall
Mr Stephen Ross

In the absence of the Chairman, Mr Peter Fry was called to the Chair

Memorandum submitted by Captain L A Holder Extra Master, M Phil, FNI, FRIN

THE DECLINE IN THE UK REGISTERED MERCHANT FLEET

TECHNOLOGY AND MANNING FOR SAFE SHIP OPERATIONS IN THE 1990's

SUMMARY

This paper highlights and explains major points concerning the national research project "Technology and Manning for Safe Ship Operations in the 1990's". The study commenced in 1985 and has just been completed.

Sponsored by the Department of Transport and the maritime education authorities, the study has received full co-operation and encouragement from shipowners, seafarers and their organisations. The leaders of the research team have considerable experience in their respective fields and are recognised internationally.

The study included direct impartial observations on board modern vessels and used objective methods of analysis. It has drawn upon the expert knowledge of shipowners and of designers and users of high technology systems.

The recommendations endeavour to ensure the optimum use of new technology and skilled personnel. In becoming part of a national action plan, they would assist in improving the competitiveness of UK flag shipping, but they will not be fully effective without new investment and other commercial, industrial and fiscal measures.

INTRODUCTION

As members are aware, I have been the team leader, with Professor David Moreby, of the Technology and Manning project. It is the first comprehensive attempt to address the complex inter-relationship between manning, the training of seafarers and the introduction of new technology in the marine industry.

Others with specialist knowledge will be better able than myself to answer specific queries on commercial, industrial and fiscal matters, which are a complementary part of your investigations.

However, I believe that the T & M report is important, as it shows how to improve the contribution which skilled manpower and reliable new technology can make to the competitiveness of the UK fleet.

THE TECHNOLOGY AND MANNING STUDY

The decline in the UK fleet is recognised as being a national problem and the research team was given the full support of both sides of industry, and the full co-operation of the seafarers in the ships in which team members sailed. The study was also assisted by a positive attitude from the college associations and professional bodies. It included open discussions with designers and operations managers about the technology likely to be implemented in the next decade. The T & M study forms an element of the "UK Efficient Ship Programme", which has a complementary main theme, concentrating on good design and quality assurance in ships and equipment.

The shipowners and seafarers' organisations are already aware of the methods and detailed content of the research, having made a very valuable contribution to the study, through an Advisory Committee. The final summary, conclusions and suggestions for implementation are at present being vetted by the sponsoring Department, and will shortly be the subject of discussions with all sections of industry.

MANPOWER, TECHNOLOGY AND EFFICIENCY

Six very relevant points emerged from data gathered during structured interviews with shipowners and seafarers' organisations on investment policy and attitudes to the introduction of new technology:—

1. All wished to see the competitiveness of the UK fleet improved.
2. All were interested in the potential of automation and higher productivity for the manpower on board.

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3. All agreed that without other more direct financial measures, the savings which could be achieved through automation and improved efficiency of manpower would not halt the decline in the UK flag registry.
4. There were some ship types and trades, where the work requires large numbers of people with low skills (e.g. for cleaning and hold preparation), where it would be extremely difficult for UK flag operators with UK crews to compete. Investment is therefore likely to be better placed in "high technology" operations.
5. In the past, those shipowners who have trained large numbers of personnel, have helped the careers of people who subsequently entered marine management, pilotage, surveying, harbour authorities, maritime law and insurance, lecturing, etc.
6. As the industry has contracted many seafarers have found employment in foreign or "open" registry fleets, often with the help of their UK employers.

INTRODUCTION OF NEW TECHNOLOGY WHEN ENTERING A PERIOD OF CONTRACTION

More reliable automation systems have allowed very significant progress towards higher productivity, through automatic steering, periodically unmanned machinery spaces, remote control of pumping arrangements etc. The trades in which UK operators were engaged had tended to be well established and relatively slow to change. As they invested in new ships, the equipment was up-dated in stages. Shipowner raise their seastaff for the way in which they have dealt with problems, not only in the ships, but also in more recent changes of trade.

Traditional training was, with a few exceptions, adequate to allow seafarers to keep themselves abreast of the incremental changes. During this period, there has been very little demand, either from shipowners or seafarers, for changes in training or certification.

As the number of people on board has continued to reduce, those remaining have become a closer and more mutually supportive team

During the peak period and subsequent decline in the fleet, we can summarise the relationship between technology and manning as follows:—

7. UK owners and seafarers have adopted a pragmatic and largely successful incremental approach to changes in technology and revision of working practices. They have used the skills of traditionally trained personnel to advantage.

FUTURE INFLUENCE OF TECHNOLOGY AND MANNING ON THE UK FLEET

At present, UK flag shipping lacks confidence in its future. There is very little investment, and young people are reluctant to commit a major part of their working lives to an industry which they see as being in relentless decline. The full benefits of new technology cannot be realised without investment in ships and people.

Your Select Committee is one of a number of signs emerging which show that the UK wishes to retain some long-term presence in shipping and the picture may just be starting to change. The T & M report acknowledges that we are never likely to return to the stability of former worldwide trading patterns. There will be a much greater focus on the short sea and European sectors of the industry. The market is likely to be more volatile and the successful entrepreneur is likely to be "flexible". That is, he will have an acute awareness of the market and great acumen in purchasing and disposing of vessels and in entering into or withdrawing from particular trades. Coupled with this is the need for ability to implement suitable manpower policies, and operate with very efficient shipboard management regimes.

Rapid trading decisions will be completely out of step with the long timescales needed for training, and such owners will probably have to resort to buying a crew "off the shelf" in the international market.

If the current trend towards higher automation continues, reliable and properly designed ships will be available, which can be operated by even fewer people. In order to be competitive, UK shipowners indicate that they would wish to invest in this "state of the art" automation. The seafarers' organisations support moves to make UK flag ships more competitive, but understandably place great emphasis on the parallel requirement to optimise employment prospects and conditions for their members.

With regard to manning, greater technical support between members of the shipboard team will be required. When this happens, it is unrealistic to expect sudden change, for example, a radio officer or engineer officer being required to keep a bridge watch, or a deck officer to assist in repairing a major engine breakdown. To date, each discipline has not been given the proper theoretical and practical training to allow such supportive or changed roles, and the certification system has not catered for them

The ability of UK seafarers to take advantage of employment opportunities in such ships will depend on their flexibility. "Flexibility" is often regarded as a matter of attitude, but in this case, it is very much related to skills and knowledge. There is a very long lead-time in training skilled people, and timescales are very important.

In looking forward, timescales for investment predominate:—

8. The training of seafarers requires a ten to fifteen year perspective, and failure to address these longer term perspectives may mean that people from the UK will not be in a position to benefit from employment opportunities in highly automated vessels.
9. Shipowners need to be able to respond quickly to changes in the market and are therefore planning with a necessarily short perspective, typically two to five years.

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10. To take full advantage of the opportunities afforded by new technology, investment needs to be made, both in new ships and new training programmes.

TECHNOLOGY AND MANNING—ACTION NEEDED FOR THE UK FLAG FLEET

If the UK has decided it no longer requires a merchant fleet or trained seafarers to man it, present ships and the present recruitment policies are probably adequate and any temporary shortages could be met by employing crew members from overseas.

If the UK decides it does wish to retain a presence in merchant shipping, it needs to resume investment in new and efficient ships and new entrant personnel. If the shipowners wish to take full advantage of efficient new designs, there will be a step-function in the training needs and a finite lead-time to implementation.

11. The Technology and Manning recommendations should be implemented. All the participants have co-operated to try to ensure that UK manpower for the 1990's matches the efficiency of UK ships in the 1990's.

There are various suggestions made in the report, which it is hoped will result in new initiatives in manning, training and certification. A suggestion which is already being implemented through the College Associations, is the re-structuring of the education programme, to take full advantage of the national educational provision.

12. The content of all training programmes should now be revised and updated to take account of the shipboard observations of the T & M team.

The final part of the T & M project was a programme of consultations in Japan, Norway, West Germany and the Netherlands. They face similar problems in the decline of their national flag fleets. This part of the report contains observations on the similarities and differences of their technology and manning problems and proposed solutions. Each of the countries visited was taking some positive national steps to overcome the shortage of places for practical seagoing training, particularly for navigational elements of training for entrants entering a dual-qualification route.

13. The educational provision in UK colleges is still adequate at the present time to meet the shore-based training needs for new entrants, but recruitment and seatraining need substantial investment.

ADDITIONAL ACTION REQUIRED BEYOND THE SCOPE OF THE T & M STUDY

Beyond the direct brief of manning and training for the UK flag fleet, the T & M report recognises two further impending crises or opportunities for action, depending on the timescale of any responses.

The Merchant Navy has hitherto provided experienced seafarers for the "maritime infrastructure" (i.e. harbourmasters, safety surveyors, pilots, lecturers, consultants etc.).

The "open registry" and foreign flag fleets are currently a major source of employment for trained British seafarers.

14. A policy is required with regard to training future entrants for the maritime infrastructure and also on whether to provide basic training to allow UK school-leavers to seek employment in the "open registry" fleets.

CONCLUSION

It is to be hoped that the commercial, industrial and fiscal problems involved in the decline of the UK registered fleet can be identified and positive action taken to remedy them.

With respect to the T & M project, I thank the team members, seafarers, shipowners, unions, Government Departments, colleges, manufacturers, shipbuilders and others, who have given so much help in providing advice and data for the report. I hope that the same spirit of co-operation will be evident when both sides of industry have debated it and that it will form part of a national action plan.

I also thank your committee for the opportunity to present this account of our research, and hope that we will have your support in taking it through to implementation.

15 February 1987

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Examination of Witness

CAPTAIN L A HOLDER called in and examined.

Mr Fry

295. Captain Holder, may I first apologise for the absence of Mr Bagier, the normal Chairman of the Committee, who has unavoidably been detained elsewhere. I have been asked to deputise. Thank you very much for coming this afternoon and, indeed, for submitting your paper on the "Technology and Manning for Safe Ship Operations in the 1990s". Before we start questions, is there anything you wish to add or would you rather wait until after we have asked questions?

(Captain Holder) No, thank you, Chairman, except that on Wednesday last week the Department of Transport informed me that the research had been through the Department and is accepted, and I have copies of the management summary here which I can leave with you for the library or whatever.

296. That is very kind of you, thank you. You have written in your document, "If the UK decides it does wish to retain a presence in merchant shipping, it needs to resume investment in new and efficient ships and new entrant personnel." Is that task made more difficult by the fact that investment in technological change requires long term planning, at a time when the industry itself is preoccupied with the short-term crisis?

(Captain Holder) It is made very much more difficult. In fact, as the recession has progressed we have stopped investing in new technology and we have stopped investing in people. If we wish to resume and regain our position, we will be making a step change. That is quite easy to do in terms of equipment because you can buy in modern equipment with the state of the art as it exists at the time of purchase. What you cannot do is to get your people trained and skilled to use that new technology. So we are in a difficult position if we wish to maintain a skilled workforce at sea using new technology.

297. Do you think the problem is a greater one in terms of personnel or in terms of investment in new technology?

(Captain Holder) I think the problems are equally difficult but the training has a longer timescale and, therefore, is the more difficult one to address.

298. How do you think that the change that is needed can actually be brought about, bearing in mind the answers you have given already? How would you set about putting these changes in train?

(Captain Holder) First, can I explain what I think high technology is? I think high technology is well designed and reliable equipment which complements the skills of the trained manpower. What some of the seafarers we met thought high technology was was complex and unreliable equipment which left people to do the jobs which were difficult to automate. So if I talk about high technology I mean the former and not the latter, and I think that is quite important. Having been allowed to go and talk to various countries that had coped with change and are coping with change quite successfully, the one thing that is common to all those countries is that, in fact, everybody pulled together, everyone worked together, the shipowners, the unions, the legislative bodies—they all worked together to bring about change. It is very difficult to bring about change through strife. Now, in carrying out the technology and manning project, I counted the number of organisations that we persuaded to work with us and it is more than 120 organisations which include 19 UK shipowners and 10 organisations which include the seafarers' organisations, and no one, in fact. was against us. They all helped us because they all thought it was important, and so the report which we have produced is one which has been supported by everyone in the United Kingdom and I think it is very significant that we have pulled together because everyone thinks it is important that we should have high technology and skilled manpower in the 1990s. Now, if we look at ways in which it might be implemented, I could bore you for a long time, in fact, with things that we could do wrong, but I will simply say I think there are two patterns that we might follow but improve upon. One is the Japanese pattern. Now, the Japanese were planning with a 20-year timescale and when we asked whether that was a correct timescale on which to plan, they said, no, it was not, they had in fact made a mistake, they should in fact be planning with about a 10-year timescale because, if you try and plan for 20 years, by the time ten years have elapsed there is so much change taking place that the planning for the second ten years is irrelevant. Now, most of the shipping companies that we talked to were necessarily planning on a 1 to 3-year timescale, and I think the 10-year timescale is about right. In Japan the way they organise their training is that they do part of the training ashore and then they have a national fleet of training vessels on which all the trainees are sent. When they have finished the training some of them go into shipping management, some into ship design, some are seafarers, some go into marine insurance, and some into the broking side of shipping, but the one thing they all have in common is a knowledge of the sea and a knowledge of ships as well as a good education. One thing we could do is to follow the Japanese pattern, and certainly the shipowners that I have spoken to would be quite willing to design and build and operate national training vessels if that was the way we wanted to go about it. I do not think that is the best way. I prefer the way that the Germans have, in fact, supported their marine industry and their marine infrastructure, which is through nominating 600 of their trading vessels as suitable environments for practical training. They have been very careful to control the curriculum and to establish that the people and the ships were suitable as a training environment. They have made sure that the people on board kept a record of training and that it was checked afterwards and, because they are in trading vessels and are actually being taught by people who are doing the job rather than specialist trainers, I think the German pattern is probably a better one to follow than the Japanese one.

299. Does that go back to the efficient ship project, that certain ships will then have to be specified as those on which training can take place, still owned by private shipowners? Is that what you are saying on the German

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[*Mr Fry Contd.*]

basis—these are the efficient ships on which we are supposed to be able to learn to navigate?

(Captain Holder) That is right. There are two things. One is to learn the technology and the other is to learn about the sea and seamanship. We can teach the technology in college but we cannot teach seamanship in college, and I think, rather than making vast investments in shore training with simulation, my view is that the place to do seamanship training is at sea. The Germans have accepted that their foreign-going fleet is so small that it will not train enough people for the ships and for the ports and harbours, and therefore they are doing a lot of their training in smaller ships. Now, I have only been able to talk to people about implementing this report since last Wednesday because the Department of Transport did not wish us to talk about it to outsiders until they had all read it. But I have talked to the owner of a small ship this week and I have also had lunch with Trinity House today—they do produce superb seamen—and there are a number of small ships in which we could, if we do our organisation of training properly, complement the work that the colleges are able to do with good practical training at sea. I think if you train the people you are then ready to buy the new technology or to produce the new technology through something like the Efficient Ship Programme and be able to compete very effectively.

300. How would you suggest, where there is a shortage of the right kind of ship that was provided, because if the State is not going to provide a training ship as in the Japanese example it does depend upon the shipping industry itself to have ships of the right quality for that particular approach to pay off?

(Captain Holder) You seem to be indicating they should be high technology ships on which people are trained. I do not think that matters too much if they learn the basic seamanship on the present trading ships; that is what the Germans are doing and are producing good seamen. Within the colleges we can introduce them to new technology. It is putting those together which will make us competitive. If you look at the alternative, which is the low technology route, and we certainly considered that through the technology and manning project, the only way you can compete in low technology when people from a developing country will, do a job in a particular way for three bowls of rice and $10 a day, to compete in low technology terms we have to do it on two bowls of rice and $9 a day: in a country like Britain that is totally unacceptable. We have to go the high technology route. It needs people to pull together, and needs good training in seamanship. You have sufficient college capacity to do the modern technology training. I have jolly good students going through a degree programme and graduating this year who have not been able to get sea time in order to get professional certificates. It is that which is missing.

301. How would you ensure they do get the sea time?

(Captain Holder) I have actually sent one of my students on a Turkish ship to get sea time because he could not get this on a British ship.

302. It is a matter of government working together with ship owners in order to ensure those places are there?

(Captain Holder) Yes. The ship owners tell me it is very unfair that they should subsidise the training of people who subsequently become pilots or harbour masters or underwriters or surveyors or consultants. They are quite happy to pay for the people that they need for their fleets, but a little unhappy if they train people and they go on to be MPs and things like that. They think there should be some national funding for those people who are not going to serve their whole life in the fleet but will go on to careers in other directions. I would think that was fair.

Mr Bevan

303. Captain Holder has said some interesting things and I would like to ask about training in a moment. On this particular subject as there is a drop in ship space for this type of enterprise and, in any event, as there is now a large degree of multi-nationality in crews, do you not think that there is a possibility here that, for instance, working within the framework of the Common Market and EEC countries one could provide within that framework, instead of just a British framework which may not be able to provide the very contingency you are wanting, that a European formula or rota or a shared situation could be provided in these ships?

(Captain Holder) I sympathise with your view, but it will not work, unfortunately. The Dutch are further forward in their training than any of the other European countries. They are limited by the number of places which the Dutch shipping companies can make available each year. They have not got enough places to support the infrastructure in the Port of Rotterdam and Holland as well as their own fleet. We cannot go and take Dutch places or German places. What I would be delighted for us to do is take some of their people and for them to take some of ours. That would be terrific.

304. If there is mutuality, in other words?

(Captain Holder) One does not increase the quantum by exchange. We must increase that and then exchange.

305. It increases the facilities available to take the people that want to be taken from a variety of countries?

(Captain Holder) Certainly not. The Dutch are short and all the others, and the Germans.

306. You said the Germans had insufficient places, and you used a Turkish ship?

(Captain Holder) Yes, the Germans have sufficient places for their own needs, for their own nationals, but do not have places for our people.

307. But you have felt there might be grounds for exploiting the situation to see if there are any opportunities there?

(Captain Holder) No, I am sorry, I do not think that is the answer, but for Britain to do its training and share ideas with the Continent and not to look to them for our salvation.

308. You are, therefore, solely looking at the British Government to arrange such training in the absence of their being sufficient training provided by the company?

(Captain Holder) If you wish to have the bill fall on the people who have the benefit, in fact there are lots of

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[*Mr Bevan Contd.*]

people who benefit from the training which goes on in British ships; that includes bankers, insurers and harbours. It would be so complex to levy those people. What I am suggesting, is a common levy through national provision for these people. When somebody comes to me and wishes to go to sea I cannot say to him: "In 20 years time are you going to be a marine underwriter at Lloyd's? Can I knock on Lloyd's door to ask for some money to help with the training?" It would not work. It needs national provision. The companies are willing to pay for the training of people they require themselves and they are very willing to help training other people as long as they do not have to pay for it.

309. On the question of training, you have advocated dual qualification training?
(Captain Holder) Yes.

310. It is very important. You group together the deck and engineroom?
(Captain Holder) Yes.

311. You do not single train any longer or even group train in a different way. You also think that there is an ability for the UK seafarers to take advantage of employment opportunities, and these must be dependent on their flexibility so to do?
(Captain Holder) Yes.

312. I take it you have in mind, in any event, crews with whom they might be competing are flexible because they are flexible in lack of training provision, and flexibility you would inculcate through training would give an added attraction to the dual-trained seafarer?
(Captain Holder) Yes. We have always exported shipping services. the north-west of the country and some of the other traditional seafaring areas which would be much poorer now if people displaced from the British fleet had not been very much sought by open registry and foreign flag fleets because of the quality of their training. They are able to support their families by working on ships under a Singapore, Hong Kong or Liberian flag. Whilst they are doing that at the moment, none of our youngsters are able to take the opportunities of that career path. We are not providing for school-leavers to follow on and carry on that tradition, of exporting British expertise.

313. But I ask, would you ratify the existing system, the triple system of absolute sole interest in one thing or another—the deck, engine and catering streams—where entry into one or the other now means that one stays in that particular discipline? We also note that there is a great distinction—and it is the tradition, of course, within our merchant navy for this—between the officers and the ratings. Do you think both those systems will inhibit the kind of duality and flexibility of the role that you envisage should be brought in?
(Captain Holder) Very much so.

314. How would you deal with it?
(Captain Holder) In 1975 when the shipping industry was short of trainees we introduced university graduates to sea-going, and they could not understand the difference between the departments and the difference between the officers and ratings. One of the very traditional shipmasters said to me "If we got people like that running our ships we would have a much tighter team". So it is largely a matter of confidence. One of the reasons why there is distance between people on board is that, in order to get close to somebody, you not only show your competence but show your incompetence and, if you are confident, you can in fact run a much closer team. That is why people who are properly trained,both in practical training and in theory, I think will be able to run a much tighter group and a much better co-ordinated team.

315. From among your wide experiences throughout the world studying training, would you tell us something about Scandinavian methods and how you feel they achieve this flexibility?
(Captain Holder) I am very proud of the fact that when Norway wanted to update its old-fashioned navigation schools it started a course at Trondheim University, a one-year college course, and I took a UK team over to teach on that course. The Norwegian training was very traditional. They are excellent seamen but they were falling behind in technology and one of the reasons for them starting that course at Trondheim University was to bring them up to our standard, I might say.

316. Maybe a bit of mutuality exists there for us to improve on our seamanship standard training.
(Captain Holder) Certainly I would agree with that. I do respect Norwegians as superb seamen.

317. What education changes would be necessary to achieve these developments that you contemplate?
(Captain Holder) Your Committee has that evidence from the International Association of Navigation Schools and the course, which they are bringing forward is a restructured course but based on the old syllabus. It will enable us now, having accepted the new technology and manning report, to update the syllabus to take account of new technology, and I think within the education system we are in a position where we can put things right. What we cannot do is to provide the sea training.

318. Yes, the International Association of Navigation Schools to which you refer, has told our Committee that this achievement they have implemented has caused a major upheaval, in their own words, and furthermore they say nautical education could disappear for lack of a national co-ordinating programme. This was their evidence. Would you agree with it?
(Captain Holder) I certainly would agree with it, yes.

319. How would you suggest it be implemented?
(Captain Holder) I am a member of the International Association of Navigation Schools and they supported me in doing the research on new technology and we had an agreement whereby they would look after the present and I would look after the future. So what they have done is half the job and what we now need to do is the other half of the job, which is to implement the technology and manning report.

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[*Mr Bevan Contd.*]

320. As to the major upheaval that they say it would cause, can you think that that would be minimised in any way?

(Captain Holder) I think the difficulty is that when you are on a downward slope in terms of numbers and provision it takes a while to turn the corner. I think what they are worried about is that before the corner is turned they are all going to have disappeared—that is the major upheaval, and it would be a pity to destroy what has been a very good traditional training scheme. What we should do is to use it as a building block for the future and not a cornerstone of a memorial, which it looks as if it is going to be at the present time.

Mr Bidwell

321. Can you say more about new technology for landlubbers like myself in graphic terms?

(Captain Holder) If I may use this as an illustration, all the time we were buying new ships each new ship that came along had a slightly better radar and a slightly better engine and a slightly better electronic control system, and all the time that was going on we were advancing. I am very proud of the fact that the biggest advance on the bridge of the ship has been in the computer-based radars and we did the research in this country and the textbook which we produced is published in America, published in Japan in Japanese and published in Russia in Russian, and we were in the lead at that time as we moved forward buying new ships and updating. Now, as soon as the recession started, we stopped buying new ships and, if you are not buying new technology, you are not learning anything. Other people have managed to keep investing during a period of recession and they are continuing to learn and we are not. If you do not learn you cannot stay the same, you either get better or you get worse. What I am worried about is that we are in the process of getting worse and I think we should get better.

Mr Marshall

322. Chairman, could I turn to the question of employment ashore? Captain Holder, you mention in your memorandum that the Merchant Navy has hitherto provided experienced seafarers for the maritime infrastructure, that is, harbourmasters, safety surveyors, pilots, lecturers, consultants and so on. Is it absolutely essential that these posts are filled by ex-seafarers? Would it not be possible, for example, to recruit from other sectors or to provide training specifically for these posts?

(Captain Holder) In my own department, which I think is a good example, we have about half ex-seafarers who understand the ships and seamanship and the hazards of the sea, and we have about half people with a legal background or economics background or technology background who make a complementary contribution. I should have been today at a meeting with Liverpool underwriters and students from my polytechnic, and it worries me that the underwriters sometimes do not understand the risks which they are underwriting and I think, in order to understand the risks of passages through ice, the risks of typhoons etc., at least somebody within the infrastructure, say in insurance, should know that, because I think if you are too far removed from the physical risk you just follow the financial trends rather than the physical trends, I think you do tend to make worse decisions, and I think the Japanese would do it better than us if they were doing combined training of underwriters and seafarers and we were doing the job separately. You can do it separately but I just do not think it is as good.

323. Would you be one of those people who argue the Merchant Navy is essential if for no other reason than to provide staff for maritime infrastructure?

(Captain Holder) Yes, I would.

Mr Fry

324. In view of the fact that certain other countries like Japan, Scandinavia and the West Germans are moving more and more to new designs with the need therefore for very few crew members but highly trained seamen, if we adopted the ideas you have been putting forward and considerably increased the numbers of seamen, how are we going to get commercial advantage competing against countries which have moved very far in this direction of small crews and very high technology?

(Captain Holder) One of the advantages, Chairman, of doing this research was that we not only found out what the Japanese do well—which they are very willing to tell us—but we found out the things we do better, and the same applies in Germany, the Netherlands and Norway as well. I could talk for a long time on that theme, but I am very encouraged. To give you one example, the Japanese still teach semaphore at the seaman school in Shimuzu and we asked why. They said they had no redundancy agreement with the lecturer and he could not teach anything else! That has not happened in Liverpool.

325. The Secretary of State has, of course, made an announcement before Christmas, on opening discussions with the industry, owners and unions etc. regarding government help on the whole question of training. I wonder whether you yet feel you are in a position to comment on that initiative, and whether you think there is still sufficient impetus behind this issue, or whether government have taken the minimum step they felt was required due to the fears about the future of merchant shipping?

(Captain Holder) It is only a toe in the water. As far as I am aware it does not meet what I think is the main criterion that is, that it is being put together by a group which is a co-ordinated group which involves all the interested parties. I do not think anyone talked to the National Association of Navigation Schools, when deciding which was the best way to invest a minimum amount of government finance to a maximum effect—we could have made a useful comment on that. It is a pity that that sort of initiative is taken too little, too late and without enough consultation.

Mr Ross

326. Do you think the present government wants to maintain a merchant navy in this country?

(Captain Holder) It has amazed me that three-quarters of the Merchant Navy disappeared before the Select Committee was set up. I have felt as if it was ongoing and nobody noticed that the Merchant Navy was disappearing.

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Mr Dicks

327. It surprised you? If you have a situation where there are too many ships and too many sailors and competition and the cost of moving freight is cheaper if you use overseas shipping and manpower, why are you surprised if there has been a decline in the merchant fleet?

(Captain Holder) I am not surprised that there has been a decline in the merchant fleet, but I am surprised we have not decided what the 10-year plans are and what is the minimum presence which we would accept within merchant shipping. I do not think a country like the UK can, in fact, have no marine shipping and be totally reliant on people outside. Therefore there must be a minimum we would accept. At least we should be aware of what that is and how we would go about making that minimum as effective and efficient as possible.

328. If that minimum means, for example, we almost run a merchant fleet from the viewpoint of social services, it is not essential in one sense, which does not meet the needs of the market, are you suggesting it should be subsidised directly if in other circumstances the level went below a useful minimum? What do you think is a useful minimum?

(Captain Holder) I think you are saying, should we be like the Americans. Their fleet is appallingly inefficient. We do not want to be like the Americans. When we can compete, we should compete. If we cannot then I think we should decide on what is the national minimum for defence and to accept that and run it at as low cost as possible to provide that minimum. I think we can compete. Having done research and visited other countries facing very similar problems, I think that what I would like us to have is the engineering flair of the Germans—because there is no doubt that when confronted with a difficult engineering task the German engineers tackle it superbly; the same cannot be said of the Japanese. The Japanese have tremendous quality assurance and do not duplicate equipment on a ship if one gyro compass will work. When a team member sailed on a Japanese ship and said that the British would have two, the Japanese said, "You must have very rich ship owners. We can only afford one gyro compass." The other thing we lag behind in is, in fact, the commercial acumen of the Greeks. The Greeks are superb at making a profit and we have been extremely safe and not terribly profitable. If we have the commercial acumen of the Greeks, the engineering flair of the Germans and the quality assurance of the Japanese I think we will beat the world!

329. Are you praying for a miracle? What you have said is almost impossible, if not completely impossible. Do you foresee in the next ten years the merchant shipping fleet achieving those objectives?

(Captain Holder) In the last two or three weeks I have had visits from two Professors from Tokyo, a request from Egypt for one of their senior people to visit and have been asked to help Hong Kong with their training developments and asked to help Singapore with development there. They think we have something to offer. The difficulty, I think, is in convincing anybody in this country that we have anything to offer.

Mr Fry: You are doing a good job this afternoon.

Mr Ross

330. We need to stimulate the modern efficient fleet with modern technology and well trained crews, what stimulus do you think the government has to give to bring that about?

(Captain Holder) In this document there are five general conclusions which the industry should talk about and implement. There are five conclusions which refer to the regulatory bodies, and recommendations for things that regulatory bodies could do to make the British fleet more competitive, and three for the education authority. As a member of the International Association of Navigation Schools and with the close co-operation of the Association of Marine Engineering Schools and the Association of Marine Radio and Electronics Colleges we can, in fact, go and do the final three. We can put that into practice. What we are saying, in fact, is that the other ten items should be taken up and acted upon positively. We have worked for two years and three months on the report. We really have been thorough and we consulted more than 120 organisations, and we feel that we have created a comprehensive report. You do not want to read it all; volume 2 of the main report is very thick. The people that do need to read it are those in shipping companies, the seafarers' organisations and the government departments and then go forward and act upon it. I think that will make us more competitive in terms of manning and in terms of the proper use of high technology—the well designed and reliable sort, not the complex and unreliable sort. What it will not do is answer other economic factors about competition and cabotage which you are investigating, which I would not wish to comment on; that is not my specialist field. You are talking to other people about that anyway. The area I hope I can help with is technology and manning.

Mr Bidwell

331. You said earlier you were suprised people like us had not woken up earlier. I gather from your evidence this afternoon you are really saying you are not surprised about the run-down of the British merchant fleet, but you think the scale of it is so immense that you are surprised. For those of us who go on an airplane when we go out of this country, how would we know what is going on? You do not wait until now when there is a Select Committee enquiring into the matter because there is now public demand and people are writing about it. I am reading more about it than I have read before because I am on the Committee and shall read your evidence with great interest. What have you been doing, and why have you not woken people up sooner than this?

(Captain Holder) Eighteen months before the "*Amoco Cadiz*" went ashore on the coast of France we started a research project on the drifting of broken down tankers and nobody listened. In 1973 with the British Ship Research Association we carried out a very similar project to this one and came out with splendid conclusions which nobody implemented. I think you have failed to make proper use of the educational establishments and particularly those educational establishments that are close to the industry, some of which are the universities and certainly the polytechnics. I think this is the first time that anybody has ever listened

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[*Mr Bidwell Contd.*]

to me and I am delighted, but, Chairman, if it is not rude of me, what will you do when you come to your conclusions? How will you move forward? Am I allowed to ask that sort of question?

Mr Fry

332. Normally we invite witnesses here to answer questions, not to ask them; but for the record, once the Committee has finished its deliberations it will produce a report, containing a number of specific recommendations. The Secretary of State is bound to consider those recommendations and also give a reasoned answer. In view of the very wide interest in the problems of the decline in British merchant shipping, I think that will give the possible solution of Government reaction very much wider debate than there has been hitherto, which I would have thought we would welcome.

(Captain Holder) I would welcome it very much.

Mr Marshall

333. Captain Holder, in reply earlier to Mr Dicks, the manner in which you used the term "we have been extremely safe" seemed to indicate to me possibly a slight criticism of this fact. If I misinterpreted your manner of speech, then I do apologise, but do you think that safety could or should be given a lower priority? Is it a drawback as far as our merchant fleet is concerned?

(Captain Holder) That is very difficult question to answer. If I may tell you our experience with computer-based radars where we have done a lot of research earlier, when radar came and you could see in fog, you could detect other ships in fog, one way of using radar would have been still to go at 5 knots but to be incredibly safe. It did not happen. The ships went faster and still accepted a certain risk factor. Because the people were not properly trained to use it, we had radar-assisted collisions and so it has taken us a while to get the people up to using the technology and that is a good example of a mismatch. In fact, what happens now is that the ships tend to go faster and make better passages and get in on time and, if our ships were still going at 5 knots and were very, very safe and other people's ships were going at 15 knots and still were almost as safe, then we would be uncompetitive. So there is a trade-off between safety and efficiency and it is a very difficult one. I am very concerned that the loss of life of seafarers tends to create very little public interest. That depresses me no end, that when seafarers are lost it does not seem to stay in the papers for very long, but if a bit of oil is spilled on the beach it stays in the papers for weeks. That I think is terrible but I do not know the reason for it.

Mr Fry

334. I would like to ask one last question. Whenever we probed any previous witnesses about the cost of doing something there was a remarkable vagueness usually and it seems very few people have attempted to cost the extent of the aid. We have obviously got to ask you about how much it might need in terms of cost. I think your proposals on training might perhaps give some idea as to how much money would need to be invested, particularly in view of what you have to say about training for the on-shore occupations.

(Captain Holder) I think I can manage within my current educational budget. I do not want anything extra. I can get superb students through well trained on the meagre amount that I am given by Her Majesty's Government and Liverpool City Council. But I do believe that in fact the shipowners will need some modest investment to take account of those people whom they are training who are not being trained for their own fleet. As far as technology and manning are concerned, I think that is all that is required.

335. What proportion of those people whom you think ought to be trained are in the end not going to be sea-going Merchant Navy officers?

(Captain Holder) At the moment I think on our degree course it is about fifty-fifty and the Japanese have it at about fifty-fifty as well. I think that is probably about right. Norway, which does not have a big maritime infrastructure, is producing too many deck officers but not enough electricians and engineers in its ships.

336. We have been told, for example, the present number of people coming forward and going into training is totally insufficient even to maintain the existing Merchant Navy. Therefore, you may say that we cannot manage on the present numbers. But if we accept the information that has been given to us, there is obviously a need to have a considerable increase in the number of people under training?

(Captain Holder) I think we are talking at the moment about 60 to 80 deck and engineering people. I think we probably should be talking of the order of 600 for the two disciplines and at least some of them should be getting dual qualifications and not single qualifications, because that helps their flexibility in minimum-manned high technology ships.

337. But if you are saying that 300 of those are not going to go on ships in the end, that they have to be paid for, and in addition you suddenly go from 60 to 300, one is presupposing they actually will get jobs?

(Captain Holder) Yes.

338. You think they will?

(Captain Holder) I think they will because the soundings now are coming through that the industry is already starting to get shortages in certain specialisations at certain times of the year and, while they certainly want people, you cannot produce them just like that, it takes four or five years to get them through the system to the minimum qualifications and that is why I think we should be doing something now.

Mr Bidwell

339. On the finance, you mentioned Liverpool City Council. I do not know the ratios of financial contributions you will be seeking, mainly from local authority areas where there has been a tradition of going to sea through the years, from whom you would hope to derive some increased revenue. If, say, the Liverpool City Council could see that there were greater outlets for those whom you were training and you trained more, a financial contribution would presumably be made; so you would not necessarily look just to central government funding, national exchequer funding, but

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[*Mr Bidwell Contd.*]

you would be looking for some kind of rate support grant presumably if there was an upturn in actual training. Is that the picture?

(Captain Holder) Yes. Actually I think Liverpool City Council probably this year has given us about minus £150,000 because they gave the Polytechnic a million pounds and I am not sure how much of that came to my department. We attracted overseas students and they paid economic fees and they spend money within the city. I did a quick calculation. They had contributed something like £250,000 to the city and so I think we are actually a net contributor to the city rather than the other way round and, therefore, most of the money which pays our lecturers comes through the Department of Education and Science, through the National Advisory Body funding.

Mr Ross

340. How many are overseas students?

(Captain Holder) 37 out of 250 odd.

Mr Fry

341. Thank you very much, Captain Holder, for coming this afternoon. Before you go is there any last point you want to make to us?

(Captain Holder) Just to thank you very much for the discussion, Chairman. I feel that it has been very stimulating and I do hope that something comes out of it.

Mr Fry: Thank you, Captain Holder.

Memorandum submitted by the British Shippers' Council

INTRODUCTION

The British Shippers' Council represents the deep-sea shipping and air freight interests of the 13,500 companies in membership of the Freight Transport Association—BSC's parent body. The Council thus exists to represent the interests of British importers and exporters in relation to the movement of their goods to and from overseas.

BACKGROUND

The general question of the size of the UK fleet, its decline in recent years and the implications of that decline in the context of issues such as international trading, employment in the industry, shipbuilding, and defence considerations, has become a matter of major concern in many quarters. This is well illustrated by the fact that, when the report of the House of Lords Select Sub-Committee's deliberations on European maritime transport policy was published in March of this year, it was this issue above all others which featured, directly or indirectly, in the report—and made the media headlines. It is an issue which continues to exercise many minds—in both a national and European Community context. Yet it is an issue where sweeping and frequently misleading generalisations continue to be made.

The decline of the UK fleet is clearly of more direct concern to bodies other than the British Shippers' Council—the General Council of British Shipping, for example, representing British shipowners, and the various trades unions representing seafarers. The Government also has a direct involvement in this issue, not least from the strategic viewpoint. British shippers generally take a pragmatic view of the situation; as importers and exporters, their concern must be to secure the most competitive cargo rates, allied to the required level of service, without undue regard to the ownership or flag of the vessel or vessels concerned. Whilst many if not most shippers would, idealistically, choose to use UK owned and registered vessels, in the real world commercial patriotism of this kind is often an expensive luxury which international traders, working in increasingly competitive markets, cannot afford.

The situation of decline is not unique to the UK. EC maritime transport policy is being discussed in the light of an overall decline in the Community fleet, which is seen by the Commission to be due to a number of factors. These include the erosion of any competitive advantage in the traditional areas of shipping activity, due not least to an influx of new entrants to the trade; the world economic situation, linked in with the adverse effects of protectionism and state-subsidised competition; and changes in trade patterns, which have particularly affected the oil sector. These factors have undoubtedly affected the size of the British fleet, and aspects are discussed in more detail elsewhere in this submission.

It is important to distinguish between the factors affecting the supply and demand sides of the equation. On the supply side, it is an acknowledged fact that available global tonnage on offer in all trades is more than adequate to meet demand—and in many areas there is serious overtonnaging, due amongst other things to speculative shipbuilding and purchasing financed, sometimes with a degree of irresponsibility, by banks or governments; and to an overall decline in world trade.

On the demand side, the decline in trade, coupled with changes in the profile of imports and exports—smaller size, higher value shipments, for example, and the overall trend in the UK away from the conventional manufacturing industries—means that it can be argued that the best which the British fleet can hope for is a reasonable share of the reduced trade available.

THE STATISTICS

Given this background, it is clearly not appropriate for the British Shippers' Council to attempt to produce

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a detailed statistical study of the state of the UK fleet. Other bodies are better equipped to produce such figures—figures which will doubtless feature prominently in their submissions. Nevertheless, there are a number of fundamental points in this connection which need to be made, to ensure that the situation is seen clearly and in perspective.

Of fundamental importance is the fact that the undoubted decline in recent years of tonnage *registered* in the UK is due in part to the increasing practice of "flagging out"—as distinct from vessels simply being scrapped and not replaced, or laid up. Conversely, a proportion of the tonnage on the UK register is not UK-owned as such, but owned by residents in other parts of the Commonwealth. And of the major part which is taken to be British-owned, a substantial percentage is actually owned by UK subsidiaries of foreign companies.

Equally, a general statement referring to a decline in numbers or tonnage conceals the fact that, within these all-embracing figures, there are widely differing scenarios depending on the category of vessel under consideration—container vessels, for example, as distinct from tankers or dry bulk carriers.

Taking all of these factors into account, it is clearly difficult to draw any overall conclusions without considerable qualification. And the fact that available statistics generally refer to UK registered rather than UK owned tonnage makes meaningful comparisons difficult. However, bearing in mind that this inquiry is dealing with the decline in the UK registered fleet, some conclusions can be drawn but with the caveat mentioned above.

Figures quoted in the report of the House of Lords Select Sub-Committee referred to earlier, clearly indicate an overall steep decline in both numbers and tonnage. From a total of 1682 vessels registered at the end of 1975, with a capacity of almost 52 million dwt (a broad measure of carrying capacity) the UK registered fleet had contracted, by the end of 1984, to a total of 777 vessels with a capacity of some 22 million dwt—a figure which had further reduced to 18 million dwt by September of last year, with a corresponding decline in numbers of vessels. Figures produced by the GCBS and covering UK registered and *owned* vessels show a similar scenario.

Within these overall figures the steepest decline—as might have been expected—has been in the conventional cargo liner sector, primarily because of the continuing move to containerisation. A marked decline was also noticeable in the case of wet and dry bulk carriers. Container vessels, on the other hand, whilst showing a decline of around 33 per cent in numbers, have at the same time shown an increase in dwt of some 12 per cent. Allied to this *increase* in tonnage is an overall increase in real capacity, taking into account faster transit and turn-round times of modern vessels.

Thus, whilst in an overall sense there has clearly been a decline in the UK registered fleet, the individual components making up the total situation do not in each case echo this trend.

Flagging Out

Inevitably, much of the controversy surrounding this issue relates to the practice of "flagging out"—the use of "flags of convenience" with ships owned by nationals of one country being registered in another country. This tends to be seen by the unions on the one hand as being a means of circumventing national legislative controls, taxation requirements, labour regulations and agreements and safety standards; and of course as a major contributor to unemployment amongst British seafarers. On the other hand, shipowners point to the relatively high cost of operating under the UK flag, and the fact that crew costs, in particular, can be considerably reduced by registering elsewhere. The practice has attracted particular attention in recent weeks with decisions by both BP and Shell to flag out a proportion of their tanker fleets. However, the issue is by no means unique to the UK—flagging out is now practised on a global basis.

Shippers have to take a practical view of the situation. As mentioned previously in the general context of this submission, the majority of British shippers would doubtless prefer, all other things being equal, to use a British managed vessel. In practice, a shipping manager's responsibility to his company is to secure competitive freight rates allied to an appropriate level of service. If this necessitates the use of flagged out vessels, then these criteria would generally outweigh any nationalistic or patriotic considerations—which, in the ultra-competitive environment of international trading, have to take second place to economic and financial considerations.

It would be wrong to assume that the use of flagged-out or foreign-owned vessels automatically implies a degree of lowering, or even breaches of, international safety or working standards. This is not generally the case; steps are being taken in Europe to enforce ILO and IMO Standards by means of port inspections, and the UN Code on Ship Registration which has been agreed, although it is not yet operative, will also contribute to the maintenance of appropriate standards.

International Competitiveness

It is difficult to gauge the international competitiveness of the UK fleet and United Kingdom ports; much depends on the criteria which may be used in an attempt to quantify the situation.

Dealing first with UK ports, the Department of Transport's recent report on "Liner Shipping and Freight Rates", published earlier this year, provides both detailed and up-to-date information. The report sums the situation up in a single sentence—"Costs are considerably higher at British than at continental ports." The report does not, of course, range further afield than Northern Europe—but since these ports are seen to be those which are in direct competition for traffic with UK ports, further comparison is largely irrelevant.

Costs at British ports are higher for a number of reasons, as the report makes clear and the report indicates that for containerised cargo, UK port costs are some 50 to 60 per cent above continental levels, with the

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differential for conventional cargo even higher. It must, however, be recognized that the extent of state support for continental ports is a major factor in this equation. The majority receive both capital grants and assistance with operating costs, although the present lack of transparency in port accounting means that the extent of such subsidies cannot be quantified. It must also be said that British ports are constantly striving to improve their efficiency and competitiveness—for example, the new Trinity terminal at Felixtowe is already setting performance records for container discharge and ship turnround.

The higher costs encountered at British ports will clearly have an impact on vessels which call at them in terms of overall costs and profitability. But it must be remembered that not only British flag vessels use UK ports, and conversely, UK vessels, and particularly those involved in the cross trades, will also use the relatively cheaper Continental ports. We do not therefore feel that the question of port cost is a significant factor in the overall issue.

It is more difficult to judge the international competitiveness of the UK fleet. Apart from the obvious difficulty, in a truly worldwide operating environment, of finding an appropriate benchmark for comparative purposes, it must also be borne in mind that many British lines operate within the confines of the conference system which aims to dominate trades through cartelisation—British shipowners have traditionally been strong supporters of this system. A conference will generally include not merely British and European lines, but also lines from considerably further afield. As with ports, the extent of state support, subsidies, tax incentives etc for shipowners will vary from country to country—and the structure and accounting methods of conferences will in any case tend to discourage accurate comparison.

The international shipping business is presently very much a buyers' market—and has been for some considerable time. Shipowners have to quote competitive rates in order to stay in business, and competition is both fierce and increasing—evidenced for example by the development of high volume/low cost round the world container services. Within this highly competitive framework, there is no reason to say that the UK fleet is not competitive *per se*. However, it is significant to note that in the UK, smaller shipowners have borne the brunt of the recession in the shipping industry, particularly in the bulk sector, with a number of collapses. The trend seems to be towards UK shipping being predominantly in the hands of major national and international companies, who generally tend to have wide-ranging interests other than shipping. Even major companies involved in bulk trades have tended to contract or withdraw from this business. These factors do not in themselves point to lack of competitive edge, but rather towards the inevitable effects of over-tonnaging on a global scale. Equally, there are instances of companies with a recent history of profitable, and thus clearly competitive, operations—Overseas Containers, for example.

British shippers would undoubtedly agree that, in general, British lines still have technical and management standards which are a match for any rivals on the world scene. However, the advent of new and competitively priced services, operating at relatively low costs and with comparatively low profit margins, means that British lines frequently lose the competitive edge in terms of rates which are offered. And the fact that this keen competition is frequently free from the constraining influence of conferences is another important factor.

It is a fact that British lines have generally been strong supporters of the conference system, and that they have tended to concentrate upon providing a high quality service to shippers with a corresponding rates structure. The conference structure not only inhibits competition between member lines, it also dissipates national commitment: At a time when the buyer of the service is in a strong position—as is generally the case at the moment—shippers are increasingly likely to explore all available options for competitively priced services with the result that conference-orientated British lines can become increasingly uncompetitive. It would be an oversimplification to say that in general the UK fleet is no longer competitive. But, as with all generalisations, there is at least a degree of validity in that statement.

Cabotage

The question of cabotage inevitably arises in any debate on the size of the UK fleet. The UK's coastal trade has traditionally been open to vessels of all nationalities. Other countries, such as Denmark, adopt a similar liberal line, whilst a number of other European countries reserve their coastal traffic to national flag vessels. In essence, countries who reserve their coastal trades are discriminating against the UK with its open trading policy. The issue has proved to be a major sticking-point in the negotiations in Brussels on the proposed EC Common Maritime Policy.

To suggest that there should be some form of UK or EEC cabotage, with a view to restricting available cargo to UK or EC vessels, is an understandable reaction—but one which shippers would consider to be incorrect. Such protective and anti-competitive restrictions would in an overall sense be damaging rather than beneficial to the UK's shipping industry, which has itself traditionally been a major cross-trader. GCBS has quoted a figure of over 60% of total revenue as being attributable to cross-trading by the UK's deep-sea fleet; substantial erosion of this figure would probably not be compensated in an overall sense by additional revenue from increased domestic work.

The Structure of the Shipping Industry

It is difficult to assess whether the structure of the shipping industry in the UK militates against the practice of an effective national or European shipping policy. Not least, this is because the shipper side of the equation cannot be seen as a single, cohesive grouping in the same way that UK lines can be considered.

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It hardly needs to be said that UK shippers range widely, whatever criteria are used. Shippers will vary in the scale of their operations; in the commodities shipped, and the type of vessel used; and in their use or otherwise of freight forwarders. They may primarily use company-owned or leased vessels (the oil companies are an obvious case in point) or exclusively third parties' vessels—or a mixture of the two, as in the case of the British Steel Corporation. They may be involved in import, export or both—and may ship to or from any of the vast number of world markets. They may charter whole vessels, ship in full containerloads or simply take space in a forwarder's container. Their diverse interests are represented by the British Shippers' Council.

In contrast to the wide variety of trades and industries represented amongst UK shippers, there are clearly a large number of common features within the ranks of the UK shipowners, as represented by the General Council of British Shipping. We do not accept that this structure necessarily hinders effective policymaking at national or, with European equivalents, at European levels. At the simple commercial level the two parties represent the two sides of a straightforward commercial equation—a customer, seeking a service, and a supplier, able to provide this service. Corresponding structures and organisations exist in the majority of European countries.

British shippers do, however, feel that one aspect of the traditional structure of the shipping industry—the conference system—continues to play too important a role in policy considerations. Shippers' views have hardened in recent years, not least as a result of commercial pressures in today's international trading climate, and most now believe the conference system to be at best, outdated and at worst, a positive barrier to commercial development and to free and fair competition. Yet governments and Common Market institutions continue to view matters almost on a historical basis, as evidenced by the EC's draft competition regulation which is based on outdated principles and concepts and enshrines the principles of the conference system.

Protectionism and Fiscal Incentives

In broad terms, both UK Government policy and European Community policy towards the shipping industry has been allegedly based on a non-protectionist standpoint. British and European shippers have consistently supported this broad aim as being in the best interests of Britain and Europe's international trading companies, although shippers have frequently believed, and continue to feel, that this principle is often not translated into practice. International trade is most likely to flourish in such an environment, and the shipping industry should prosper along with its customers. This principle has, we believe, been similarly endorsed by British and European shipowners.

Shippers are becoming increasingly concerned at the existence and growth on a global basis of protectionist practices, which are apparent in a number of forms. These include cargo reservation to national lines; cabotage; the operation of Central Freight Bureaux, which effectively direct traffic; attempts to apply the cargo-sharing provisions of the UNCTAD Liner Code to all cargo, and not just conference traffic; bilateral agreements for cargo sharing; and discriminatory taxation regimes. Such practices were in fact highlighted by the European Commission as being one of the major causes for the decline of the Community fleet relative to world tonnage, and there can be little doubt that they have had a similar adverse effect on the UK fleet.

The question of fiscal incentives for shipowners is not one on which it is appropriate for shippers to comment, other than to make the general observation that, according to the shipowners, a degree of fiscal reform is necessary in order to face foreign competition on relatively fair terms in free market situations. It can, of course, be argued that this represents a wish to "Have one's cake and eat it", when contrasted with shipowners' desire to maintain the freedom to flag vessels out, with the consequent fiscal implications.

Summary

If British trade and industry is to be competitive and successful, Britain's exporters and importers require the ability to ship their goods using competitively priced services. The question of the ownership of a particular vessel, or the flag which it is flying, cannot therefore be given the same degree of importance as the freight rate offered, and the standard of service provided. Competition between shipping lines on a free and fair basis, without the restrictions imposed by protectionist practices and bereft of cartel domination, provides the necessary framework. British shippers appreciate the circumstances which have contributed to the decline of the UK fleet, but would not wish to see any element of fleet protection introduced which would ultimately lead to higher rates and lack of competitiveness. There is no reason why UK vessels offering the required standard of service allied to competitive prices should not secure an increasing share of available trade.

November 1986

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Examination of Witnesses

DR A H MCQUILLAN, Distribution Manager (NW) ICI, Chairman, British Shippers' Council, MR A R A COOPER, Shipping Manager, Imperial Tobacco, Vice Chairman, British Shippers' Council and MR O H THOMAS, Manager, Shipping Policy British Shippers' Council, called in and examined.

Mr Fry

342. May I welcome you and your colleagues here this afternoon and apologise that our normal Chairman cannot be with us. I have been asked to deputise.

(Dr McQuillan) Thank you for the opportunity of appearing before you. I think you have given us a very difficult act to follow. Perhaps it would help the Committee if I explained that the British Shippers' Council is part of the Freight Transport Association and we represent the freight using interests of 13,500 companies in the UK.

343. Is there anything else you would like to say initially?

(Dr McQuillan) I think merely to say, I am sure you have all heard a great deal about the decline of the UK fleet. We are the "bloody infantry" of this job and the customers who have to ship products and, clearly, there has been a decline, in world shipping. I think that the question we should be concentrating on is: has it been more differentiated against the British fleet than others? Over recent years I am sure you have discussed enough about the container revolution and the more effective use of ships. What our position is, as British shippers, ideally we would prefer to ship in British ships, given that they are giving us a service and are competitive, and we would support the British shipping industry in having any obstacles with their competitors removed. There are a number of areas and it is a wide area covering things such as light dues, port costs in the UK, cargo reservation schemes and bilateral agreements on cargo sharing. There are many items effectively reducing the competitiveness of the UK fleet at the present time.

344. If we may refer to the memorandum you have submitted to us. You have made it quite clear that you regard the present situation to be a buyer's market. I am sure, as you say, that you are concerned about the decline in the UK fleet. Could I put it to you, if that decline continues, if indeed either it disappeared or got to the stage where this country became virtually totally dependent on the ships of other countries, is there not a danger then that our imports could actually face higher prices? Indeed, there could be a decreased competitiveness of our exports?

(Dr McQuillan) We are quite some distance from that at the present time. The whole problem at the present is over-tonnaging. There is adequate choice. As long as Britain has a manufacturing industry which can export there will be people who are prepared to ship the goods.

Mr Dicks

345. I quite understand the question and the answer—there is the short-term situation and the long-term. If in the long-term things change it takes time to turn the tanker around. You can say there is plenty of tonnage now and plenty of market for buyers and exporters, but if you get into the Marks and Spencer situation as they are with their suppliers, you could find yourself in a crisis moving goods, full stop, if there is no input there. It is one area of competitiveness gone.

(Dr McQuillan) I can only say at present that we are in a situation of shipping bulk chemicals, and there basically is no British tanker fleet left. There is no difficulty in getting space but most of the companies are Scandinavian, Japanese and American and there is a wide choice and it is not disappearing as long as someone is prepared to pay.

Mr Fry

346. The Department of Transport argues that Continental short sea lines gain "some advantage over UK lines" by the continental preference for exporting cif, whereas UK exporters tend more to export fob. Do you think that this is true and does this practice extend to the deep sea trades?

(Dr McQuillan) Yes, it is a major criticism of UK exporters and something we are fighting hard to counteract. It is interesting that a survey last year by the Institute of Export on physical distribution management found that more than half the UK goods sold in Europe were sold fob in UK sterling, and that is totally unacceptable. If we want to sell goods to Birmingham, they are delivered in pounds, and if they are sold to Dusseldorf they are delivered to the customer's factory in Deutsche Marks. This is a problem which is more usual within shipping, than a simple failure to export or increase our exports.

347. Can anything be done to redress the balance?

(Dr McQuillan) We are trying to educate people in this. There is a joint symposium with the CBI. I am sure you have heard of the Department of Transport's rates disparity report which was issued in March last year, and the criticisms of the shippers we took very much to heart—part was the criticism of pricing and part was the position of distribution and transport and management in British industry. I am sure all shipping managers would agree that they are underpaid and under-resourced. We do see this as a symposium disappointment. With their contribution to the bottom line, it is important to effect a cost build-up. I can talk for my own company. We spend about 3 per cent of our turnover on research. When we export 10 per cent of the turnover goes on overseas freight. This is quite critical to profit and loss.

348. Would any of your colleagues like to comment?

(Mr Cooper) I can echo what has been said. That we, mainly as an importer in terms of tobacco, spend approximately 10 per cent on our imports, and it does make quite a difference in a lot of instances to where we buy tobacco and we are beginning to export. I have tried to advise our marketing arm that we should sell our products overseas on a c & f basis or a cif basis in the currency of those to whom we are selling. That is a much more professional way of going about it.

(Dr McQuillan) The disappointment we had with that particular report—which is a very excellent report—was

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[*Mr Fry Contd.*]

that about the only people who have not acted upon it are Government. Despite the Department of Transport suggesting if you want competitive freight rates you have to tranship through Antwerp or Rotterdam, which was almost a recommendation and a regrettable thing for the Department of Transport to suggest. Some of the problems identified were port costs, lights and were subject to a degree of Government control. The British Shippers' Council, the GCBS, representing ship owners, got together with the international freight forwarding community to help them get their act together. We see them as being a valuable medium for the smaller shipper. The only body which has not reacted to the report is Government, who issued it.

Mr Ross

349. If any members are shipping direct from British ports, are quite a substantial number putting through continental ports?

(Dr McQuillan) It is increasing all the time. There are a great number who do it. There is a very great imbalance in ro-ro traffic between the Continent and the UK. Allowing for that, until recently it was interesting that we could ship ex-Rotterdam, in terms of costs to fob, rather more cheaply than to ports in England. Despite the transport cost, the port costs were so different that the overall costs were less. That has been sorted out by some of the British ports who have started to work more effectively.

Mr Fry

350. How do you respond to the comments of the Institute of Freight Forwarders who have said that the UK shipping industry suffers from "the reluctance of shippers to use the forwarding industry"?

(Dr McQuillan) That has generally been true in the past.

(Mr Cooper) That has been true. The problem has been, however, that shippers in the industry have not trusted the freight forwarding industry sufficiently, not as much as they do on the Continent. Certainly I know from colleagues on the Continent, they have not been as professional an industry as we would have liked to have seen. From discussions with people—and this is a point they are addressing which came out of the rate disparity report—they are addressing that particular angle. It is for the freight forwarding industry to persuade shippers that is the best route to use, and particularly the small and medium sized shippers. I do not believe that evidence is there as yet, but the industry is working on it.

(Dr McQuillan) I think the British international freight forwarders have certain disadvantages. For a start, there has not been the choice of services from British ports that there is from European ports. That is partly the fault of the customer because we basically have been too loyal in the past and have not encouraged outsider services to start up. We have been as loyal as the shipowner to the conference system and there has not been that loyalty to the conference on the Continent. So when outsiders came in to offer services preferentially freight forwarders had opportunities which did not exist in the United Kingdom. All that they were really able to offer in the United Kingdom was a service in documentation etc., they were not finding new options and commercial offers—shipping lines in the United Kingdom refused to pay freight forwarders a forwarding agent commission, which the European freight forwarders would get. We support the IFF. Once the new EC Maritime Competition Regulation comes into force they are going to go to Brussels and accuse the lines of discriminating unfairly against them. I think they have a very important case.

Mr Bevan

351. I think I heard you say, Dr McQuillan, that in Britain there had been loyalty to the conference systems?

(Dr McQuillan) Yes, sir.

352. However, I understand it is your view that the Council is opposed to the conference system, in the liner trades specially, believing that it acts in such a way as to inhibit competition, that it is in fact a cartel, and that furthermore it does another thing—it dissipates—to use your word—national commitment. If it is at best, as you say, outdated and at worst a positive barrier to commercial competition and development and free and fair competition, what is there to defend it and how quickly should it go? Is there any indication that it exists in the liner trade?

(Dr McQuillan) I think you have to differentiate in the conference between technical aspects and commercial aspects. I think people will accept in certain parts of the world where traffic flows are not large there is a benefit in sharing of services to provide regularity of services. I do not think that is true now in the major flows across the North Atlantic or to the Far East etc. I think conferences have used that justification really to be "cartelised" and I believe that that is a major emphasis now and I do not believe that that either works to the benefit of the British fleet, because any time there is a conference debate, then there are certainly other European shipowners and non-European shipowners benefiting as well. So it is not a question of benefiting the UK fleet and I think it disadvantages the UK customer, and, therefore, the UK manufacturing industry.

353. So you are saying it exists in the liner trade?

(Mr Cooper) Oh, yes.

354. Let us get that on the record, it is a very important thing. I would like you to develop your thesis that it dissipates, in your words, national effort. I think you said "national commitment".

(Dr McQuillan) I think it is well recognised that even in the new EC Maritime Competition Regulation conferences are exempted from the normal competition laws of the EEC. I find this very strange, working in the chemical industry where total consumption contracts between customers are illegal, even between consenting adults in private, and certainly in shipping you have this total exemption from the normal competition rules where normally in trade EEC bans a hundred per cent loyalty because you must leave room for competition to have a go for the business. That has not been the case in shipping, at least in the new EC Regulation. We do not think it has gone far enough on loyalty. At least it has banned it as a pre-condition for the conference to insist on before you start negotiating. It is still allowed, but not allowed in any other trade in the Community.

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[*Mr Bevan Contd.*]

355. Okay, so we have got a situation where here there is not only a cartel—and therefore, as you say, it is really against the interests of fair competition—but it would also bolster profits up above normal in its application, would it not? It would see that profits are unduly high and it would bar entry of course to non-cartel, non-conference members?

(Dr McQuillan) That is exactly what it tries to do.

356. Could you give me instances of its effect in the liner trade?

(Dr McQuillan) I think in the liner trade it is well known that when outsiders have come into certain trades the conference has adopted predatory pricing policies, slashing rates by, say, 50 per cent until they get the competitor either to see their point of view and become a tolerated outsider, or to join the conference, or to pack up and go home, and then they double the rates.

357. So they bring in a loss leader artificially to undercut and when they have cleaned out the opposition they then go wild with the charges?

(Dr McQuillan) Certain chemical companies were prosecuted for doing likewise a number of years ago.

358. Must not this do tremendous injury to the Merchant Navy?

(Dr McQuillan) I believe so.

359. Is there not another factor imposed on top of these cartel conference arrangements called UNCTAD 40–40–20—and that is not a lady's measurements, Chairman. UNCTAD 40–40–20 is a liner code which is not a natural part of the conference system but is a form of cargo reservation which should apply only to conference carried trade to and from developing countries. That is the keynote of that particular rule. I think the Department told us here that it did not think that the UNCTAD code was working terribly well because in many of the developing countries who have signed that convention they are not implementing it in good faith according to the letter of the convention. What is the experience of the BSC of the operation of this code, and what do you think of it?

(Mr Thomas) I think, Chairman, it is early days to form a definitive opinion but broadly we would echo the views of the Department of Transport. I think it is probably true to say that the decision was taken within the European Community to accede to the UNCTAD code without in most cases a great deal of enthusiasm but on the basis that once the code was in place with the cargo-sharing arrangements you mentioned and so on, it might at least inhibit even more protectionist moves from elsewhere in the world. In fact, as you implied, the cargo-sharing aspects of the code are actually disapplied in trade between European Community countries so it is really very much to do with trade between us and lesser developed countries, I think it is true to say, and we are certainly concerned at the sort of implications you have mentioned where there are certainly moves from some countries to apply the 40–40–20 provisions, which is 40 per cent to the national lines at each end and 20 per cent left to others, which is meant to be of the conference traffic, to actually apply it to the whole of the trade. So I do not think the code has been tremendously effective from that point of view. We are certainly concerned that there is abuse, or potential abuse, hiding around the corner.

360. Abuse heaped upon abuse?

(Mr Thomas) Yes.

Mr Dicks

361. In your report you mention that you saw it as a buyer's market because you said there was a decline in world trade, but the figures I have been presented with here show in simple weight terms that your cargo figure for 1985 is an increase over, I think, 1982 and turns out the same as 1976. So, given your first statement, could you define what you mean by "decline" and say how your definition links up with the figures just given?

(Dr McQuillan) I think there is certainly a decline for UK-manufactured exports over that period. There has clearly been a very big switch in the United Kingdom trade with the rest of the world. As to the EEC—I know this is certainly true of our company—we no longer consider sales to the EEC as exports, so they are home trade.

362. I accept that, but the actual movement of cargo has been on the increase. You say you have a decline. I accept what you say about a decline in manufacturing industries. We are talking in terms of the merchant fleet where, according to the figures I have, in simple weight terms your figure for 1985 is higher than for 1982 and is now back to the level of 1976. So, while you say there is a decline in manufacturing trade, in fact in movement of cargo there has been an increase, not a decline and there seems to be some sort of discrepancy because you are using one thing, which is the decline in manufacturing industry, to say it is a buyer's market; yet the figures show there is an increase, if you take it in the terms I have done, in the actual movement of cargo.

(Mr Thomas) I think it is certainly true to say, Chairman, it is very difficult to pull together all the statistics that make up this overall question. There are certainly factors that particularly relate to the United Kingdom that we have just touched on such as decline in manufacturing industries and the fact that very often we are not talking about volume of shipments in simple weight or capacity terms, but of much lower volume/higher value shipments and so forth. There is a whole host of reasons, so we end up with the undeniable fact that at the moment it is very much a buyer's market and there is still a vast amount of over-tonnage.

363. I am not trying to catch you, I am trying to get definitions that help me to match up two things. I fully accept your view, as I say, that there is a buyer's market now because of the decline, I think you said, in world trade. But again I come back to the question that in simple weight terms the cargo figure is increased in 1985—the latest figure—above 1982 and about the same as 1976. The reference is the Department of Transport sponsored Business Monitor, MR15, "General Trends in Shipping for 1986", the tables in that document. This is where I see you running on tramlines passing each other instead of coming together with a clear-cut situation we can analyse.

(Dr McQuillan) I do not think you can take it purely in tonnage terms, it is tonnage miles, nautical miles.

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[*Mr Dicks Contd.*]

364. I am using their term, simple weight. I can understand what you are saying otherwise. When you say the only future for the British merchant fleet is for a reasonable share of the declining market, the reduced trade available, what do you call a "reasonable share"?

(Dr McQuillan) They have to determine that by competitiveness. Looking at British shipowners, they are very efficient. I was interested in your earlier testimony on technology. I think British shipowners have caught up with this, and I am impressed with the way they use technology. What tends to be forgotten, because there is a certain romance about the sea, is the increasing differential in service. Shipping is increasingly to do with the land leg.

365. If you say they can only hang on to a reasonable share and they are not competitive in terms of the price they offer to you, and the only way they can be competitive is by Government subsidy, your company is paying too high taxation, you are not getting the benefit of the service—you seem to be getting some benefit and the merchant fleet is maintaining a share, I do not see any real benefit. How else do you see it surviving?

(Dr McQuillan) They are efficient. The problem is, are they competitive. I think they have the answer. They founded the conference system in days of sail. It is a pity they stayed quite so loyal to the system; if they competed they could do well.

Mr Ross

366. The decline is in tankers, is it?

(Dr McQuillan) Yes.

367. How much do you send by air freight?

(Dr McQuillan) Very little.

368. One of the things we have heard from earlier evidence is that the Germans have a very modern merchant fleet. Most of the ships have been built in the last five years, less than that. Are you not concerned? I realise what you said earlier that there is plenty of competition from foreign merchant lines and you get competitive rates. With the upturn in trade, perhaps those competitive rates might not be there. We are told that British ships tend to be very much out of date and are growing old with a lack of crews. Do you not think that is part of the evidence?

(Dr McQuillan) I would be surprised if that was the case. If anyone is prepared to pay for the service someone will be willing to provide the service. As a European I cannot be too concerned with whether it is a German bottom or a British bottom ship, if I find I am going to get a competitive rate. It is true that the tanker market has declined and it is true of the product-tanker market we are interested in. I think their worries are in the Department of Transport advice to take ships through Rotterdam.

Mr Fry

369. You did suggest that the European Community and UK fleets have suffered because policies have been too protectionist, and that is why you come up against the protectionist policies. From the studies we have made it is clear that protectionism is now in the decline and there would always seem to be some country that is prepared to have some protection for its own shipping or allow shipping to flat out under advantageous terms no matter what other EEC countries do. In those circumstances how do you as business people expect that the UK fleet are compensated or, can be compensated, for the kind of advantageous effects that seem to be inevitable from other country's protectionist policies or very generous policies, given by some countries to companies which flag out?

(Dr McQuillan) I think you either have to beat them or join them. I think that is the problem facing the British shipowner. There is nothing that we can do to affect that, but clearly, as set out at the beginning of my evidence, I believe that the disadvantages they do suffer under because of foreign government action are a matter for government in this country as well.

Mr Bidwell

370. Could I follow on from the general economic terms and rates of shipping to cargo handling? There has been an enormous revolution in the way of containerisation. Has that been reflected in real terms in freight rates?

(Dr McQuillan) Oh, yes.

371. That is all I want to get, because you are paying a compliment to that aspect of British endeavour?

(Dr McQuillan) I think in terms of technical innovation British lines have been very good, yes.

Mr Bidwell: That gives a better picture to colleagues.

Mr Fry

372. Would you accept as a United Kingdom businessman there has to be a lower limit below which the size of the United Kingdom fleet must not be allowed to drop, even if that does mean a certain amount of government expenditure, merely because crises do occur and therefore this country would have the need to rely upon sufficient merchant shipping in such a crisis?

(Dr McQuillan) From a purely business point of view, I would see that figure being zero.

Mr Ross

373. You are putting the point of view that has been prevailing in the City for some time. Of course, there is that point of view. Others think this is surely a maritime nation and there should be come patriotism using British ships.

(Dr McQuillan) Why differentiate shipping? Many other industries have gone to the wall without too many regrets.

Mr Ross: We will not have anything left at all of British industry except a few chemicals.

Mr Fry

374. Are there any other questions? Thank you very much for coming, Dr McQuillan. Is there anything else you would like to say to us before we close?

(Dr McQuillan) No, sir. I just wish you success in your deliberations.

Mr Fry: May I say on behalf of the Committee I think you have made your view of the position very clear indeed. We thank you for that because at least that does help us in trying to cope with the exceedingly complex problem. Thank you.

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HOUSE OF COMMONS

TRANSPORT COMMITTEE

Session 1986–87

DECLINE IN THE UK REGISTERED MERCHANT FLEET

MINUTES OF EVIDENCE

Wednesday 25 February 1987

Nautical Institute
Commodore G G Greenfield, Captain C G W Hunter and Mr C J Parker

The Institute of Freight Forwarders Ltd
Mr A C Gates and Mr Derek Downs

The Marine Society
Mr G A B King and Lieutenant Commander R M Frampton

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WEDNESDAY 25 FEBRUARY 1987

Members present

Mr Gordon A T Bagier, in the Chair

Mr David Gilroy Bevan
Mr Sydney Bidwell
Mr Terry Dicks
Mr Den Dover
Mr Peter Fry
Mr Roger King
Mr David Marshall
Mr David Mudd
Mr Stephen Ross
Mr Neville Trotter

Memorandum submitted by the Nautical Institute

THE DECLINE IN THE UK REGISTERED MERCHANT FLEET

The Nautical Institute is a professional body for qualified mariners whose principal aim is to promote a high standard of knowledge, competence and qualification amongst those in control of seagoing craft.

My Council is aware of the contribution made to your Committee by Professor R O Goss, who is a Fellow of this Institute, by The British Maritime League and The Marine Society. We have therefore, confined our submission to the important subject of deck officer training and manpower requirements.

We also enclose, as an annex, a copy of our submission to The House of Lords Select Committee on Marine Technology.* We believe it is essential that the subject of shipping related research and development does not fall by default and we point out that the annual review of Government funded R & D shows a DTI spending of only £6 million in 1985–86 on marine technology and shipbuilding. The corresponding figure in aeronautics and civil aviation is £120 million.

My Council is particularly concerned that policies adopted within the shipping industry by government owners and unions in the past leave the United Kingdom both strategically and commercially vulnerable.

One reason for this is the severe reduction in the Merchant fleet in terms of numbers of ships, but another is that in the longer term there will be insufficient properly trained and qualified personnel. This is potentially even more serious, for ships can be built more quickly than men can be trained. Although the two aspects are clearly closely linked, it is the latter which this submission addresses. Our submission is in three parts, an analysis of the problem, questions which need to be asked and possible solutions.

ANALYSIS

Both for practical reasons and also to comply with international agreements and domestic legislation, ships must at all times be under the immediate control of a qualified watch-keeping officer. In some small ships this requirement is met by the carriage of the Master and one other officer, but in many larger ships three officers are needed as well as the Master. An average allowance of Master and two deck officers may be taken as a reasonable basic requirement. Due recognition must be taken of the need for leave and for training and in study for Certificates, especially for junior officers. All ships therefore require a reserve, and those on tight schedules such as ferries and some others may well need two complete crews. In addition, a small allowance must be made for qualified personnel in shore management, such as superintendents. Thus, for every 100 ships under the British flag it can be assumed quite conservatively that some 500 qualified deck officers will be required.

Assuming that the average time a seafarer spends at sea is 10 years: then it can be seen that for every 500 employed a minimum recruitment of 50 new entrants per annum is needed. The figure of ten years average spent at sea was the result of the Tavistock Institute Report in 1972 and is confirmed by recent studies from Singapore Polytechnic.

The current deck officer recruitment to the whole Merchant Navy in 1985 was 85 and in 1986 is likely to be 39 which is insufficient *to sustain* even 100 ships in service. We do of course recognise that there is a pool of expertise which can probably accommodate a modest revival in UK registered ship numbers but that pool will eventually dry up: it cannot sustain manning beyond the immediate future.

Relating to the size of the Merchant Navy but not dependent upon it there is a demand for maritime services.

In the United Kingdom we believe we have taken conservative estimates of the demand for 500 pilots, 800 Harbour Masters and professional dock staff responsible for locking, tugs, conservancy, port safety and vessel traffic services. Existing British Companies require at least 200 marine superintendents and technical staff with seagoing qualifications to conduct ship management operations, employ and train personnel, conduct maintenance schedules and statutory surveys as well as chartering and ships husbandry.

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We believe there are at least 300 qualified mariners working as independent marine consultants, marine surveyors, P & I Club managers, average adjusters, assessors, advisors to legal firms and similar occupations.

Within the maritime colleges there are currently some 250 qualified mariners working as lecturers, instructors and research assistants. They not only service the British Merchant Navy but also train many overseas students, and as well as catering for the necessary professional qualifications they provide specialised courses, like survival for the offshore industry.

Within the government, there are at least 200 nautical surveyors, examiners, inspectors and other employees. They are required to enforce the Merchant Shipping Act, port state control, fishing vessel safety, educational standards and provide meteorological services, man the research vessels and cover aspects of health and safety and marine industrial development.

There *are* a considerable number of ex-merchant naval officers in HM Coastguard, the RNLI, the RNXS, the Lighthouse services, surveying and sundry other activities.

Altogether there are in the order of 2,000 jobs ashore at the present time which require the expertise of the master mariner. The situation is mirrored in the engineering disciplines. It is stressed that the majority of the work carried out relates to shipping in general rather than purely to British ships; if there was no British Merchant Navy the country would still require about 1,500 qualified mariners simply to handle trade and supervise the operation of foreign vessels visiting the UK.

Of the shore based mariners the majority hold masters' foreign going certificates of competency, a substantial number will have held command and so will come in to shore employment between the ages of 30 to 50.

It is reasonable to assume that there is an average expectancy of 25 years' employment for this group of shore based mariners which gives a demand for approximately 80 transfers per annum from sea staff.

Of course the Institute recognises that there is a surplus of senior staff on the job market as a result of the contraction in the Merchant Navy, but again we point out that such an available pool of manpower cannot be sustained with current recruitment figures.

In brief for every hundred ships at sea there is an annual need for 50 trainee deck officers, while to sustain the infra-structure ashore there is a need for 80 transfers from sea each year.

The Merchant fleet currently stands at about 500 vessels, implying a demand for 250 potential deck officer entrants a year. Provided this demand is satisfied it should, allowing for wastage, be just about sufficient to provide suitably qualified senior officers both at sea for a similarly sized fleet in the future and in the various supportive posts ashore. As it is, the recruitment of only 39 deck cadets this year is insufficient to provide the necessary intake to the profession even in 4 years time, ie on completion of their initial training. There is of course an alternative path to qualification, for those who go to sea as ratings. Some welcome steps have been taken in recent years to encourage young seamen to follow this path, but it is a difficult one and there must be very grave doubts as to whether it can compensate for a shortfall of over 200 people a year.

It may of course be argued that part of the problem is the relatively short period spent at sea by the "average" seafarer. However, there is nothing new in this and it must be doubtful, given the nature of the seafarer's job, whether a great deal can be done to extend the period, and indeed whether it would be desirable to do so. The man who goes ashore has not wasted his time at sea, even if he goes into a completely different job: there is ample evidence from the success of ex-seafarers in many fields that the Merchant Navy, like the armed services, offers sound preparation for life elsewhere. Further, once trained, men are available if in a national emergency a rapid expansion of shipping is needed. On all counts it is our submission that a substantial number of young people going through the disciplined training required at sea is not only necessary for the future of the shipping industry but is conducive to the health of the nation.

Questions which need to be Answered

The Nautical Institute is not a Trade Union and cannot act as one. We do, however, feel justified in raising issues which should form a framework of questions to those directly responsible.

The first question must be whether the premise on which this submission is made is correct, namely that it is desirable for the UK to maintain a substantial maritime presence both in the shape of ships at sea and the associated infra-structure ashore. The reasons for the proposition have been widely canvassed and go beyond the immediate concern of this paper, in which they are only touched on. Clearly for the sake of the argument a positive answer must be presumed.

Given that, it is pointed out that the figures derived in the analysis above show so serious a potential shortage of officers that even if they are well out in some of the assumptions on which they are based, a grave problem still exists. The second question is therefore whether and how the problem can be solved. In the Institute's view the answer is that it can be solved, but only with some form of Government assistance. The cost of training is high and companies can barely afford to train for their own immediate demands, with no allowance for the longer term requirements of the shipping industry as a whole. Many companies have indeed opted out of training cadets altogether to save money, and rely on recruiting officers after they have qualified; others such as ferry companies are, because of the narrow specialization of their trade, not suited to provide complete basic training. In the past, a collective grant levy scheme operated whereby companies which did not train officers contributed

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to those who did, but this scheme was abandoned in 1980 due to the financial straits in which many firms found themselves. Further, companies justifiably point out that many of their competitors overseas pay no training costs at all, for example most of those whose ships are registered under flags of convenience.

The third question is whether the problem can be solved, in part or in whole, by changes in the system of training and qualification. Clearly a detailed dissertation on training would be out of place in this submission, but the Nautical Institute's view is that it is essential that standards at least similar to those now required must be maintained: the reputation of British shipping still stands high and that it should remain so is vital not only for the efficient operation of our fleet but also so that overseas countries continue to come here for maritime expertise, the provision of which makes a substantial contribution to our foreign earnings. The present training system, in broad terms, is well-proven, and the point should be made that the long period between a young man going to sea and being fully qualified does not mean that during that time he is under-employed. On the contrary, for the large majority of the time he is a fully effective member of the ship's company, and indeed for much of it he is a qualified watch-keeping officer. When fully qualified he is thus well experienced in practice as well as in theory. It is not thought that any acceptable changes in the system would markedly alter the thrust of this submission. None the less, there are changes which could be made with advantage, and indeed an incidental benefit of the acceptance by Government of a measure of responsibility for training costs would be to make these more easy to achieve.

SOLUTIONS

It is our belief that there is a serious short fall in the number of deck officers who are being trained and consideration should be given to the following proposals.

1. The provision by HM Government of a training allowance to British shipowners, based upon the actual cost of training a man up to the time he qualifies for a Master Mariner's Certificate.

2. The direct funding by HM Government of some training courses, particularly courses which can be conducted jointly for both Merchant Navy and Royal Navy personnel. There should be some expansion of such joint training, to the mutual benefit of both services.

3. The empowerment and funding of an independent body, such as the Marine Society, to operate a pool training scheme. Under such a scheme, trainees might, up to the time they gained their first Certificate, be employed by the Society and placed on board a variety of ships so as to gain wide experience.

4. HM Government should fund a research project to be supervised jointly by The Nautical Institute and The Institute of Marine Engineers to establish reliable figures concerning the number, age and seniority of qualified deck and engineer officers employed ashore in the UK and in subsidiary UK companies working overseas. If necessary they should be funded to provide regular forecasts of demand.

5. The Institute of Marine Engineers should be asked if their views concerning trained marine engineers concur with this thesis for deck officers.

6. The position with ratings should be reviewed. Though strictly outside the field of this paper, the need for a continuing source of experienced and able ratings is self-evident and the Institute would like to see consideration given to schemes for them analogous to those recommended above for officers; such schemes should be associated with, but not confined to, the further development of opportunites for ratings to obtain officers' qualifications.

The Council of The Nautical Institute believes that simple and effective measures can be taken to solve the manpower problem but it has to be observed that current manning levels are so low that training cannot easily be accommodated on board without some form of assistance. The Institute is most concerned that proper sea time is also provided since this has a major bearing on professional competence.

The Nautical Institute will be pleased to elaborate on these proposals if asked so to do.

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Examination of Witnesses

COMMODORE G G GREENFIELD, Senior Vice President (Medway Pilot), CAPTAIN C G W HUNTER, Chairman of the Education and Training Committee (Principal of the Gravesend Sea Training School for Ratings) and MR C J PARKER, Secretary, the Nautical Institute, called in and examined.

Chairman

375. Good afternoon, gentlemen. welcome to our Committee. Would you give your names for the sake of the record.

(Commodore Greenfield) My name is Commodore Greenfield, I am the Senior Vice President of the Nautical Institute, in the absence of the President who is sick. Mr Parker is the Secretary of the Nautical Institute and the senior member of the paid staff. Captain Hunter is the representative of the Gravesend Sea Training School for Ratings. We represent the officers of the merchant service, not only British, but we endeavour to be an international institute. We accept for full membership, all holders of a British Certificate of Competency as Master, or the equivalent foreign qualification. We are deeply concerned about the manpower and loss of training facilities in the British merchant service today.

376. You do say that the object in your paper is to aim for a standard of knowledge, competence and qualifications amongst those that go in seagoing craft. Do you feel that this quality and competence has been reduced somewhat in recent times?

(Commodore Greenfield) Yes. This has been sadly lost in the fact that shipping companies today are flagging out to foreign owners and there is no longer a commitment in British companies to training of officers. There used to be a levy on all shipping companies for those shipping companies who were prepared to train cadets. This is no longer the case because they are unable to afford to do so. In consequence of this, the intake of the merchant service in officer cadets today is insufficient to sustain even 100 ships of 1,000 gross registered tonnes or more in the British merchant service; there are just not enough people coming into the service to sustain the flow-through even on our reduced numbers today.

377. In part of your memorandum you say you are "particularly concerned that policies adopted ... by government, owners and unions in the past leave the United Kingdom both strategically and commercially vulnerable". Which policies do you mean and how have those policies led to the situation you describe?

(Commodore Greenfield) We have lost all subsidy to the British merchant service from the government. Ship owners are increasingly pushed to the wall on costs, therefore their ships are going abroad, they are flagging out, they are taking on foreign officers and they have no commitment to training. If the present training continues we could very well end up like the United Arab Emirates who put all their maritime services, including harbour masters and pilots, out to tender for foreign competition. If you go to Saudi Arabia, nearly all the pilots, harbour masters and ancillary port services, are run by foreigners. A stage will be reached in this country where the same will happen. Do we want all our marine surveyors and pilots to be, in the ultimate, foreigners? It could easily happen.

378. If we take what you are saying about foreigners, I assume that you are not really having a go at them because they are foreigners, you are having a go at them because they are not properly trained and qualified and able to do the job as you see it having to be done. Is that not your main objection?

(Commodore Greenfield) If cost is the only criterion, yes. The average Filipino officer is not as highly trained or as highly qualified as a British officer is today. If we come to the stage where there are no British officers left, where will our port services end up. We must have a nucleus of pilots and harbour masters, vessel traffic service operators, marine surveyors. It could come to the ultimate, as we have said in our paper, with a new Pilotage Bill coming in, that you might find British and foreign ships being navigated into British waters by Russian pilots; in the ultimate it is conceivable.

379. We had certain difficulties when we had our inquiry into the Pilotage Bill and I do not want to go back into that. How do you place this in the ladder of what you would term a safe ship?

(Commodore Greenfield) We place it very high on the ladder of a safe ship because we feel that it is extremely important to maintain a nucleus of British trained officers for even ships that go to flags of convenience. We are a maritime nation. In the context of the European Community I can see that we might possibly be employing Germans or any EEC national on British ships but in the present climate legally, under the Aliens Restrictions Act, British ships must be commanded by a British Master. We can probably change that if necessary but is it something we want to see strategically? If we had another Falklands situation, would we want to see our ferries going to a similar situation commanded by Indian or Filipino Masters.

380. One of the reasons we are going ahead with this inquiry is because of the very tragic reduction in the number of ships in the UK maritime fleet. What you are saying does then assume that we have a large enough maritime fleet available to justify the type of training and the number of officers required. What size of maritime fleet do you see that as being? You do say in your memorandum "a substantial maritime presence". Politicians are very good at using words which do not mean a great deal. What is "substantial" in your view?

(Commodore Greenfield) Certainly not any less than the present number of ships over 1,000 gross registered tonnes, on the British register today. At the moment we are not taking sufficient officer entries even to sustain that level of shipping in the foreseeable future. Admittedly at the moment we have quite a large reserve of officers on the beach because they do not have ships to go to. Obviously this is a depreciating factor and within ten years all those people will be otherwise employed, or retired or too old. In ten years time, as we see it, unless something is done about the training of young officers, there will be no British officers to sustain our maritime presence.

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[*Chairman Contd.*]

381. They are not easily going to dash back if they have been retired to an industry which has rejected them in some ways, are they?

(Commodore Greenfield) No.

Mr Fry

382. You said that we are a maritime nation and you deplored the ending of all subsidies. May I put it to you that it is a pretty odd maritime nation that is unable to sustain its shipping without large-scale Government subsidies. One of the problems in the world at the moment is that even if we decided to pay subsidies, there is no sign that other countries would cease to pay subsidies or not pay even more. Therefore one could end up by pouring vast amounts of public money into the Merchant Navy without any guarantee whatsoever that we would even retain the present number of ships. I put it to you that that seems to be the deteriorating situation. I am as anxious as I am sure you are to correct it but those who come before us and make statements that we need a certain size Merchant Navy should have some idea how much it might cost. Nobody yet has given us any idea what it might cost to maintain the present size Merchant Navy. Although it is an emotive issue, Governments have to deal with practical problems. I would genuinely like to ask how you would reconcile what you have to say with the realities of the situation?

(Commodore Greenfield) Could I put it to you that I was implying that we need a subsidy to support the training side rather than the shipping side. I leave the subsidies for shipping to somebody more knowledgeable than myself but we would like a Government input into training.

(Mr Parker) I was hoping to correct that impression as well. When we were putting this paper together we felt that subsidies for shipping and the fiscal climate were outside the scope of our report and would be covered by other people. A shipowner has to compete internationally on international freight rates which a national country has a limited ability to compete with. Then he has a second problem of what he is going to do for his operating costs. Bunkers are pretty international but manpower is either a national issue or you flag out and make it an international issue and you get foreign nationals from other countries and operate at lower costs. The only point we are making is that if we continue to follow a policy of encouraging ship owners to reduce their manpower costs by flagging out, there is a danger that you will lose the end of the rope. How much it takes to provide trained British officers in Merchant ships can be costed. I think GCBS's figure is £25,000 per trainee and that is a figure they are not prepared to touch at the moment if they can survive by going down another route. This is perhaps understandable because their competition does not embrace that cost. All we are trying to say is that it is a sizeable cost but if we look at it in terms of the national commitment it is probably one that we ought to face up to to some degree.

383. But they are still going to need employment and that still therefore tends to beg the question of the size of the British Merchant Navy.

(Mr Parker) Yes, they are going to need employment. We have indicated that we have a demand for at least 80 qualified mariners a year to keep the infrastructure going. You can discuss those figures one way or another. Those are British people whom, we argue, should ideally be British people working ashore. The danger is that if you have no fleet you cannot sustain that infrastructure of manpower and therefore it is possible to conceive of ways of setting up training schemes whereby we have a certain number of British people going through for training who may be being trained on foreign flag vessels. Owners are quite happy to have trainees but they are not happy to take the cost.

384. It is very significant that in the 1960s and early 1970s when the shipping industry was much healthier than it is today, nonetheless the industry was able to retain only a small percentage of those recruited during that period. I must put it to you: what chance is there in the immediate future or the medium-term future of being able to retain any increased numbers that may be put into the industry now? It is surely a very great problem. The figures that we have show that only one in eight of all entrants actually completed ten years service at the time of the last survey. Therefore your 80 a year might be on the low side if you have a wastage figure like that.

(Mr Parker) It is a young man's profession and always has been and the wastage rates have always been incredibly high and it has always been incredibly expensive. This is something which is part of the shipping industry and always has been. We come back to the argument put forward by Commodore Greenfield that we either accept these very high costs—and we want a number of British people trained—or we do not have them. The basis of our paper is to make this one point clear. If the British Government want British Masters on British ships they have got to put in effort now to secure them.

385. The problem is slightly deeper than that, is it not? We had evidence yesterday pointing out that a very high percentage of ships officers then went off and did very important other work: pilots, harbour masters, marine insurance assessors, a whole range of jobs. It does seem that one would have to pay a very high cost indeed to educate people who are going to go off into other highly remunerative occupations in order to retain a comparatively small amount of the entry.

(Commodore Greenfield) This has been part of the British maritime scene since day one. You train X number of officers and when I was at sea, getting on for 20 years ago, the average life expectancy of a young officer at sea was about seven years because there was such attractive employment for him ashore. Although there is no longer so much attractive employment for him ashore, the equivalent jobs which he does ashore when he comes—as you have so rightly said: pilots, marine surveyors, ship brokers—do need a degree of expertise in the maritime field and the qualification for that is the Master's certificate. If we do not have those people coming ashore then we do not have those people in those professions where we need them and—the point I was making—they will end up being taken by foreigners. If that is what the industry wants then that is what they are going to get.

Mr Bevan

386. What is happening, is it not, is that you are allowing to gravitate out of the maritime portions of the

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[*Mr Bevan Contd.*]

British seafaring tradition onto the landside portions all the people you really need in the maritime sections, if you have a decent number of ships and a decent number of people to be officers. This leads me to something Commodore Greenfield said earlier about the future insufficiency of junior officers and the high wastage out of the system, referred to by Mr Parker. Are we not training obsolescent marines completely? Are we not training in such a way that we produce disciplines which will decamp themselves out of the process in any difficult circumstances? Should we not, in this matter of training, be following a system of dual certification which other enlightened and forward-looking maritime powers are—I am thinking of Japan and Norway and the Netherlands? Why are we using a system which is going back to almost the earliest times of British maritime activity which will be the coracles with the Welsh and Alfred the Great with the English.

(Commodore Greenfield) I cannot answer for the Welsh.

387. Well, British.

(Commodore Greenfield) We have just been discussing the next Five Year Plan for the Nautical Institute and high on our list of priorities is dual certification so that we can go upstairs or downstairs and have dual officers.

388. Good. And the officers can go upstairs or downstairs. The three disciplines which have obtained until this moment, the disciplines of the deck, the engine room and the catering entrée, are rationalised so that they do not go out of their single discipline streams, they can go up and down vertically within that ship and within the profession?

(Commodore Greenfield) I cannot speak for the catering side but I speak for the Nautical Institute in co-operation with the marine engineers. We would see in the future it going along this line.

389. What discussions have you had with the marine engineers?

(Commodore Greenfield) We are in the process of having them at the moment. We are both thinking along the same lines, that I will assure you.

Chairman

390. Do you think this will be favourably accepted? It seems to be a fact of life which is happening elsewhere and that would be acceptable. You do not see the demarcation argument lasting a great deal of time.

(Commodore Greenfield) I do not think so. I am sure that times have changed to such an extent that that argument no longer subsists. I may get shot down.

Mr Bevan

391. That is marvellous. Maybe we might be pointing an index finger, a pathfinder finger to lower wastage and more occupancy at sea. Further to that, I should like to have your Institute's comments on the Secretary of State's proposal to help with training.

(Mr Parker) Can I take the subject of dual certification first. There has been this recent technology and manning study and I think you had evidence from Captain Holder yesterday. As a result of that we are joining forces with the Institute of Marine Engineers to have a seminar with a view to getting the proceedings well known and to encourage people to have a look at this to see whether it will work. My own view is that it will not work in all companies. The industry is an extremely difficult grouping on which to get complete industrial co-operation. I have to be careful which companies I name. I know that Shell are taking a lead in this but it may be quite an inappropriate manning scale for a company like OCL which is running a regular liner service with containers. You cannot just impose a new manning structure on the industry and assume that it is all going to work. It is going to be really quite complicated.

392. I am sorry if I intimated any degree of imposition; that was wrong. We are trying to evoke from the industry proposals regarding the training syllabus in discussion with our own Secretary of State which might produce a formula.

(Mr Parker) Right.

393. He made a speech on 10 December and he said he would open discussions immediately. Could I know what contact you have had and what discussions you have had?

(Mr Parker) The only thing we have done is to write to the Secretary of State in response to his initiative on this question of a manpower reserve saying that in principle we very much support the idea and it could lead to a new initiative in helping to promote training. We have had a letter back thanking us and it has not been taken up yet, as far as we know.

394. I hope we shall have an opportunity of putting this matter to the Secretary of State because "immediately" should mean "immediately"; they were his own words. But when these discussions do commence and when they are being outlined, would you be prepared to recommend a return, for instance, to the old levy scheme?

(At this point there was a complete breakdown of all recording equipment)

Note prepared by the Nautical Institute to replace the answers to Questions 394 to 402 lost when the recording equipment broke down.

(Captain Hunter) Before answering that, I would like to go back to the beginning of our evidence and correct if I may Commodore Greenfield's introduction. I am present as a representative of The Nautical Institute and not, as stated, as a representative of the National Sea Training College at Gravesend. My position as Principal of that College has no relevance to my being here with the Nautical Institute.

To return to the question put by Mr Bevan, I would like to suggest various factors that should be borne in mind when considering Government assistance for training costs. Any such assistance should essentially be simple to administer and should preferably be undertaken through an independent body. It should not be seen as a means of necessarily perpetuating present systems of training, which are based on traditional manning requirements, and it must be recognised that some Companies, such as the

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[*Mr Bevan Contd.*]

Ferries, find it difficult to offer suitable training experience and also that some Companies are reluctant to undertake training when they are unable to guarantee employment at the end of the training period. Another point to be borne in mind is the current public image of the industry which makes it very difficult to attract young school-leavers when the training offered is unsponsored, in other words, unfunded. I would like to add that although it is recognised that the training of seafarers is subsidised through Colleges of Higher or Further Education, the small number of nautical colleges and the traditional sandwich-based type of training increases the cost to the Shipping Company and to the individual in comparison to the costs incurred by shore based industries. Finally, I would suggest that Government funding should aim in the short term to stimulate recruitment and training and in the longer term to ensure that adequate levels of training are maintained. Much of what I have said could be assisted by the introduction of industry trainees in addition to company trainees. Attention would however be required to make sure that such industry trainees met the same standards as those required by individual shipping companies.

395. How would you wish to see the funding used?

(Captain Hunter) It depends on the scale of the Government funding that was available but such funding should not necessarily subsidise current training and should, as I have said, stimulate and maintain an increase in recruitment and training. In the past the Grant/Levy scheme failed to sustain any such increase proving too expensive for many of the participating Companies.

Chairman

396. If Government funding was unavailable should the Grant/Levy scheme be reintroduced?

(Captain Hunter) As a last resort, if at all, and certainly under different parameters. The scheme was finally unworkable in the past and would be even more so today.

Mr Bevan

397. Finally, could I ask you do expand on your recommendation that a body such as the Marine Society be empowered and funded to operate a pool training scheme?

(Mr Parker) In putting forward the idea of the Marine Society as an example of an independent body taking on the responsibility for running an industry pool training scheme, we were conscious that it is a non-profit making charity, its objects are to further marine education and training, it is neutral of the industry's collective bargaining machinery and it embraces all disciplines.

398. Why did you specifically suggest the Marine Society?

(Mr Parker) There are both advantages and disadvantages in choosing such a neutral body but we consider the advantages outweigh the disadvantages because the industry is so divided in its form of representation.

399. To whom would the Marine Society be accountable?

(Mr Parker) The Marine Society is actually incorporated by an Act of Parliament and so in the last analysis it is MPs! However, in practice, its executive is a court of influential and respected shipping and naval personalities.

Chairman

400. Could you in your comments explain what a class 7 vessel is?

(Commodore Greenfield) A cargo vessel capable of trading world-wide and manned to top standards.

Mr Ross

401. Should a class 7 vessel which might be employed in coasting trades in distant waters not be able to reduce the manning while so employed?

(Commodore Greenfield) I see no reason why this could not be arranged.

(Mr Parker) I think the main thing is to keep administration as tight as possible and this can probably be done most effectively by operating a pool training scheme.

Mr Dicks

402. Are vessels capable of operating in the present "state of the art" without a watch-keeping officer on the bridge? We have been told that this is possible.

(Commodore Greenfield) Whoever told you that must be living in cloud-cuckoo land.

Chairman: The position is that somewhere in the middle of the questions on training there was an interruption in the recording but we will write a note of your replies into the record. Can we pick it up?

Mr Dicks

403. The best part of the debate of course is lost! Can I just summarise. I was asking you about the level of training and you said that whoever told us that must be living in cloud-cuckoo-land. In assessing the number of officers required to man 100 ships—500 in your view—your Institute refers to the practical and legal requirement that "ships must at all times be under the immediate control of a qualified watch-keeping officer". I am quoting from your memorandum. We have been told by two captains that this is quite unnecessary on modern ships. You are almost suggesting that the fairly eminent captains who gave evidence before us are living in cloud-cuckoo-land. I understand one is an officer both in the UK fleet and on flagged outships and the other is a man involved in training. We have been told on the one hand that perhaps we are being a little bit too fussy about the needs of safety, just a little bit, and you are saying that is absolute nonsense and anybody who tells us that is living in cloud-cuckoo-land. The truth must lie perhaps somewhere between your view and the view of the practising officers who are actually sailing now or advising on it round the world.

(Commodore Greenfield) As you know, I am a practising pilot and I go on different ships every day of the week, different flag ships. I have vast experience on different types of ships. When I say that you need an officer on the bridge all the time, this is absolutely essential in the present state of technology. If a ship is in the middle of the Atlantic and the officer of the watch just happens to go down below to look at a file, this is acceptable, but there must be somebody at all times on call so that if you have an ordinary seaman on the bridge, the minute something comes up on the radar screen, a qualified officer is ready to go onto the bridge. I am almost speaking heresy because it is a requirement in law that there shall be a qualified officer on the bridge at all

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[*Mr Dicks Contd.*]

times on a British ship. It does not often happen that there is not one on British ships but on foreign ships I have seen occasions when this does happen. The Japanese have experimented with unmanned ships; they have in fact sailed an unmanned ship across the Pacific with nobody on board at all, but it had a nanny with it. This is all right for a once-off. They have tried it and it worked and the ship got there. The point is that when it gets there you have got to put somebody aboard it to dock it, tie it up, put ropes out and all the rest of that sort of thing. So we are a long way from having an unmanned ship; we are also quite a long way from having a ship which sails without a qualified officer on the bridge or in the vicinity thereof.

Mr Trotter

404. The thought of a ship without a qualified officer is rather like an aeroplane without a qualified pilot on the flightdeck. However, it has been suggested that there may not always be a need to have also a seaman as lookout, that the officer being there with his radar and an alarm that automatically goes on if it detects movement ahead could do away with the need for a seaman as lookout. It has been suggested that the radar has a much larger range than the lookout would have with his binoculars. Would you like to comment on that?

(Commodore Greenfield) As a possibility in the future but you will not get away from the fact that you have got to have the necessary number of men there to carry out that function all the time. He has got to be there anyway so if he has got to be there he might as well be doing his job on the bridge.

405. But why would the lookout have to be there as well as the officer?

(Commodore Greenfield) At the moment there is a legal requirement that there should be a lookout and an officer.

(Captain Hunter) Certainly in practice, during the night, that is the case. There is a lookout on the bridge. During the daytime he is usually on call and in the vicinity and he is there if it proves necessary.

406. Would that apply to quite a small coaster which had a crew of only six or seven? Would there still be a legal requirement for there to be two men there at night on the bridge?

(Commodore Greenfield) In British ships it depends on the tonnage of the ship. In practical terms the answer for foreign ships is no, there is not. There is probably supposed to be, but there is not.

Mr King

407. Looking at the subject of research for a moment. The Government have recently sponsored research into ship design and manning levels as part of the Efficient Ship project which was co-ordinated by Captain Holder who actually appeared before this Committee yesterday. What is the Nautical Institute's view of the likely worth of this project?

(Mr Parker) We are not the leaders of the Efficient Ship project and we are not setting the project parameters but we are very supportive of the idea. We have attended all the setting up meetings and have contributed what we can. We are helping to publicise the results and things of that sort. In essence we support the idea and we are encouraging new solutions. It is a research and development project and we are very much behind it. We are running seminars to help promulgate the results. The only thing one can say about it is that it is collaborative project work so more than one company must get together with another one to produce a new approach to a problem. It is left to be industry led and if industry does not come forward to look at a particular subject area or put resources into a project that project will not get looked at. So one of the things one might say about the Efficient Ship project is that it has a risk of being a little bit patchy because it is not an overall project. On the other hand one can say that it might be very much more effective because of it.

408. Do you think this is the sort of project that Government should be sponsoring, getting involved with?

(Mr Parker) As a personal opinion, yes, very much so.

409. Looking at Classification Societies, something which on the face of it appears a little complex, apparently in the letter to the House of Lords Sub-Committee II annexed to your Institute's memorandum it is recommended that the UK's leading classification society should change its role "to that of a systems development organisation, whereby commercial design consultants could purchase fundamental data and modular designs which have a pre-stamp of approval". What are the reasons for this recommendation and what would be the benefits of its implementation?

(Mr Parker) To a certain extent it is happening already. Companies give the Classification Society their plans to approve and there is this dialogue going on. The reason for putting that in—and it is not just in respect of this country but other countries as well—is that the Classification Societies are classifying every ship for a certain standard. You can have your opinions about Classification Societies and how they work but that is what they are doing. They therefore have to maintain a level of expertise and a number of people whose salaries are paid for by the owners paying to have their ships classed. The commercial industry is therefore supporting classification internationally; it might be Panamian owners or whatever. The classification societies, although they are saying they are a little bit cold at the moment, do have resources coming in from the shipping industry in a way that governments do not. Therefore, if in this country we are trying to promote and strengthen our maritime expertise, it seems logical to draw attention to the fact that the classification societies are a major national asset. That is all we are trying to do in that statement.

410. Are you implying that Lloyds should not carry out a full survey of ships?

(Mr Parker) I hope not. This is supplementary to and in the context of R&D. They should be given every encouragement to develop this function and sell it for UK Industry Limited together with all their other activities.

411. Would it speed up the construction of ships, cheapen them in any way as a result of this?

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[*Mr King Contd.*]

(Mr Parker) Yes, I think you could argue that it probably would, simply because the ship owners have got to have their designs classed as well. It is mostly shipbuilding yards now who are putting forward the new designs of ships and therefore you could see an improvement in ship design standards.

412. But this would be the same for our yards as it would be for the Japanese or the Koreans presumably so there would be not actual benefit enjoyed by us at the expense of anyone else.

(Mr Parker) The benefit would be enjoyed by Lloyds Register who would be setting a higher standard.

Mr Ross

413. Does the evidence you set before the House of Lords in 1985 still represent your overall view of the problems and some of the solutions?

(Mr Parker) Yes, and I must say that we were not called in to give oral evidence because the one subject that particular committee was not looking at was shipping. They did publish it in the proceedings.

Chairman

414. Would you like to add anything else to the record?

(Captain Hunter) Yes. I should like to go back to what Mr Dicks said about whether or not British crews should be employed on British ships and his question: why not employ Filipinos if they are cheaper?

Mr Dicks

415. With respect, I did say, if they are properly trained.

(Captain Hunter) Yes, I understand that. It has to be borne in mind that the future of British shipping certainly lies in sophisticated tonnage and with sophisticated tonnage you do need well-trained people who are committed, responsible and are part of the team of personnel on board that ship. I think the British people are very well suited to that type of activity. I would draw your attention to what Blue Star have done recently on their four ships which were built at Harland and Wolff. They have in the past had ships which were manned by up to 40 or 50 personnel on board; with these new ships the complement was reduced to 21. Each of these personnel on board these ships is a committed member of the crew, they are all British. Because of the small numbers, because of the training, they are competitive and cost-effective. What we really have to address is not only a greater quantity of recruitment and training but a better quality. If we do that then British officers and ratings will be more competitive in the future.

Mr Ross

416. Are those ships flagged out?

(Captain Hunter) British flag.

(Mr Parker) Could I correct a small point. I do not know whether we understood it correctly but I think it was mentioned that two people had been here to say they did not think there needed to be two officers on the bridge or any watchkeepers in relation to what we had written.

Mr Dicks

417. You said, "ships must at all times be under the immediate control of a qualified watch-keeping officer". We have been told by two captains from the merchant fleet that this is quite unnecessary on modern ships. That is your quote and their comments on it.

(Mr Parker) Did they say a ship need not be under the control of a qualified officer at all times?

Mr Dicks: You said that it must be "under the immediate control of a qualified watch-keeping officer" and we were told that this is quite unnecesary on modern ships by two captains in the merchant fleet.

Chairman

418. Can we get this absolutely right because this is going on record. Did I understand you to say that the requirement is a requirement in law at the moment?

(Mr Parker) Yes.

Chairman: Therefore, when one is talking about the requirement we are talking about a requirement in law whereas the officers concerned may—and I was not at the hearing—have meant that it was not necessary because of the new technology but nevertheless the law still stands.

Mr Dicks: Yes. I am sure what they meant was in terms of practical shipping, as practising Master Mariners, they felt that though it might be a legal requirement with modern technology now it was really unnecessary. I think that was the distinction.

Chairman: As long as we get that on record, that is the main thing. Thank you very much for your help. I am sure your evidence will help us a great deal in reaching our conclusions.

Memorandum submitted by the Institute of Freight Forwarders

The Institute of Freight Forwarders wishes to express its thanks to the Transport Committee for the opportunity of submitting its opinions regarding the enquiry into the decline of the UK Registered Merchant Fleet. There are three specific items within the Terms of Reference on which we would like to comment.

The Terms of Reference were distributed and discussed by members of a special sub-committee within the Institute which deals with Deep Sea matters. What follows below is a summary of some of the major points agreed by that committee. Our comments cover items (II), (III) and (V) only. We do not feel qualified to comment on the items (I), (IV) and then, (VI) or (VII).

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Item (II)

Our submission is as freight forwarders. A vital part of the UK freight forwarder's role is to provide an impartial service to exporters and importers in route and carrier selection. Based on his in-depth knowledge of all the options which are available in both carriers and route he is able to select that which is best suited to the client and is the most cost effective. Considerable savings in international transport costs are thus available to exporters and importers. Any restrictions placed by Governments nominating specific flag vessels or national carriers militates against free market competitiveness and limits the available options at the disposal of freight forwarders in making recommendations for their clients' cargoes.

Our fundamental belief must be in free trade with no protectionist aspects. As the UK has signed the UNCTAD Code of Conduct, we accept the 40–40–20 sharing on Conference cargo, but no further. We actively opposed flag discrimination, freight bureaux, etc, and are willing to detail those examples of which we have knowledge, being probably as well placed as anybody to detect such activity.

Item (III)

We can do no better than refer to the DTp Report on Liner Shipping and Freight Rates. In the UK the British Fleet is less competitive because of:—

(1) Absence of non conference operators.

(2) Strict adherence to conference rules.

(3) Resistance to parity with Europe for freight forwarders, hence less support from the industry.
In so far as the competitiveness of ports is concerned we can quote the relative costs to fob of Antwerp and Felixstowe/Southampton from a number of UK points of origin.

Item (V)

Again we would cover this item by highlighting some of the points made in the DTp Report:—

(*a*) The reluctance of shippers to use the forwarding industry

(*b*) The low level of seniority of many shipping managers

(*c*) The predilection for shipment by conference

(*d*) The habitual use of fob sales terms

(*e*) The view of ship owners of the forwarding industry.

One final general point made by one of our members:—

"Whilst all the maritime nations are expected to maintain adequate standards of tonnage there could well be an increasing tendency to use vessels of greater age or smaller size than has been the policy of the UK ship owner. Such vessels can of course attract higher insurance premiums for cargo owners and premiums also are subject to supplements where additional transhipment points are introduced."

CONCLUSION

It is hoped that the above comments will be of assistance in the deliberations of your committee.

Examination of Witnesses

MR A C GATES, Director/Secretary, National Surface Forwarding Division and MR DEREK DOWNS, Director, Meadowsfreight & Co Ltd, from the Institute of Freight Forwarders, called in and examined.

Chairman

419. Welcome to our Committee and thank you for your attendance. Could you, for the sake of the record, introduce yourselves and tell us in what capacity you are here.

(Mr Gates) I am the Director/Secretary of the Surface Division of the Institute of Freight Forwarders. The Institute itself is a trade association whose members are freight forwarding companies. These are companies engaged in arranging the movement of international trade. I am on the permanent staff and Mr Downs is a practising freight forwarder, a director of a freight forwarding company, one of our member companies. He is also the Chairman of the Deepsea Committee which is obviously very involved with this particular matter.

420. Do you mainly operate or only operate in the liner trade?

(Mr Gates) Freight forwarders in fact are concerned with any mode of transportation. So some of our members are involved in air, many are involved in short sea ro-ro traffic and rail. As far as the sea traffic is concerned this is mainly liner or short sea.

421. Under your representations to us you seemed to indicate that your main criterion, in fact probably your only criterion, from the economic point of view is the suitability of the operator and his cost-effectiveness. If that is so you are implying that British shipping has got to apply its competitiveness inside the complete free-for-all umbrella. Do you feel that it can with its present structure and restraints? Can it indeed survive?

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[*Chairman Contd.*]

(Mr Gates) Our submission is particularly not on behalf of individual freight forwarders but is on behalf of what we consider important for this country. We are not actually talking or looking at what the UK fleet can or cannot do; what we are saying is that if the UK fleet is not maintained at its present level, we believe this will have an adverse effect on the trade of this country for reasons which I hope we have just touched on in our submission. Mr Downs is much better qualified to answer technical points than I but basically what we are saying is that if there is no UK fleet then we think that if the trade of this country declines any more it will suffer because there will be far more trans-shipment, there will be far more trade out of this country being shunted off to the continent first.

422. Would you care to underline why you claim that the British flag fleet is less competitive than some of its flagged out competitors and how you see that it could be put right?

(Mr Gates) That is something I would prefer Mr Downs to pick up: the particular points we listed under Item (III).

(Mr Downs) A really very comprehensive answer to that question is contained in the Department of Transport report which covers a lot of the ground that we would feel competent to comment about. The Department of Transport report on liner shipping and freight rates made this comparison between the UK and northern Europe. We can only observe as freight forwarders, as those who arrange freights on behalf of British exporters and British importers that there is this drift from direct UK port loadings to feeding cargo to and from continental Europe. To our mind that is a trend which is not in the very best interests of British exporters in particular.

Mr Fry

423. Why do you think that is done? Is it because the continental ports are more efficient and cheaper?

(Mr Downs) There is a whole number of reasons which are detailed in the Department of Transport report very comprehensively because they address that question. Certainly there is greater choice of carrier and mode from European ports, taking one item which is also dealt with in the report. There is far more availability of conventional cargo carriers out of northern European ports than is to be found in direct UK loadings. This may be that we in Britain have gone into the containerised field in a big way, for very good reasons, but there is clearly a need for a conventional backup and this is quite frequently the route one can take in the interests of British exporters to channel cargo over to Europe to catch the conventional opportunities. What we are saying is that in the interests of British exporters there ought to be direct loadings and the availability of choice out of direct port loadings.

424. We had evidence yesterday from the British Shippers Council and their attitude was that they had to use the mode which suited them best. They were not actually the slightest bit concerned whether that was carried in a British registered ship or a Panamanian registered ship or whether it was crewed by British or Moroccans; their main object was to get their goods at the cheapest possible price to the destination. From what you have told us as well it seems to me that there is an awful inevitability about the way things have gone. Everybody is holding up their hands in horror and saying something must be done about it but I have not yet come across anybody who has actually come up with anything which seems to be something we could put to the Secretary of State for Transport. How are you going to put that right? Let us take this very point you are on that we have gone too much into containersation and that there is not enough conventional shipping. How do the Government, how does the Secretary of State do things? What changes can he make to bring back some of those conventional ships or is it not just an inevitable part of the way world and European trade has developed?

(Mr Downs) Those things are really outside our orbit.

425. You must have a view?

(Mr Downs) Yes, we do. There is a well-made case for the fact that British ports are not as competitive as continental ports for a variety of reasons. The present campaign regarding light dues is one feature of that. We are not experts in this field. All we can say is that we observe the trend; we do not think it is in the best interests of British exporters. Like the British Shippers Council our clients are British shippers and in our carrier and route selection role we have to find the best mode for the cargo. Quite often that does mean that we are using continental trans-shipment.

426. Let me turn it round into a slightly different way so it comes to the same kind of question. If Government money were available, where would you suggest it should go? Should it go into training as so many witnesses have put before us? Should it go into some form of assistance directly to the shipowners or should it go into helping to improve ports and to attract back the kind of conventional ships that we need? Government probably cannot do all three but where do you think Government should invest any money they have got?

(Mr Downs) An examination of the success of the port of Antwerp and the port of Rotterdam would surely give some pointers to answer that question.

Mr Bevan

427. But they are free ports.

(Mr Gates) But they are subsidised in many ways by their governments.

Mr Fry

428. Are you saying then in answer to my question that Government money rather than going into training or subsidising ship owners should actually go towards making our ports more attractive so we get the right kind of ships into our ports. Is that what you are saying?

(Mr Gates) Yes. Definitely ports in that way so that they are on a par. We could not go too much into training because it is something which is totally outside our orbit and it would not be fair for us to comment against it. I feel that the overriding point of our submission is that what we are concerned with is that the present situation does not deteriorate and if it does what we are saying is that it would be far worse for the trade of this country because at the moment many people say it is convenient to be able to trans-ship to the continent so they can take advantage of cheaper freight rates and cheaper handling

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[*Mr Fry Contd.*]

free-on-board rates, the charges which are levied there. But if the situation was ever allowed to reach the point where we did not have such strong UK lines as we have got—OCL was mentioned in the last submission—and because they are so strong we still have some control over the number of other foreign lines within a conference that do call in to the UK, then we believe that those foreign lines would not call in to the UK and all of our traffic would have to be trans-shipped, or a far greater proportion would have to be trans-shipped. When that point was reached we believe that the freight rates or the costings for UK trade would become much higher than at the moment.

429. So you are arguing from the economic point of view. Irrespective of the size of the British Merchant fleet, purely from the economy of UK Limited something has to be done in this direction.

(Mr Gates) Yes, that is right.

Chairman

430. I am sure you would not want to be on record, as you seemed to imply, as saying that the ports in Europe were much more efficient than British ports. On the one hand it depends which criteria you are applying because you then went on the talk about light dues, where there is an advantage as far as the European ports are concerned, and Government subsidy as far as the ports are concerned and therefore it is a very difficult thing to say that one is more efficient or inefficient than the other. Which is it? Where exactly do you lie on this? Mr Fry has asked a very fair question about where Government money could go. Do you feel that sort of Government money should go into our ports to make them at least equally competitive with the ports of Europe?

(Mr Gates) I do personally, based on various factors, but I would say that we have not said that UK ports are inefficient but we have suggested that there are subsidies which are paid to the continental ports which are not paid in this country. It is not a question of inefficiency, comparing them in that way, but monies being available to bring about a better efficiency.

Chairman: Port charges are higher because of that.

Mr Trotter

431. I am not sure that I see the connection between the ports and the British Merchant Navy, which is what we are desperately trying to save. If we made our ports cheaper and more attractive then very likely foreign ships would come here. They would not necessarily all be ours and one could go on to argue that presumably there is nothing to stop British ships going into foreign ports now and taking the trans-shipment. Would you like to comment on that?

(Mr Downs) I should like to pick up a point which was made earlier which does come right back onto the British maritime fleet. If there is not a sound British content in international ocean carriage then the freight market becomes dominated by other interests, be they continental European or be they Far East or whatever. What we are saying is that we see, for a number of reasons, that you need a sound British ownership in ocean carriage in the interests of the British exporter and British importer. We are not really qualified to comment about the ports and other things. We deal in a freight market and we want the availability of choice to assist our clients.

432. To be blunt, does it really affect your customers if, when you get the cargo to Antwerp or Rotterdam, it then goes on a foreign ship rather than on a British one?

(Mr Gates) At the moment no, but the danger is that if it became only foreign ships then we believe that it would then adversely affect us in rates which are applied.

433. How does the flagging out, flags of convenience, affect you? How do you regard a British owned flag of convenience ship, probably with a Red Ensign on the stern, if, for example, it is registered in the Isle of Man?

(Mr Downs) That does not affect our arguments at all.

434. But would you be happy with that sort of ship?

(Mr Downs) One does not have an opinion. British ownership and British influences is what we are talking about. It does not matter about flags of convenience as far as we are concerned.

(Mr Gates) Freight forwarders are impartial but there comes that moment when we have got to have a very strong feeling.

Mr Bevan

435. I would have thought, rather than condemning some of our ports or demanding that more money be pumped into our ports, some of which are perfectly good, especially those that face the deepsea ports of the continent—it must be remembered in that respect that Rotterdam is a very ancient free port in itself—that the line to follow to make more competition and therefore create a real opportunity for the growth and not the continued diminution of the British Merchant fleet would be to crack down on some of the disadvantages which you list to British shipping, built in by British shipping itself. I am particularly referring to conferences. I posed a series of questions yesterday about conferences and about UNCTAD 40–40–20, which was a further consideration, the effect of the restrictive practices of cartels, which is what a conference is, in tendering prices which you would have to accept as carriers. Is this not the crux of the matter? Do you not think that the absence of non-conference operators, in other words the complete paucity of free competitors bidding freely amongst British ship owners is your most inhibiting factor to the growth of British Merchant shipping?

(Mr Downs) We really could not have put it better ourselves.

436. Expand. Get it on record.

(Mr Downs) With the conference system we must appreciate the advantages as well as the disadvantages. We have observed the developments of recent years so far as conference and non-conference is concerned as being in the right direction for Britain. They may not have gone fast enough but with the conference system you have a certain core of sound structured tariffing and services. Economic pressure, by having alternative independent lines, has made them much more flexible and more negotiable. We would therefore see not all bad in a conference system providing it has its non-conference competition.

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[*Mr Bevan Contd.*]

437. But it is the British shippers who have the conference system. It is the British shippers who do not have freedom from the conference system and it is foreign shipping companies who do not have the conference system, is it not?

(Mr Downs) No, there are foreign ship owners in the same conference as the British owners.

438. Many?

(Mr Downs) Yes, yes.

(Mr Gates) Generally everywhere. In all trades there are mixtures of foreign——

439. So what proportion would you put down of British and of foreign shippers who are in the conference system who are available to you as shippers?

(Mr Downs) If we take a trade as an example, if we take the UK/Far East trade, the Far East Freight Conference is composed of British lines, continental lines—German, French, Dutch—and Japanese lines. In fact it called itself the trio when it first started: the continent, Britain and Japan.

(Mr Downs) Allied to that there is another group of lines that has Korean shipping in it as well. So in the Far East trade in the conference there are many foreign participants. Equally, there are sound and well established non-conference operators—Taiwanese in particular and Korean—running scheduled services.

440. What is the proportion in the British area and the foreign area of conference supporters?

(Mr Downs) Do you mean in lines?

441. Yes.

(Mr Downs) The continental Europeans have more non-conference choice in general than we have from the UK but I cannot give you figures.

442. How do you view the strict adherence by British shipowners to conference rules? Do you consider that places them overall at a disadvantage to the competition you have just mentioned?

(Mr Downs) You are touching on the loyalty aspect and it is a pernicious system really that calls for 100 per cent loyalty under contracts. The move towards reducing 100 per cent loyalty is a good thing, coupled with the independent lines having part in the market.

Mr Ross

443. Can you tell us what percentage of goods you forward directly into ports in the UK as opposed to transferring to Rotterdam or Antwerp? Do you have any idea?

(Mr Downs) It does vary according to the actual market. I would think probably it is of the order of 30 per cent continental Europe, 70 per cent direct loading in UK port.

Chairman

444. Amongst the final points you submitted to us you said, "Whilst all the maritime nations are expected to maintain adequate standards of tonnage there could well be an increasing tendency to use vessels of greater age or smaller size than has been the policy of the UK shipowner". Would you care to elaborate on this? What evidence have you got and what would be the insurance consequences of such a policy?

(Mr Downs) We do have some evidence of this on a number of trades, without mentioning the nations involved; smaller vessels and vessels which come outside the age strictures of the insurance classification clause which says that you have to pay more insurance premiums for a ship over a certain age. It is a small point but it is just relevant in this context. You do not have that problem with British ownership normally but you can have it with Greek or others.

445. Has there not been a trend for British owners to buy second-hand ships in recent years?

(Mr Downs) They certainly seem to charter-in tonnage; we seem to see some strange names.

446. We seem to be heading towards an older fleet, do we not?

(Mr Downs) They are generally rather keen to keep within the age limits of the classification clause.

447. Thank you very much. Is there anything you would like to add for the record?

(Mr Downs) No, I think that covers everything.

Chairman: We are most grateful to you for coming along and helping us in our deliberations. Thank you very much indeed.

Memorandum submitted by the Marine Society

INTRODUCTION

1. The Marine Society today is largely the product of the amalgamation in 1976 of the original Marine Society, founded by Jonas Hanway in 1756, and the Seafarers Education Service and College of the Sea, founded by Albert Mansbridge (co-founder of the Workers' Educational Association) in 1919. The Marine Society was, and still is, concerned with maintaining the efficiency of the Royal and Merchant Navies and fishing fleets by encouraging young people to embark on a sea career, and helps those at sea to improve their professional and educational standards. The Seafarers Education Service and College of the Sea provided education facilities for seafarers and a comprehensive library service for British merchant ships. The present objects of the Society are set out in Annex A.

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THE NEED FOR EXPERIENCED SEAFARERS

2. The Marine Society, like many other organisations presenting evidence to the Select Committee, is deeply concerned by the rapid decline in the size of the UK owned and registered fleet. This decline, together with a steady reduction in the size of crew in each ship, has had a comparably serious effect on the number of UK seafarers. At the end of 1975 there were some 80,000 registered seafarers. On 31st July 1986 there were fewer than 30,000 of whom some 12,500 were officers. Whereas a decline in the UK merchant fleet may be capable of being halted, and indeed reversed, by financial and economic measures over a relatively short period, the loss of a sizeable and well trained body of seafarers would take much longer to make good. Modern merchant ships, particularly deep sea and specialised vessels, are far more sophisticated than their predecessors, and the training and experience needed to operate them is not cheaply or quickly acquired. While ratings can be trained in a relatively short period, the time needed to produce fully qualified and competent masters and chief engineers is of the order of nine to twelve years. Good and well-equipped colleges, sound training programmes and a succession of appointments from junior to senior officer have been found to be essential. From these officers, the masters, chief engineers and the more senior marine appointments ashore in government, industry, and nautical education and training are selected. Figures supplied by the Nautical Institute indicate that there are some 2,000 shore appointments. To maintain this national level of competence, 100 experienced masters and chief engineers are therefore required annually, for which 350–400 new entries in each discipline should be recruited every year (a figure not achieved since 1980).
3. The Marine Society's traditional concern, to help maintain the efficiency of the merchant fleet, has also been sharpened by the increasing loss of experience afloat, the weight of responsibility which rests on the small crews of ships, and the added risk of nautical accidents with potentially disastrous consequences. Such risks are accentuated by the demands on technology and the tempo of present day shipping operations.

THE RECRUITMENT OF SEAFARERS

4. With these human problems in mind, The Marine Society recently commissioned a review of recruitment to the merchant fleet. In 1985, 215 officers and 373 ratings were recruited. In 1983 and 1984, the numbers were lower. This year the numbers were less than half those in 1985. (Annex B—deck and engineering cadet recruitment since 1961). In 1985, The Statement on Defence Estimates 1986 indicated that 820 ships of varying types would be needed for defence purposes (Summary table 1.3). The economic health of the nation may well need many more. If the defence requirements only are considered, then some 19,000 seafarers, from highly qualified officers to less qualified deck, engineering and catering ratings are needed to man 820 ships. The career span of British seafarers is seven to ten years. Thus some 1,900 new entrants are required each year. Even if, by some chance the wastage level is halved, 950 would still be needed of which 400 to 450 would be officers evenly divided between each discipline, a figure not achieved since 1980. Recruitment has indeed fallen far short of this minimum requirement. In the immediate future the situation would not appear too dangerous because reliance can still be placed on the resources of manpower generated by the very much higher levels of recruitment in earlier years. But the decline of the fleet and the generally depressed state of world shipping has forced many experienced seafarers to leave the sea and seek employment ashore. Most will never be persuaded to return.
5. The present low and inadequate level of recruitment is affected by:
   (*a*) The poor image of the shipping industry, with adverse media coverage, arising mainly from redundancy and flagging out.
   (*b*) As a result of (a), active discouragement of school leavers by careers advisers.
   (*c*) As a result of (a) and personal experience, the discouragement by parents and relatives with maritime connections of those who, in better times, might have been encouraged to embark upon a sea career.
   (*d*) Shortage of regular advertising and recruitment literature, and the absence of a central careers service.
   (*e*) Competition from other industries and the Services for intelligent, practical and self-reliant school leavers whose numbers, in any case, are diminishing.
   (*f*) The training costs incurred by shipping companies at a time when profitability is low or losses are being incurred.
   (*g*) The heavy personal burden of training costs borne by the individual in many cases.
6. It is understood that even the Royal Navy with some sixty Careers Offices, excellent literature and several attractive methods of entry has had difficulty in meeting its recruitment targets. The Merchant Navy with no advice service, few companies offering careers literature, and a poor image has had, predictably, less success. An important source of recruitment used to be seafaring relatives ((c) above), but as these diminish in numbers, this source cannot be relied upon in the future. At the worst it will dry up: at the best be of marginal value.
7. Finally it should be noted that there has been an increase in the number of shipping companies employing

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manning agencies. These agencies exist on the availability of trained seafarers, and so far have neither recruited nor trained new entries for the industry.

ENTRY AND TRAINING

8. For those young persons who wish to go to sea in the Merchant Navy—the common but unrealistic term used to describe the British Shipping industry—there is the choice of deck, engineering, radio and electronic, and catering. All departments except radio and electronic recruit ratings and it is possible to rise to officer status. There is a cadet entry scheme in all departments except catering. Currently very few radio/electronic cadets are recruited, and most cadets therefore enter the deck and engineering departments. There are several routes for a deck or engineer cadet, or officer trainee (one who is entered on a suitable course leading to a certificate but is not "articled" as a cadet) (Annex C).
The first stage takes some four years by which time the trainee should have obtained an educational and professional qualification as a watchkeeping officer by passing written and oral examinations. Further sea experience, theoretical and practical examinations are required before the officer is fully qualified as a master mariner or chief engineer (Class 1 Certificate of Competency). Thereafter, appointment in command or as chief engineer depends upon obtaining a number of years' experience in subordinate roles.

COSTS OF TRAINING

9. Training from initial entry to Class 1, takes nine to twelve years, and the cost is borne partly by the state, by shipping companies, and by the individual. In 1984, The Marine Society carried out a survey which indicated that the minimum costs for an A level entry were of the order of £13,600 (The State — £5,500: Shipping Company — £1,300: Individuals — £6,800). In addition, many companies paid for study leave (approximately £20,000), but when this was not the case, the individual had to use his own resources while studying, or sought state support, which was not always available. Current figures are higher and the burden correspondingly greater. Finally, it should be added that officers serving or hoping to serve in some specialised ships (gas carriers, tankers, oil exploration ships) must undertake additional training which incurs further expense.

THE EFFECT OF PRESENT COSTS

10. Although the state contributes to the costs of nautical education, shipping companies are responsible for the recruitment and training of their employees. Their share of the costs is now difficult to support and many have stopped recruiting altogether. Other companies, which in the past would have recruited sufficient numbers to allow for wastage (and thus contributed to the common industry pool of labour), now recruit the minimum needed. The individual, who is not supported by his company, faces considerable personal expense in course and examination fees. In many cases The Marine Society comes to the assistance with an interest-free loan or grant. In other cases, of which the Society has some evidence, competent officers, seeing the decline in career prospects at sea, consider that the high personal cost of qualifying fully is not justified, when they can study for a degree or professional qualification for a job ashore. Such part-qualified officers rarely, if ever, return to sea.

THE MERCHANT NAVY "POOL"

11. It should be noted that the federated sector of the Merchant Navy has, through the General Council of British Shipping, operated the Merchant Navy Establishment for many years. This organisation provides a pool of officers and men who are available for employment. In the past most companies formed their crews from this pool, but in recent years more companies have agreed contracts of employment with their sea-going employees. The pool is not now as significant as it was. It should also be noted that the Merchant Navy Establishment neither recruits nor provides careers literature for schools, although in the past it accepted aspiring seafarers and thus, in effect recruited new entrants for the Merchant Navy.

12. The decline in UK shipping has left a surplus of unemployed seafarers on the "Pool". These are paid unemployment benefit which is partly funded by the State and partly by the companies who are members of the General Council of British Shipping. In order to reduce the numbers, seafarers on the "Pool" have been encouraged to opt for redundancy payments and seek employment outside the industry. No entrants, other than those recruited directly by companies, have been accepted for the last few years. Thus this reserve source of seafarers is also drying up.

THE PRESENT OPERATIONS OF THE MARINE SOCIETY

13. The Marine Society with its constituent charities has for many years provided a number of services to encourage young people to consider a sea career, to help them if they decide to go to sea, while they are at sea, and if they decide to leave the sea. In brief these services, in order of age group supported, are:

(*a*) The linking of schools with seafarers and ships through its Ship Adoption operation.

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(*b*) Grants to maritime youth organisations, part of which are currently provided by The Marine Adventure Sailing Trust which is funded by the Society and investors, and part by the Society's own resources.

(*c*) Bursaries for school children in need who intend to take up a sea career whether in the Royal or Merchant Navy.

(*d*) Advice on sea careers.

(*e*) Interest-free loans for new entry cadets in the Merchant Navy.

(*f*) Interest-free loans and grants in cases of need to help individuals advance themselves professionally.

(*g*) Provision of books through the Seafarers Libraries which places them onboard ships and through personal loan.

(*h*) Advice on further education and provision of non-vocational courses.

(*i*) Advice on change of career.

(*j*) General advice on any subject of interest or concern to the individual.

(*k*) Advice and financial support for retired seafarers and their dependants.

CURRENT PROJECTS

14. In the light of the deteriorating situation in the Merchant Navy, the Society has reviewed its operations and the needs of seafarers. It has decided to continue its present services and to embark on the following projects:

(*a*) A Sea Careers Guide.

(*b*) Class 1/Degree scholarship scheme for a limited number.

(*c*) Training ship JONAS HANWAY.

SEA CAREERS GUIDE

15. In 1970, as part of its policy of encouraging young people to consider a sea career, the Society produced a guide. The guide was discontinued when the British Shipping Careers Service (BSCS) was set up in 1972, although the Society continued to offer advice. The BSCS closed down in 1982 leaving the Merchant Navy without a central careers service or a guide. To fill this gap the Society has continued to offer advice, and is preparing a new guide on sea careers in the Royal and Merchant Navies and fishing fleets, which will supplement literature circulated by individual organisations. However, such a guide can only go part of the way towards informing young persons, schools and parents. Continuing effort will be needed by the organisations concerned in the light of the deterrents to recruitment referred to in paragraph 5 above.

CLASS 1/DEGREE SCHOLARSHIP SCHEME

16. While The Marine Society does not feel qualified to recommend changes in methods of entry and qualification, it notes that the Merchant Navy has not kept pace with other industries in developing suitable degree level courses to encourage high quality entrants. These are essential if the high standards of competence demanded of seafarers, and of those in senior marine appointments ashore, in Government and in the private sector, are to be maintained. It is considering, therefore, the award of scholarships for suitable applicants to embark on a marine-related degree course, which will include the theoretical syllabuses of the Department of Transport examinations to Class 1 level for deck and engineering entrants respectively. It is hoped that such a scheme will attract the right calibre of person, and significantly reduce the costs to the public purse, shipping companies and, most importantly, the individual.

17. The Society believes that such a scheme and other possible approaches to entry and training require urgent study. Recruitment and training problems arise in other countries, as is evident by the French Government's new measures to help its merchant fleet (Annex D). Study of their problems and solutions would undoubtedly be worthwhile.

TS JONAS HANWAY

18. In 1786, The Marine Society commissioned the first pre-sea training ship on the Thames because it considered that young persons should be prepared as fully as possible for life at sea. Its example was followed by many institutions in the 19th century and several shipping companies ran sea-going training ships, the last of which was paid off some five years ago. The Society appreciated that the present financial situation of companies could not support a new vessel for basic sea training, and decided therefore to ask the Ministry of Defence for the loan of a suitable vessel in recognition of the Society's provision of over seventy thousand men and boys to the Royal Navy. HMS EGERIA is now being refitted and will shortly be commissioned as TS JONAS HANWAY to provide sea training and experience for new entry ratings at the National Sea Training College, Gravesend, for officers at other colleges (Annex E) which

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do not have their own facility and for other maritime youth organisations whose members may eventually seek to become professional seamen.

CONCLUSION

19. The Marine Society is concerned at the present decline in the strength of the Merchant Navy, and particularly the effect on its seafarers. There is a pressing need to provide adequate numbers of competent personnel to meet the nation's future economic and defence requirements. The factors which affect the future prospects of the Merchant Navy include fiscal measures for companies and individual seafarers, the structure of the MN careers service, recruitment levels, training, nautical colleges and the entire national maritime organisation. Although The Marine Society is too limited in its resources and its objectives to affect the situation substantially, it hopes that its actions will act as a catalyst in encouraging a revitalisation of the Merchant Navy.

20th *March* 1986

ANNEXES

A. Summary of the objects of The Marine Society
B. Recruitment of deck and engineering cadets 1961–1985
C. Methods of entry and training for deck and engineering cadet
D. Measures in support of the French Merchant Fleet (Lloyd's List—4.10.86)
E. TS JONAS HANWAY
F. Council members of The Marine Society*

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* *Not printed.*

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ANNEX A

THE MARINE SOCIETY

SUMMARY OF OBJECTS

1. To provide in ships and on shore a library service for seafarers;
2. To assist those going to sea and at sea with training, scholarships, bursaries, payment of fees, maintenance and other expenses and the making of loans;
3. To make grants or loans to nautical or other schools or training establishments providing facilities for and encouraging young persons to become seafarers;
4. To provide in other ways the education of seafarers;
5. To promote scientific or other research of particular benefit to seafarers;
6. To provide hostels for seafarers.
7. To relieve poverty and distress among seafarers, their widows, children and other dependants.

"Seafarers" means persons of all ranks and grades who have served, are serving or intend to serve in the Royal Navy and the British Merchant Navy and Fishing Fleets and persons who are serving in the navies, merchant navies and fishing fleets of such other countries as the Governors of the Charity from time to time determine.

In furthering the said objects the Governors, Council and officers of the Charity shall have regard to maintaining the efficiency of the Royal Navy and the British Merchant Navy and Fishing Fleets.

Charity No. 313013

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ANNEX B

MANAGEMENT AND RECRUITMENT IN THE FEDERATED SECTOR

TABLE A—DECK OFFICERS

	At 31 October 1982	
Total Officers	25,522	
„ Deck Officers	9,353	
„ Deck Cadets	1,670	
	At 30.6.1960	*At 30.6.1961*
Total Masters and Deck Officers (certificated)	13,968	13,769
„ Masters and Deck Officers (uncertificated)	1,614	1,833
„ Apprentices and Cadets	5,941	4,935

TABLE A—Deck and Engineer Cadet Entrants

Year	Deck Cadets		Engineer Cadets	
	New Entry	Under Training*	New	Under Training*
(1)	(2)	(3)	(4)	(5)
1961	1690		505	
2	1381		501	
3	1420		591	
4	1421	5912	559	2156
5	1389	5611	686	2337
6	1281	5511	738	2574
7	1127	5218	776	2759
8	948	4745	705	2905
9	1089	4445	737	2956
1970	1220	4384	846	3064
1	1309	4566	958	3446
2	1031	4649	852	3393
3	1016	4576	818	3474
4	1151	4507	952	3590
5	1284	4482	1031	3663
6	882	4333	697	3508
7	985	4302	911	3601
8	990	4141	833	3472
9	859	3716	713	3154
1980	650	3484	624	3081
1	320	2819	336	2506
2	140	1969	156	1829
3	81	1191	71	1187
4	77	618	80	643
5	85	383	84	387
6	39**	282	43	278
7				

Source: GCBS

1. * 4 years under training. In fact many had a 5 year apprenticeship in the 1960s.
2. ** Includes 14 under training as dual disciplined Deck/Engineering cadets.

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ANNEX C

THE MERCHANT NAVY—PRESENT METHODS OF ENTRY FOR OFFICERS

1. DECK DEPARTMENT

A. DECK OFFICER

1. By direct application to a shipping company which sponsors new entries at age 18 years +, on one of the following courses:—
   (*a*) *A level Entry Scheme* at Plymouth, South Mersey, South Tyneside or Warsash Colleges. Required to have studied 2 GCE A levels and passed in either Mathematics or physics and possess at total of 5 GCE passes.
   (*b*) *SCOTVEC Higher Diploma in Nautical Science* (Glasgow). Required to have studied 3 subjects at Scottish Higher Grade and obtained 2 passes to include Mathematics or Physics. Note: only sponsored by shipping company during the sea-time element of this course.
   (*c*) *BSc in Maritime Studies* (Liverpool Polytechnic). 2 GCE A levels required, grades dependent on subjects offered; Leads to Degree and Class III Certificate of Competency.

2. By direct application to a shipping company which sponsors new entries at age 16 years + at Plymouth, South Mersey, South Tyneside or Warsash:
   (*a*) *BTEC Diploma in Nautical Science*. Passed at least 4 GCE O levels including Maths, Physics and English.
   (*b*) *Supplementary Training Scheme* (BTEC Certificate in Nautical Science). Required 3 CSE Grade 1's in Maths, Physics and English. Note: Sea time in this scheme served as rating but leads to Class IV/III Certificate of Competency.

   OR (c) *SCOTVEC Diploma in Nautical Science* (Glasgow). Required 4 SCE O grades including Maths, Physics and English.

3. By direct application to South Mersey, South Tyneside or Warsash for a 2 year post O level course leading to a *BTEC Diploma in Marine Technology*. Successful students then go to sea in the Deck or Engineering departments, or into shore industry or further education course.

2. ENGINEERING DEPARTMENT

B. ENGINEERING OFFICER

1. By direct application to a shipping company which sponsors new entries at age 18+ as follows:—
   (*a*) *A level Entry* at Plymouth, South Mersey, South Tyneside or Warsash Colleges. Required to have 5 GCE passes and to have studied Maths and Physics at A level and obtained a pass in at least one. Trainees placed on BTEC Higher Diploma Course.
   (*b*) *SCOTVEC Higher Diploma in Engineering (Marine)* (Glasgow). Required to be in possession of 5 Scottish Certificates of Education at bands A, B or C, 2 at H grade to include Maths and either Physics or Engineering, 3 at O grade to include English.

2. By direct application to a shipping company which sponsors new entries at age 16+ at Plymouth, South Mersey, South Tyneside or Warsash.
   (*a*) *BTEC Diploma in Marine Engineering*. Passed at least 4 GCE O level subjects including Maths, Physics and English.
   (*b*) *SCOTVEC Diploma in Engineering (Marine) (Glasgow)*. Required to be in possession of at least 4 Scottish Certificates of Education passes at bands A, B or C to include Maths, Physics and English.

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ANNEX D

ANDREW SPURRIER looks at the background to the French government's merchant fleet aid package, reported in Lloyd's List 4.10.86. (Reproduced by kind permission of Lloyd's List.)

How France prepared a merchant shipping plan

THE French government's two-year aid programme for the country's merchant shipping industry is a long-awaited response to pleas from the industry for a clear statement of intent from the government on the future of the French merchant fleet.

Shipowners and seamen's unions were at least agreed that a policy statement and measures were needed if the steady rundown in the number of ships in the French fleet in recent years was to be stopped.

Attempts to get the present government's socialist predecessors to come up with a policy in favour of the merchant fleet met with stonewalling from the then Secretary of State for the Sea, Mr Guy Lengagne.

Last autumn, however, with just a few months to go to the March parliamentary elections Mr Lengagne did start the process which led to this week's plan by commissioning a report on the French merchant shipping industry from former Airbus Industrie head, Mr Bernard Lathiere.

The report was published days before the elections, which put Mr Lengagne and his ministerial colleagues out of office, so that one of the first questions faced by Mr Lengagne's successor, Mr Ambroise Guellec, was what action he proposed to take on the report.

His answer was that he would prepare a plan for the future of the French merchant fleet, which he would announce in the autumn. He kept his promise.

The seriousness with which the government is treating the plan was marked by the presence at the press conference to present it, of Prime Minister, Mr Jacques Chirac.

Mr Chirac said that the plan was courageous, on the grounds that it required audacity and stubbornness to put it forward after preceding aid plans in 1969, 1974, 1979 and 1984 had failed to stop the rundown in the French fleet.

The government evaluates the cost of the measures it is proposing to make at French Frs 1.42 billion (US$216.5 million) over the next two years. It says this figure does not include a further Frs 1 billion, which is expected to be made available in the same period in the form of interest rate concessions on investment loans.

But, as Mr Guellec was keen to point out, the 23 measures contained in the plan do not all involve financial aid.

Many of them are aimed at removing regulatory constraints on the functioning of shipping companies, which owners have long claimed were hampering their ability to be competitive.

In line with the government's declared philosophy, they amount to a major "liberalisation" or deregulation of French merchant shipping.

What the measures involve

THE following are, in summary form, the measures announced by the government.

1. **Structural aid.** On the basis of signed agreements with the companies concerned, the government will offer exceptional grants to shipping companies carrying out restructuring operations aimed at improving their competitivity.

2. **Investment aid.** Currently available for the purchase of new ships, it will be extended to ships up to eight years old and will also be offered to owners carrying out modernisation work on ships bought second hand.

3. **Investment incentives.** More investors are to be encouraged to take part shares in ships by removing the legislation which currently makes any individual co-owner of a ship liable for the debts of the whole of the collective ownership of a vessel.

4. **Gambling.** Legislation is to be introduced to allow games of chance and gambling machines to be introduced on board passenger and cruise ships under French flag. They are currently forbidden.

5. **Professional tax.** The professional tax obligations of French shipping companies are to be reduced by 66% during the period of the plan, pending a longer-term reform

6. **Greater polyvalency on board ship.** The training of seamen and officers is to be modified to enable them to be able to carry out a wider range of duties on board ship.

7. **Watch duty.** Currently carried out by an officer and one or two seamen, the government is proposing to bring France into line with the international convention of 1978, which provides for watch duty to be carried out by a single officer.

8. **Radio officers.** Ships with radio satellite communication systems are to be dispensed of their obligation to have on board a specialised radio officer.

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9. Reduction of the administrative workload of shipping companies. A new computerised system is to be created, under which shipping companies, which currently have to declare the movements of each seaman on a daily basis, will be able to make a monthly declaration instead.

10. Annual Inspections. Classification societies will be permitted to carry out the annual safety checks required on French ships when they are outside France in the place of the government inspectors who, until now, have been sent out from France at the expense of shipping companies.

11. Food on board. New and more flexible regulations are to be introduced regarding food served on board ship, currently covered by regulations dating from 1910.

12. Seamen on board non-French flag ships. The French maritime employment code is to be revised to take into account seamen working on non-French flag ships.

13. Article 79 of the maritime employment code. This article, which provides that shipping companies pay sick and injured seamen for a period of four months, is to be modified to reduce the period of responsibility for shipping companies to one month, after which seamen will be covered by the seamen's national pension fund.

14. Extended social cover for French seamen on non-French flag ships. The government proposes the creation of a special scheme to enable French seamen working for foreign companies to benefit from the cover provided by the seamen's national pension fund.

15. Social cover for seamen working for French companies who are on detachment on foreign-flag ships or carrying out shore duties. Seamen in these categories can only maintain affiliation to the seamen's national pension fund for five years at present. The government is proposing to abolish this restriction.

16. Pensions. The government is proposing to issue a decree enabling pensions from the national pensions fund to be paid monthly instead of quarterly as at present.

17. The pension obligations of seamen's dependents. At present, the dependents of a seaman who dies are liable to meet his pension payments for a limited period after his death. This obligation is to be abolished under the government's proposals.

18. Special Pension. The special pension, currently available to seamen with less than 15 years service, is to be made more widely available.

19. Services between metropolitan France and French overseas departments and territories. The government is concerned by the attempts of non-French shipping companies, which it claims are benefiting from subsidies or using flags of convenience, to undercut French companies operating on these services. Legislation is to be introduced to give French companies priority.

20. Food aid. The government is to seek to ensure that all French food aid to countries in need is carried by French-flag ships.

21. Early retirement. The government is proposing to fund 500 additional early retirements for seamen.

22. Registration in southern and Antarctic territories. The government is to maintain the facility under which operators of solid and liquid bulk (except oil) carriers can use up to 75% of foreign crew members by registering in the Kerguelen Islands.

23. Navy training schools. The government is to invest in new up-to-date training equipment for schools for merchant navy officers.

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ANNEX E

THE MARINE SOCIETY

TS JONAS HANWAY

HMS EGERIA, an inshore vessel, was paid off in March 1985. At the request of the Marine Society for a vessel suitable for providing basic sea training the Ministry of Defence offered her on loan on 28th October 1985. The society consulted the Department of Transport on her suitability and in March 1986 accepted the loan subject to independent survey. Taken in hand on 19th May HMS EGERIA will complete her refit in November 1986 and will be formally renamed TS JONAS HANWAY after the society's founder on 10th December 1986.

The refit includes the provision of a modern enclosed bridge with the latest navigational equipment and a classroom.

Particulars

Length 107 feet Beam 22 feet Draught 7 feet
Gross Registered Tonnage 159.64 tons.
Crew — 6 officers 12 trainees (capacity for 10 officers 14 trainees)

Propulsion:	Two Paxman Y HAM diesels each of 350 SHP driving two controllable pitch propellors.
Auxilliaries:	Two Foden FD6 60 KVA generators providing 220VDC One mace harbour generator 11KVA 230VAC.
Boats:	Trinity House 16ft GRP lifeboat. 16ft semi rigid inflatable. 1 six man and 4 ten man life rafts.
Navigational and Communication Equipment:	Radar ARPA 1690 with simulator Radar RD 270 Gyro and magnetic compasses MNS 2000 position finder CVP 3500 plotter MF/RT and VHF/RT radio BT Cellphone ED162 Echo sounder EM 3 log Wind recording equipment Autopilot

Costs

The refit and equipment costs including operations to end of 1986 are expected to cost £400,000. In addition the Society has purchased HMS ECHO, HMS ENTERPRISE and spares particular to this class of ship in support of TS JONAS HANWAY.

Gross operational costs in 1987 are estimated at £180,000

The Society expects to meet a large proportion of these costs from its own resources and is seeking support from other organisations.

HMS Echo and HMS Enterprise

A programme for the future use of HMS ECHO and HMS ENTERPRISE is being considered in conjunction with AMARC (Technical and Educational Services) Trust on Tyneside. The latter employs young persons and shipyard workers under the YTS and the Community Programme Schemes.

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Examination of Witnesses

MR G A B KING, Chairman and LT COMMANDER R M FRAMPTON, General Secretary, The Marine Society, called in and examined.

Chairman

448. Good afternoon. I am sorry if we are a little behind time but it is difficult to get through three hearings in one day. We are most grateful to you for coming this afternoon. Could you give your names for the sake of the record and what you represent.

(Mr King) My name is King. I am Chairman of The Marine Society and I have been Chairman for about six years. I have been connected with The Marine Society and its different manifestations for much longer than that. I am a retired shipping company executive. My colleague is Lieutenant-Commander Frampton who is a retired naval officer with considerable experience in industry and in commerce before he came to The Marine Society in 1978. He was appointed General Secretary last year on the retirement of Dr Hope, the previous director, from whom I think you are going to take evidence next week.

449. Your main thrust is towards the question of recruitment and training and the question of officers' standing inside the service. We have very recently had a hearing with The Nautical Institute who seem to suggest that perhaps your society should be the only one mainly responsible for training. How do you view that and how do you feel about it?

(Mr King) I heard that when I came in this afternoon: very flattering, very flattering indeed. I am not sure whether The Marine Society, which is a charity, is constituted to do that sort of thing but there is probably the germ of an idea in it somewhere. The Marine Society might be used as an agency to set up such a thing. An organisation capable of doing that on a national basis would have to be very much bigger than the present Marine Society.

450. As you can appreciate, that was more or less a quick comment, quicker than we normally get on hearings. You have pointed in your memorandum to the severe decline in the number of officers and men and you know our feelings; we are trying to find out as much information as we can about the effect it has on a British flag fleet and the possible effect it would have on backup services to the Royal Navy's future requirements. We should like to hear your direct views on this, not only possibly complaining about it happening but how you feel something practical could be done and if you were in our position what recommendations you would like to make, either to Government, to the industry itself or whatever? I know the vast experience you both have and we should be grateful if you would give us your views.

(Mr King) I should like Commander Frampton to rehearse the numbers with you but could I briefly say that The Marine Society is not here to complain about anything. I did hear Mr Parker say we were a neutral body and in fact a neutral body is exactly what we are: we have no particular axe to grind. We are deeply concerned. Dr Johnson did say that patriotism is the last refuge of a scoundrel but from a patriotic point of view we really feel that the way in which the Merchant service has been run down is potentially very dangerous. Coming closer to our own home, the other reason is that the public for whom we exist, the public we seek to serve, is now down to 30,000 from 180,000 only a very few years ago and going down even further.

Mr Fry

451. You used a phrase which I thought was rather interesting. You did say "the way in which the Merchant service has been run down" as though there was somebody sitting there making a concrete decision that there were 500 ships one year and 450 the next and 400 the next. I put it to you that if it was as simple as that you could turn the clock back in the other direction and do something about the problem. Is it rather the case that world trade, world shipping, competition and flagging out have all conspired to bring about a reduction in the British Merchant marine? There has not been a conscious effort, has there, to try to bring it down?

(Mr King) No, but there has been no conscious effort to stop it. It was a loose use of the term on my part.

452. What I am trying to get at is that there is a feeling among very many people who are concerned that they use that phrase as though it was very easy to reverse the process.

(Mr King) I do not believe that; I believe exactly the opposite.

453. I am pleased to hear you say you are an impartial society. Do you honestly think that we are going to reverse that trend or are we going to bottom-out, merely by improving training? Is that really the answer?

(Mr King) Of course we do not. I do not personally believe that. I am here to give evidence to you as the Chairman of The Marine Society and our particular interest is in personnel and in training and in education and in looking after the individual who is concerned with going to sea. Out of my own background, I do not believe a word of the people who say that this condition is reversible. It may be slightly reversible but it is not totally reversible.

(Lt Commander Frampton) May I go back a little bit to the nine and ten year olds. What has happened over many years in the British merchant marine in particular and the Navy as well, is that the next generation into the appropriate service has come largely by the recommendation of those already in the service. This is the most significant recruiting factor. The second one is the more formal careers advisers, the publicity produced by the company or the Navy. The more significant one is this business of the previous generation recommending it as a career. The most disturbing feature which has arisen in the last five years—there has been no change—is that the recommendation by those in the Merchant Navy is they should not join because there is no future. With this on the one hand and the clear press on the other confirming the situation, with the uncertainty of the individual seafarer whether he is going to be employed by his company under a British flag or whether he will find that tomorrow his company has flagged out the ships to the Isle of Man and there is a new contract

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[*Mr Fry Contd.*]

and all listings are changed, it is a very uncertain form of employment. Seafaring always has been important but there has always been a job at the end of the day; now the jobs do not seem to be there. There is a mixture of no ships and alternative careers. The next generation of seafarers is going to be hard to find. To give you some idea, in our evidence to you we provided you with some figures for cadet entries. Up until the last two years these figures might be said to reflect the requirements of the shipping companies who are recruiting to match their shipping requirements. In the last couple of years there is quite strong evidence—and our recruitment survey showed this—that some shipping companies have found it difficult to bring their numbers up at all, in fact they cannot find the bodies they wish to recruit as cadets. This applies both to engineering and the deck, it is not confined to deck officers. On top of that we have a rather difficult situation in that careers advisers in various counties are saying that there is no future in the Merchant Navy; they do not even consider it as a career. My recent information, from one cadet training manager, is that on visiting two Midland counties and talking to the careers advisers from both counties they made this very point and said that nobody had told them that there had been any change in recruitment requirement. This of course exposes the business of where is the central careers service for the Merchant Navy: there is none. The only careers advice available comes from The Marine Society or individual organisations such as the Nautical Institute, General Council of British Shipping, to which individuals may or may not write. There is no positive careers process. Individual shipping companies who seek bodies seek individually to find cadets. That is the situation on the recruiting side. Going further, you have a situation of having recruited your body, what do you offer him by way of a career. Accepting that you might well offer him a cadetship which gives him four years to a Class 3 certificate, the first watch-keeping certificate, the individual can come out at the end of the day with a variety of qualifications and these qualifications can be quite good. There can be a degree plus the necessary time at sea to get a watch-keeping certificate, there can be an HND, a B.Tech. or a mere pass to get his class certificate. With careers advisers and 18-year olds with 'A' levels, clearly the latter option is not very attractive. You are in direct competition then, as a Merchant Navy, with other organisations also seeking 18-year olds. These are in diminishing numbers. For the Merchant Navy the future recruiting situation is bleak on a number of scores. I suppose that the answer here is that something really positive has to be done even to keep or to obtain the numbers necessary to run the existing fleet.

Chairman

454. Could I ask, what? The important factor is that the real cynic may say "What the Hell. Let the fleet go to nothing. We shall still have ships coming in and out. We shall still be able to trade". What is the factor which makes it so necessary to retain a Merchant Navy capacity with the proper training facility for officers? How best should that be done? What would you think we should recommend should be done?

(Lt Commander Frampton) You have had the evidence from the General Council of British Shipping and others who have given an indication of the reasons for having a fleet, both the military defence and the economic defence and the Institute of Freight Forwarders suggested the latter. I suppose a relevant analogy must be the higher price paid in the Isle of Wight for goods and services from the mainland. If you can image the British Isles as the Isle of Wight, you can imagine the situation.

Mr Bidwell

455. We are expecting to go to the Isle of Man later on. Why are they flagging out to the Isle of Man? Is it a compromise against flagging out elsewhere? The Isle of Man is nearly British, is it not?

(Lt Commander Frampton) Yes, that would be my understanding of it.

456. Is that what is happening really? This flagging out has become the rage.

(Lt Commander Frampton) It is a way of bringing down the costs of manpower and you bring them down by no longer having to follow the agreements that have been arranged with the unions and therefore you are in a better state of competition.

457. You dodge the unions in the Isle of Man do you?

(Lt Commander Frampton) There is no National Union of Seamen or officers' union operating in the Isle of Man as such, though clearly the unions do represent those who are serving.

458. The remit does spread over there?

(Lt Commander Frampton) No.

Mr Dicks

459. You said that people at present in the service see no future and are virtually not recommending friends and relatives to come in. Is that not because they, rightly, have assessed what the future holds for them based on the evidence before their own eyes? What is the future for a qualified British officer? Is he sought after by other countries? The first question is very important. If the ordinary deckhand or the officer now sees no future he must have good evidence; he has been on the ship, he has been around the world, he gets the feel of things much better than people in training establishments ashore. He is there every day, he is away from his family, he gets to wonder whether it is all worth it. If he begins to say no, that must surely be a realistic appraisal and to some extent something you cannot ignore when you are making your assessments of future demand.

(Lt Commander Frampton) You are right, it is very difficult to reverse a trend of this sort. It is quite clear that on the face of it the continuing downward path, the present number of ships would tell you that is the situation which is going to happen. If you are going to stop this and get a better level of confidence then you must positively say what is to be done about it. That can only be a matter of political will.

460. Are you actually raising the level of qualifications in order to get fewer trained officers but better qualified? Are you increasing the level of competence needed in order to drain off any surplus that might come given the reduction in the industry?

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[*Mr Dicks Contd.*]

(Lt Commander Frampton) That would be a way of doing it but we are not even getting the numbers that we actually need. I am talking about officers rather than ratings. We are not getting the numbers we actually need for the very small number of ships we currently have. That is the serious matter of concern to the Society.

Chairman

461. I understand you have a new Sea Careers Guide which you are building up. What on earth do you tell these competent young men that you want to enter into a career which looks almost doomed?

(Lt Commander Frampton) I should like to say "Here it is" but unfortunately we have started a draft and it is a very rough draft and I would hesitate to pre-empt it because it has not gone to my council and they may not agree with what I should like to write.

462. Do you feel that you have got a story to tell which can encourage competent young men to take up the industry?

(Lt Commander Frampton) I think there is. We have commissioned the Jonas Hanway which is a training ship lent by the Navy and we have refitted it and commissioned it and we required a Second Engineer. The Second Engineer we in fact found was on the Merchant Navy establishment pool. We asked whether he would like to join us and he said yes. He then said he would lose his place on the register. It is normal practice under normal conditions that you can get a leave of absence from the register for three months and this can be renewed if there is a surplus of officers on that register. When I talked to the Merchant Navy Establishment Manager on this subject he said they could not give this three months because there are no Second Engineers on the register. The situation already is that there is a lack of junior officers on the Merchant Navy establishment register and this will obviously extend. There is still a surplus of Masters and Chief Engineers but the numbers are dropping very rapidly as the individuals come out of the service.

(Mr King) Mr Dicks' question underlines the dilemma. We are on the horns of a dilemma in The Marine Society and it is a moral dilemma almost. A good part of our business is concerned with the 30,000 people who are already at sea. We provide them with an education service, a library service, vocational and non-vocational educational guidance and as long as there are still three of them there we shall still be doing that because that is what the charity exists for. The recruitment and training element of it is not new because it existed when Jonas Hanway invented The Marine Society in the eighteenth century but is has become more important. Quite properly one asks oneself to what end we are going through this exercise to keep the flame alight, as we see it. It seems to me that the natural end to the present situation is that we are not watching a J curve but a gradient which is going to go straight down through the bottom of the graph paper. The people with whom we are concerned are voting with their feet already and they are going away and they are not going to come back.

Mr Dicks

463. With a half full pint beer mug the pessimist says that it is half empty and the optimist says that it is half full. You are an independent organisation, if you could, setting aside Government funding which everybody seems to think is the answer to every problem this country has, give me the optimist's view, if there is one, for the future of the merchant fleet. I ask your organisation because you are in the middle and appear not to have any divided loyalties.

(Mr King) I am a failed optimist. I have been an optimist all my life but I begin to have a sense of failure. The big jet aircraft killed the passenger trade internationally; the container ship killed the break bulk cargo ship and reduced the demand by a factor of six or seven or eight or whatever. The oil crisis of 1973 and 1979 and overbuilding and the fact that there is a huge surplus of building capacity all over the world killed the tanker business. I suspect that the major oil companies who themselves have run their own fleets—and two of them were responsible for more than half the British tonnage a matter of ten years ago—have lost pretty well all the interest they ever had in running their own fleet. The Shell company may be different because it started off being a transportation company.

464. You have given me the pessimist's view. I was asking for the optimist's view. Is there anything to look forward to? Is there any future?

(Mr King) I shall try to be an optimist for two minutes. If I were to be an optimist I would hope that this Committee would be able to persuade somebody somewhere that there is something in what everybody has been ranting on about for a very long time now. There should be some core, some critical level of seafaring and shipping activity that belongs to this country. But how to arrange for it, I am afraid I have no nostrum.

465. That seems to have been the core of the evidence that has been given. With all the problems there must be a minimum for strategic reasons and some economic reasons too. The key to it all is finding from people like yourselves what that level is or how we go about finding it.

(Mr King) I used to say that in my own company, that there was a core level below which it was not worth going on and every time we got down to that core level I reduced the core level.

Mr Bidwell

466. But the Minister says he is going to do it so he will be in touch with you presumably.

(Mr King) Well, is he going to do it?

467. He is going to get you all together and find out what needs to be done.

(Mr King) I do not think he is going to do it at all because I do not think there is the political will to do it quite honestly. There is no political attraction in shipping, it is a small business.

468. We had a very lively witness here yesterday and an impressive one, but he talked about the grant from the Liverpool City Council to help him to do his work and he said he was not looking for a lot more money. He made a big plug of there not being enough training at sea. He thought that it would not cost an enormous

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[*Mr Bidwell Contd.*]

amount to improve that matter. Do you have any reflections on that?

(Mr King) Yes, but they are personal ones and not as Chairman of the Marine Society. If you would like to hear them I will go over them.

469. He is looking for practical and more sophisticated training on modern technology such as radar. How would you respond to that because he has some ideas about new methods of training without a lot of additional expenditure which I am sure the Chancellor of the Exchequer will be very interested in.

(Mr King) Yes, I am sure. I personally do not think that apprenticeship is either the only or the best way to train people. Inasmuch as training nowadays, for officers at least, is a sandwich process, it has improved but your witness may have been concerning himself with training for the future kind of ship, might he not?

470. Yes.

(Mr King) The future kind of ship is not here yet and the British will have to live with the present kind of ship for quite a long time. I do not see that the training for the future kind of ship should necessarily be all that expensive in national terms; they are not going to be all that complicated. I did hear the discussion this afternoon about having no officer on watch on the bridge If you can land a passenger aircraft hands-off, if you can fight a frigate from a box down inside the ship, you can certainly build a merchant ship to be run without anybody on the bridge, but whether it would be an economic proposition or not I do not know.

471. But the overall target is fewer people on ships.

(Mr King) Why not?

472. I am not arguing but that is the ultimate is it not?

(Mr King) Of course, it must be because they are the expensive element in most ships.

Chairman: If you land a plane using electronic means there is generally a pilot there. If we depend too much on electronic or mechanical means we get in the sort of trouble this Committee got in a short while ago when the recording equipment packed up.

Mr King

473. As the number of shipping companies using manning agencies increases should either the agencies or the ship owners or both be compelled to contribute towards recruitment costs?

(Mr King) Who is going to compel them? Shipping is an international business and it is open. If the British compel them then the agencies will move off somewhere else.

474. So a form of levy really is not workable?

(Mr King) The form of levy that we enjoyed in this country a matter of ten years ago, the cadet levy scheme, turned out not to be workable either.

475. The Secretary of State's proposals have suggested that The Marine Society might be willing to take responsibility for placing cadets as part of their training in seagoing vessels if the funds were available and shipping companies were willing. Is this so?

(Mr King) And if there are berths available. Attached to our Jonas Hanway proposals, which are quite small really in national terms, and also the bursary scheme which Lt Commander Frampton has developed, both depend upon there being an availability of berths in seagoing ships for the trainees to be put into.

476. Talking about Jonas Hanway, could you expand on the ship's role at the National Sea Training College for ratings at Gravesend? How much time will be spent there and how much time training officers at other colleges which do not have their own facility?

(Mr King) Could I get Lt Commander Frampton to expand on this because we do not just have the Jonas Hanway, we have two other little boxes as well.

(Lt Commander Frampton) The answer to your question is that at the moment the ratings at Gravesend do 11 weeks and during one of those weeks they go to sea in the Jonas Hanway up the East coast, which is as far as you can sensibly take them in five days. That is as much as the training programme for the National Sea Training College, with all the other commitments it has, can in fact release them for. If money were forthcoming one could obviously expand the time spent at sea which in my view would be a good thing but other people might not think so. On the subject of other nautical colleges, it depends on the capacity remaining when the National Sea Training College has filled their requirements. We have two other vessels of the same class which we have purchased in support and these are on Tyneside at the moment. We are investigating future use, perhaps on the same lines, to extend our training programmes to provide this sort of sea experience which otherwise they just do not get.

477. I understand that maritime youth organisations, the members of which may possibly seek to become professional seamen, will be able to use the ship. Does The Marine Society know what proportion of members of such organisations do become professional seamen? Years ago I was a sea scout. In Birmingham of all places we had a thriving sea scout organisation. I am not sure whether the sea scouts exist any longer or whether they do in Birmingham but I suspect they are a reasonable source of recruitment for both the Merchant and Royal Navy.

(Lt Commander Frampton) We have never been given any figures so I really cannot answer your question. The Sea Cadet Corps can certainly provide you with an accurate answer to that because they keep a proper record. Sea scouts are slightly different because the units are all separated and have a loose central federation approach. I do not know what they could do.

478. So you do not have any close relationship with them.

(Lt Commander Frampton) The answer to your question whether we would use the vessel for that purpose is yes, of course.

(Mr King) We do in fact have a close connection. My personal belief is that the most effective of these bodies as a pre-professional seaman training organisation is the Sea Cadets. The Sea Cadets' present headquarters are in Wimbledon but it is not a palace secret that they are moving into our building in Lambeth

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[*Mr King Contd.*]

later this year where we have made office space available to them.

479. The International Association of Navigation Schools told the Committee that the real need was for a deep sea training vessel which would be commercially operated and manned by cadets. Would you agree with that? Would your resources have been better employed by seeking to commission that sort of ship?

(Mr King) When we set out to debate amongst ourselves this issue of sea training, what we started out with was an idea that we should have another Winston Churchill or another Malcolm Miller or another Royalist but eventually the majority view was that this was really for youth experience and for character training and not the training we were concerned with. We were concerned with giving sea experience to potential professionals. We then set off to try to find the right sort of craft and we had vaulting ambition. We knew that Arctic trawlers had been converted by Operation Drake and Operation Raleigh and you get Arctic trawlers for a penny a big bag full. When we actually got out into the market to find the Arctic trawlers we could get cheaply we discovered we were two or three years too late. We could have bought a very good Arctic trawler and converted it but it would have meant putting in far more funds than we were prepared to do, far more funds than we could afford. We had almost moved away from our ability to do anything at all until the Ministry of Defence gave us the offer of the permanent loan of this HMS EGERIA. It is very much a matter of opinion as to whether a big seagoing cadet ship is the best way to train people. Different companies have always had different views of this. Some people hold the view that if you man a ship with cadets it is really of no value to them unless that ship is trading. But sometimes trading a training ship is incompatible with training in a training ship. We could practically divide experienced people down the middle and say these are training ship believers and those are not training ship believers.

Mr Ross

480. How far have you got with the Jonas Hanway. What stage are you at at the moment?

(Lt Commander Frampton) She is already commissioned.

481. You have actually got a crew on board, have you?

(Lt Commander Frampton) Yes.

482. How many crew does she take?

(Lt Commander Frampton) We have four permanent crew and can take up to another four instructors. We take up to another 12 trainees. The limitation on the training is the limitation imposed by the Department of Transport.

483. Do you have sufficient funds to continue with these projects yourself in The Marine Society?

(Mr King) Yes. We shall put a stop to things when we feel we are getting into danger but we have got enough to carry on with Jonas Hanway in the meantime.

484. In your more detailed evidence you did indicate the intake of recruitment of seafarers. You said that in 1985, 215 officers and 373 ratings were recruited, which was actually higher than 1983-84 but by 1986 those figures had halved. Can you give us any idea why they actually went up in 1985?

(Lt Commander Frampton) There was in fact a resurgence of recruiting and the companies were able to find the bodies. In 1986 there was a drop back as BP had flagged out by this time and they had difficulty in finding the few they wanted. They wanted about twice that number overall, so there were still not enough.

485. The French did actually put forward a package which was reported in Lloyds List of 4 October 1986. Do you think that is on the right lines? You probably know all about it.

(Mr King) I think we added it to our evidence. It satisfies the French problem I suspect to a certain extent but it does not go very far. It would need to be a different package if that sort of thing were put forward in this country.

Chairman

486. Do you think we should go ahead with dual certification? Do you think that this is a line which is almost inevitable?

(Mr King) It is a line we shall have to consider very seriously. Captain Holder and his Efficient Ship project are bound to consider that you can man a ship in that sort of way and one is bound to say: why not examine it?

487. So you have no really hard feelings about opposing it?

(Mr King) Absolutely none. When I was a lad growing up in ships there was a huge divide between oil and water. I saw that gradually disappear over my lifetime and now it ought not to exist at all.

488. Is there anything you would like to add for the record that we have not asked?

(Mr King) Yes, actually, there is something I should like to say.

489. We want to take advantage of your expertise.

(Mr King) This is not so much expertise as an emotional reaction to what you are doing and I hope in some way that you are successful but we have no nostrum for you. You will have huge difficulties because as long as governments take a non-interventionist view of a thing like shipping then there is nothing to be done, it is an international business. Really the person to consider when you look at a ship is the chap who ships his goods or people in it. Anything that you do in support of intervention to save the shipping industry does a bit of harm to the people who ship motorcars or oil or whatever it may be. It is a sort of Catch 22 situation that we are all in now and the thing has gone so far that it is almost irreversible. There may be particular kinds of ships which will be retained but the bulk trades have disappeared for ever. I do not think that all of our crying will bring the bulk trades back. The bulk trade standards will be set by the people who can do it cheapest; the shipper is more interested in getting the thing 95 per cent right at 70 per cent of the cost because he can pay insurance to make sure it is 100 per cent right. I was

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[*Chairman Contd.*]

brought up to believe in excellence and I have lived to see this not wanted. Really from a personal point of view the last thing I should like to say is that one views with a certain amount of sadness an activity that the British have been good at for 1,000 years, seafaring, and great at some of the time. The sort of thing that people like me committed all our working lives to, is pretty well disregarded now. There may be an inevitability about it.

490. As has happened to some of our older industries in other fields. How do you see this important factor of the backup for Her Majesty's Navy if for some reason it was required?

(Mr King) It is fundamental of course and it is a very complicated question. Are you talking about another Falklands adventure or are you talking about a 100 ship convoy from the Gulf of Mexico? The Falklands thing is not repeatable now. It was one off and it was the right time. It was 1982 and it is too late to try it now, I believe. I have always found it very difficult to contemplate what the Ministry of Defence — little bits of stories told us about the replenishment convoys . . . I do not think that is sustainable with only a European effort. I am an ignoramus about this but I read the newspapers, I read the magazines and it just seems a very difficult conception to me. So the Defence thing, I don't know.

Chairman: Thank you very much indeed for your very helpful evidence. I am sure it will help the Committee in reaching its conclusions and attempting to recommend something which hopefully will be useful. Thank you very much indeed.

Supplementary Memorandum submitted by the Marine Society

1. As a result of giving oral evidence to the Committee, The Marine Society, prompted by a better understanding of the Committee's concern and interest, would like to submit this paper.

2. Although recruitment, training and vocational education of seafarers are relatively minor factors affecting the commercial decisions which are at the root of the decline of the Merchant Navy, it is this human element with which the Society is particularly concerned. If conditions favourable to a resurgence of the UK fleet were to be created, there would be little difficulty in acquiring the necessary new or secondhand ships. The failure however to recruit, train and maintain a minimum number of trained and experienced seafarers would take several years to correct. There is already a perceived danger that even with the present depleted fleet there will be a severe shortage of trained officers in the early 1990s.

3. The Marine Society itself is not in a position to operate recruiting or training programmes. However it makes its contribution to those which are run by shipping companies and the nautical colleges through three operations. It offers advice and is preparing a guide on sea careers for young persons, careers advisers and parents, thus filling the gap left by the closure of the British Shipping Careers Service operated by the General Council of British Shipping. Secondly it is providing scholarships for deck and engineering professional/degree courses to encourage practical and intelligent young persons to join the Merchant Navy. Finally it mans and manages *Jonas Hanway* on loan from the Ministry of Defence to fill the gap in sea training for new entrants to the Merchant Navy and for other organisations. Purchased in support of this programme, *HMS Echo* will be refitted this year and *HMS Enterprise* will be prepared. The annex attached sets out the present users of *Jonas Hanway* and the potential users of the other two vessels.

4. The Society is impartial as it emphasised in its evidence to the Select Committee. It is therefore in a position to be objective in its approach to the problems of recruitment and training. The Society believes that a national "think-tank" on maritime personnel matters would be a most useful tool for both industry and Government. It believes that, as it is the only independent and impartial maritime organisation, it could fulfil that role and become the centre where national recruitment, training and education were debated and implemented. It would need staff and allocation of space at its offices in Lambeth for which funding would have to be sought.

5. Although not discussed at our hearing, the Minister's proposals for a Merchant Navy Reserve are of direct interest to the Society. It is considered that a Reserve which existed merely as a name—list of former merchant seafarers—would be an empty gesture, since there would be no guarantee that, when called on, they would be either fit or up to date to carry out seagoing duties. The Society believes that it is the permanent and continuing loss of fit, trained and qualified deck and engineer officers which presents the most serious problem to the nation. The Reserve should therefore concentrate on this group and be prepared to consider, initially at least, quite small numbers. For example, if not more than one hundred qualified deck and engineer officers were recruited at this stage, they could be required to undergo a joint two to three week course annually at one of the nautical colleges already geared to refresher courses for senior officers. The joint approach would encourage better understanding between the disciplines and further the concept of the multi-skill ship's officer of the future.

6. The efficient and planned training of a small Reserve would ensure a cadre of men whose knowledge at least would be kept up to date and who would be the core of any expansion needed. In pay, retainers, benefits, college fees, accommodation and sea training experience, a small number could probably be maintained at a sufficient level

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of confidence and competence for some £1 million per annum. The society, as an impartial organisation associated with all aspects of the industry, might also act as the central agency for organising this Reserve.

7. The above positive proposals are offered with the object of assisting the Committee in one area in which the Society has a direct and recognised interest. It is not in a position to offer any suggestions on the commercial decisions which might be needed to return to the UK flag. While container and ferry services are presently profitable under this flag, the principles of free trade, intervention by some governments and non-intervention by this government has created a situation for most other sectors of the Merchant Navy which only the Government and shipowners together can affect. Other organisations, including the Marine Society, deeply concerned as they might be, are only able to offer solutions and action within their own limited spheres.

Annex

TRAINING SHIPS

The Marine Society has three 107 foot vessels, all ex inshore survey vessels:

HMS *Egeria*—on loan from The Ministry of Defence
HMS *Echo* } owned by the Society.
HMS *Enterprise* }

HMS *Egeria* has been refitted, renamed *Jonas Hanway* after the founder of the Society, and is in commission. HMS *Echo* will begin her refit this year at AMARC Ltd, a charity set up to train and up the skills of shipyard workers on Tyneside. HMS *Enterprise* is being used to provide spares and will be prepared.

Within the object of the Society is the encouragement of young persons to go to sea, the support of proper training facilities for seafarers, and support of those at sea seeking professional advancement.

Its training ships are manned and managed by the Society. Each has or will have a Master, Chief Engineer, Mate and 2nd Engineer and will take up to two instructors and twelve students. It is intended that they should be used for the following purposes:

1. Sea acquaint courses for those intending to embark on a career at sea.
2. Basic sea training for new entries.
3. Advanced sea training—passage planning. ARPA training etc.
4. Sea experience for maritime youth organisations (Sea Cadets, Sea Scouts).
5. Other professional organisations (universities, colleges, RNR etc).

The 1987 programme for *Jonas Hanway* includes courses for the following:

1. Deck, engineering and catering new entry ratings at the National Sea Training College.
2. Maritime studies students at Merchant Navy College.
3. Apprentices from the Watermen and Lightermen's Company.
4. Senior boys from Hull Trinity House School.
5. Sea Cadet Corps.
6. London Flotilla.
7. Royal Naval Reserve.

The programme for 1988 for *Jonas Hanway* and *Echo* when in commission is expected to follow a similar pattern. In addition interest has already been expressed in their use for marine science students from Plymouth Polytechnic, and University of East Anglia in reply to a letter sent in March 1987 to all institutions in the marine field.

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HOUSE OF COMMONS

TRANSPORT COMMITTEE

Session 1986–87

DECLINE IN THE UK REGISTERED MERCHANT FLEET

MINUTES OF EVIDENCE

Wednesday 4 March 1987

Mr Peter Marlow, Dr Mike Garratt and Dr Ronald Hope

Ordered by The House of Commons *to be printed*
4 March 1987

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WEDNESDAY 4 MARCH 1987

Members present:

Mr Gordon A T Bagier (in the Chair)

Mr David Gilroy Bevan
Mr Sydney Bidwell
Mr Terry Dicks
Mr Peter Fry
Mr Roger King
Mr Stephen Ross

Examination of Witnesses

MR PETER MARLOW, of the Department of Maritime Studies of the University of Wales Institute of Science and Technology, and DR MIKE GARRATT, of the Marine Transport Centre of Liverpool University, called in and examined.

Chairman

491. Mr Marlow and Dr Garratt, in opening our proceedings this afternoon, would you be good enough for the record to give us your names, what your backgrounds are and your reasons for coming before us?

(Mr Marlow) I am Peter Marlow, of the Department of Maritime Studies of the University of Wales Institute of Science and Technology in Cardiff. I have been there for 12 years and my research interest is in the fiscal treatment of shipping—"fiscal", as opposed to "physical", physical being flag discrimination, berth priorities and such like and fiscal being related to taxation and subsidies. During my time at UWIST, I have done several studies for bodies like the Commission for the EEC, the OECD, the Department of Transport and the GCBS on such aspects. I am able to compare the different measures given in different countries. I am able to assess objectively, I hope, the disparate packages of investment incentives which exist for shipping in different countries and there are various publications from which I can extract figures, if required.

(Dr Garratt) I am Mike Garratt of the Marine Transport Centre, Liverpool University. My interest is principally in short sea and ferry industries economics and transport economics. I have done a wide range of studies for various commercial and public authorities, including the Department of Transport.

492. Thank you. Obviously, you are both closely connected with the industry but you specialise in different aspects of it—you, Mr Marlow, as you have explained on ship finance and fiscal policy and you, Dr Garratt, on the short sea trades. I think that the way we can conduct our line of questioning would be perhaps to take, first, Mr Marlow, in dealing with the financial and fiscal policy side of it. But, please remember, Dr Garratt, should you wish to make any comments and join in, that it is a joint concern. It is just for the sake of tidiness that we start in this way, Mr Marlow, there have been several major changes made in the fiscal arrangements for the shipping industry, as indeed for all industry, by the 1984 Budget. I believe that you have some feelings about the position before 1984 and could explain why (in the words of the Department) the pre-1984 tax regime:

"had not led to a high level of shipping investment"

and why, if that was the case, the GCBS bewailed its passing?

(Mr Marlow) Perhaps it would be helpful for the members of the Committee if I briefly explained the difference between the pre-1984 system and the post-1984 system. The pre-1984 system for shipping in the UK gave 100 per cent first-year allowance, free depreciation on the ship and a rate of corporation tax of 52 per cent. This was a major incentive. Post-1984, the rate of corporation tax was gradually to be reduced to 35 per cent. The method of calculating capital allowances on the ship was to be altered from being free depreciation, 100 per cent first-year allowance to being 25 per cent reducing balance, which meant that they got fewer allowances. The post-tax value of those allowances was reduced as the tax rate was that much lower and, at the time, there would be an impact on the level of tax relief that they got on the interest charges on money borrowed to finance the purchase of new ships. Therefore, the effect of the Budget was three-fold and it would appear that two of them were to the detriment, one of them to the benefit and, on balance, it appears that on low rates of return companies were worse off as a result of the Budget. I think that your question was in two parts. If people were happy with what happened prior to 1984, why did they appear not to make greater use of it? This would best be answered, I think, by the fact that shipping investment is not profitable investment. Various pieces of research work that have been done have tried to link the level of investment incentives with the amount of investment taking place. It seems impossible to prove that there is such a link. To my knowledge, it has never been proved that investment incentives lead to more investment in ships. This is probably because the overriding concern of the shipowner is to get a reasonable rate of return on his investment, a reasonable level of profits, something which, at the moment, he is not getting in shipping. You could argue that certain sectors are profitable whereas others are palpably unprofitable. It varies from sector to sector, from trade to trade. The reason why they did not take it, I suspect, was because of the basic unprofitability of the thing. They did not feel that the investment incentives provided enough incentive to invest their money into a ship which might cost them

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[*Chairman Contd.*]

£30 million, a ship which they might not be able to use and which they might end up selling a few years later for perhaps £8 million. Hence, the value of the incentive did not compensate for the difference, did not compensate for what they were losing. The second part of the question referred to the GCBS. Why should the GCBS bewail the passing of this? It is a question best put to GCBS. They have an interest, I think, in maintaining the *status quo*. They would like to have these investment incentives in existence on the books, ready to be used if there is an upturn: otherwise, they have to come back and make a case for the restoration of these later on.

493. So that they saw themselves worse off?

(Mr Marlow) Yes, almost certainly. I think they did so and, almost certainly, in the ranking of some of the European countries, Britain went down in the ranking immediately as a result.

494. How much was not taken up because of the laid-up shipping all over the world, because of over-supply?

(Mr Marlow) A great deal of it. This is all part of the level of unprofitability. There is over-supply and, particularly, in the tanker trade and the bulk trades but not so much in the container trades. It is probably no coincidence that the container trades are the ones where the levels of profits are greater. And the liner trades. They seem to be better off, more profitable, than bulk shipping.

Mr King

495. Why is that specifically? Is it that there is not the saturation of capacity as there has been in oil and bulk carriage? Or is it because it is more controlled?

(Mr Marlow) I think that it is both. It is more controlled in that liner shipping is a scheduled service, it is something which runs to a timetable, it has a commitment to a particular route, to serve particular origins and destinations. You do not get that with tramp shipping, you do not get that to the same extent with bulk shipping.

(Dr Garratt) And liner shipping is that much harder to enter, so that those who are already in it have an advantage. We have to remember that perhaps two-thirds of 70 per cent of the turnover in liner shipping is not within the shipping sector, it is within the ports and in land distribution and so forth. So that there is a large range of other activities where profits can be made. If the liner operator is using, let us say, a chartered ship, then maybe the shipowner himself is not making any profits but the liner operator is making some profits through the whole business.

Mr Fry

496. Are you saying that no matter what kind of scheme there is, shipowners are not likely to be buying ships?

(Mr Marlow) Yes.

497. Therefore, the argument that the GCBS put to the Chancellor that their salvation is to go back to the pre-1984 situation was a total red herring?

(Mr Marlow) I think that it probably is, yes. Either they can make use of the allowances which they are claiming they want to have restored or they cannot. It is a strong possibility that some of these liner companies like OCL who went into business 18 or 20 years ago are thinking of re-equipping in the next few years, of renewing their fleets. If this is the case, they are doing so because it is the liner trade. These vessels were re-engined five or six years ago and normally, would have reached the end of their working lives at a maximum period of 18 or 20 years. If they are thinking of re-equipping, this is because there are profits to be made on the trade, because they have a commitment to the trade. They will make that investment whether or not there are investment incentives because they have to do so in order to maintain the level of service.

Mr King

498. That is not the same. They could be foreign flags. They could flag out, for instance, and get better investments elsewhere, could they not?—better return, better facilities?

(Mr Marlow) They could.

499. It does follow, surely, that when they come to replace their ships, if we do not offer them similar sorts of facilities in this country, they will get them made in Japan, Korea or somewhere.

(Mr Marlow) That is right. They could do that.

Chairman

500. But that is on the shipbuilding side.

(Mr Marlow) Yes, not the operating side.

501. How much on the operating side in the post-1984 era, which really took effect in 1986, has led in your view to the increase in flagging out?

(Mr Marlow) On the operating side, the only things over which the shipowners have control are the cost of their crew and the size of their crew. If they register in the United Kingdom, the size of the crew is laid down. Therefore, they have some control over the level of wages, perhaps. But this tends to be by union agreements. If they want to reduce their costs, they tend to flag out for that purpose, not for any fiscal purpose. I do not believe that the fiscal effect is important in flagging out. There was the case recently, I think, of Shell going to the Isle of Man where they have specifically stated that they are not going for fiscal reasons. They are going purely in order to enter new manning agreements for the vessels at new rates of pay. This is where they see the operating costs. This is where they feel that the competition is greatest. This is the only thing that they have control over. Shipping being a world market, they have to buy their fuel, their bunkers, at world prices, they have to buy their ships on the world market. Really, all that they can control are the crew costs. I think that that is the reason.

502. So that you are saying that almost totally it is a question of salaries. I think we had some evidence on the matter of salaries and I think that it was admitted by those witnesses that seamen are not generally overpaid, as such. Is it a question of pay? Or is it a question of conditions or of numbers? Or of what . . .?

(Dr Garratt) I think it is a question of numbers.

503. Are you saying that if you get the regime right—that is, if you get the number of crew right—that is

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[Chairman Contd.]

more important than any fiscal measures in determining whether a shipowner will have another ship or not?

(Mr Marlow) I think that it is determined by whether he flags out or not.

504. But not whether he orders another ship?

(Mr Marlow) No.

(Dr Garratt) It is also determinate upon the charter rate which would apply when a liner operator is choosing between chartering, say, a British ship or a foreign ship.

Mr Bevan

505. If we are going into situations of considering profit, I should like your assessment as to when profit occurs. Over what period is a ship amortised and what yield is looked for by a shipping company in both short-term and long-term hauls. We are loosely talking about crew advantages on a flagging-out bid but we have not yet in this Committee defined what is a profit, how many operators are making a profit and what is looked for in profit. I wonder if you could help us with regard to what is your assessment of that.

(Mr Marlow) It was the case a few years ago when people invested in tankers and the tanker market was buoyant that they could pay for this investment in two or three voyages. Profits were high. That is one extreme. At the moment, they are probably not covering their costs at all; they are probably lucky to make any contribution.

506. So that there is no yield at all on present voyages; there is no profitability, there is no yield, gained from the investment.

(Dr Garratt) Charter rates in most of the trades that we would have looked at are such that the rates could only cover operating costs and make practically no return on the capital invested. That is reflected in the second-hand——

507. So that there is a nil profits situation?

(Dr Garratt) Minimal.

508. Well, nil or minimal? You were saying that it just about covered operating costs only. That is nil profit, is it not?

(Dr Garratt) Yes, a minimal return on capital.

509. May I follow this up; for I must find in my mind what is the difference between crewing-out arrangements under other flags and the difference that that makes to earning a return on the investment in terms of profit; and flagging out here at home, flagging under the UK banner?

(Mr Marlow) I think that the difference lies in the charter rates.

510. And in what does this result in terms of yield or in terms of profit?

(Mr Marlow) It means that if a UK-registered vessel with a UK crew wished to compete in the world market, they have to charge what their competitors charge. They cannot afford to charge higher; their freight rates cannot be higher. This means that they do not get the traffic if they charge what they need to charge to cover their costs.

511. Can I then have your opinion please on what other nations are earning in terms of yield and profit on their short-haul and long-haul voyages; so that we have a comparison?

(Dr Garratt) I think that there is a confusion between the shipping company which is operating traffic from "A" to "B" and the shipowners. The shipowner is the individual in this market who suffers the troughs and the peaks; because he has made an investment in a piece of capital which may or may not have a market. As Peter has pointed out, he may make a killing on two or three voyages if charter rates are very buoyant and if there is an excess demand. At other times, he may do nothing more than cover his operating costs. He carries on in the hope that things will get better.

Mr Bevan: I thank you both for those answers, but they do not answer the points that I am really trying to get at. I wonder if we can get the sort of information which gives us the level that is being earned on these boats both here and abroad and whether we can get to know what profit, if any, is being made. Then we shall have some actual hallmarks of operation.

Chairman: We shall try to come to that point.

Mr Bidwell

512. What I wanted to do was to relate it to labour costs, to past experiences and to future experiences, and to the change in the British pattern of trade. Surely, that has attended the whole scene as, too, the date when we entered the Common Market where trade with other Common Market countries has proceeded apace. Further, as a consequence of the ending of imperial preference and so on, there has been a falling away in other directions. All that has attended the scene. But on the question of flagging out, is it not to a great extent because of labour costs? If it is a British ship with a British crew, the labour costs are higher. Has this not attended the flagging-out scene? Is this not the guts of the thing? But there is profitability in some of this new trade and new patterns of trade, is there not, into Europe? Containerisation has revolutionised the whole aspect of cargo handing. There must surely be profit in that.

(Dr Garratt) Some routes, some trades, some companies, are making profits. There is no doubt about that.

513. The long-haul vessels are not so capable of making a profit as are those on the short-haul voyages. Is that the position?

(Dr Garratt) In the bulk trades, the deepsea bulk and tanker trades, the owners' expectations of future demand exceeded the fact; therefore, there is over-supply and there is no profit to be made in the owning of a vessel. On the shorter trades and in the liner trades, the vast proportion of the turnover is not within the shipping sector at all; it is within the ports and within inland distribution. That is where profit can be made. It is again the problem of the shipping company organising the whole chain of the transport function.

514. While handling containers is more efficient and the profit on it may be high as a consequence of all this efficiency, it does not reflect itself in the actual shipping because the loading of some containers on a ship is not so different from the handling of bulk cargo as it existed before. And you are saying that that is not reflected so

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[*Mr Bidwell Contd.*]

much in profitability as carrying it from one seaboard to another?

(Dr Garratt) Exactly. If ten ships are chasing nine cargoes, whatever the shape of the market the shipowner will not make a profit. And, of course, containerisation and the ro-ro trade into Europe has meant that the number of vessels needed to carry the trade has dropped drastically, anyway, so that, as an economic activity, shipping has declined.

515. Has the necessity for manpower (or womanpower, for that matter) receded?

(Dr Garratt) Yes, because the vessels are in port for hours and not days. Hitherto the crew was employed wherever the ship was situated; so that in the past the crew was employed to sit on a ship while it was in port for a week. Now, in the case of Dover, they are there for an hour and a quarter. Clearly, the number of crew required and the number of people required to move the cargo is much less, and the vessels are five times the size.

Mr Dicks

516. May I say that a lot of the evidence that we have had so far has been that the Government "must do something" to save the merchant fleet. From what you have said about people not investing in shipbuilding and not making profits on journeys, would I be wrong in assuming that what we are really asking for is almost to turn the merchant fleet into some kind of social service in order to keep it going? So that, if the industry does not want to invest because it does not see a profit and because there is no profit in journeys which they are making either almost at a loss or just at break-even, we should keep it running almost as a social service, should we? The question that I am really asking is this. If the industry itself is not going to re-invest and does not want to, why should the Government come in and invest public money in what is virtually a loser, or, at least, appears to be so at this time?

(Dr Garratt) The owner of the ship is part of a world market. A liner service may be able to protect itself, but, at the end of the day, the charterer decides either to charter or to own a ship. The charterer can choose that ship from wherever. A few weeks ago, a West German company started a round-world service in both directions with, I think, a frequency of every two weeks, employing about 20 ships, not one of which it intended to own. It was chartering mainly German vessels. You do not need to own a ship. In those circumstances, the ship that gets chartered will clearly be the cheapest ship—the one that can offer the lowest charter rates, the lowest operating costs. So, if the regime (be it fiscal or money) be that little bit cheaper in one country than another, then the more expensive country cannot hope to charter many ships. That is the essence.

Mr Bevan

517. To go back to the question that I was asking, if you have ten ships chasing nine cargoes, then the more you add to the British merchant fleet, the more you build it up again, the greater the loss you will be making, the greater the competition and the greater the inability of ships to make a profit. Is that right?

(Mr Marlow) And the more depressed the market will be.

518. In other words, the aspirations which many of us have, including me, to see an increase in British shipping under the British flag are, you suggest, misplaced and can only lead to making greater losses.

(Dr Garratt) I think that is a little simplistic because if you take that attitude then, clearly, there will be no British fleet left and we are in the same problem as that of world shipbuilding. Any country can adopt the approach that there is an excess supply and withdraw from the market. But that country will not have a shipbuilding industry at all. The problem is that other countries are behaving in a way so as to increase supply as well.

Chairman

519. You would agree, would you not, that overall it is difficult to generalise that all shipping is losing the same amount? You have already said, in some of your remarks, that some sections of the shipping industry are profitable and even, in some cases, buoyant, while ours is not. If you make that surmise, is it possible (to pick up the question that Mr Dicks raised) for Government assistance to be particularised towards a particular section of shipping? Do you feel that that is an aspect which could be pursued, or not?

(Mr Marlow) If I may say so, I think that this is something that is done by some other countries. They actually give grants according to ship type and give a level of grant according to ship type. France, for instance, is a country which does this.

520. This is an area in which the French have been praised for their particular schemes and, I think, also West Germany, Denmark, the Netherlands and so forth. Is that so?

(Dr Garratt) It is, Chairman.

Mr Dicks

521. We have been told that there is a strategic need for a minimum (but, so far, unquantified) level of fleet in terms of threat to the country. I would appreciate and understand a need to maintain this minimum, although we have not yet been told what is this minimum. But, beyond that, I would ask you this direct question. What on earth can be the point of the Government, any Government, investing in the British merchant fleet above that level if the very people working in it see (if you like) nothing in the future to justify their investment with their own money? I wonder about this. First of all, can you tell us what, in your view, is this minimum and in what sector, in general terms, should it apply? Secondly, would you comment on the general view that I have just put forward?

(Mr Marlow) I have no expertise in defence matters. In fact, if we are talking about defence——

522. I am referring first of all to the balance of payments. We have some figures which show it to be down to some 3 per cent of the balance of payments. In a sense, it is beginning to wash that one aside. We have also been told that there is, of course, the strategic factor. But nobody has quantified that in terms of "*x* ships of *y* size" in anticipation of whatever might happen. I am not disputing that there is some validity in this. But nobody has qualified that validity for us. As I was saying, above

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[Mr Dicks *Contd.*]

that level, if it can be quantified, I am beginning to come to the conclusion—and please correct me if I am wrong—that there is no point in the Government even thinking of investing a penny in the restoration of the merchant fleet because the industry is declining so rapidly that there is nothing that anybody can do about it. But please correct me of I have got it wrong.

(Dr Garratt) I think that within the European trades—and I know that within the Department's paper they make the point, which I think is correct—there is less of a problem of developing-country crews undercutting charter rates and so forth. There, the competition is between different countries' incentives—be they Denmark, Germany, the Netherlands or wherever—offering better packages for owners. It seems to me that that is where the issue lies: whether to choose to compete with those incentive packages so that the next ship is built and operated from this country or not.

Chairman

523. Can you say something about those packages and what are the advantages?

(Mr Marlow) You mentioned France, Germany, Denmark and the Netherlands. France gives investment grants, Germany gives investment grants, the Netherlands give an investment grant. Denmark gives advance depreciation, anticipated depreciation. This is in advance of the ship actually being built and delivered.

Mr Bevan

524. How much?

(Mr Marlow) Thirty per cent over two years with a maximum of 15 per cent in any one year.

Chairman

525. Is that the lot as far as the package is concerned?

(Mr Marlow) No. They give much more than that. They also have favourable loan arrangements and domestic credit terms, for instance, which are more favourable than those that British shipowners can get. British shipowners tend to have credit terms which are very closely akin to the OECD understanding for export credit for ships. Roughly, this means that you can borrow 80 per cent of the capital cost of a ship over about eight years at a rate of interest of 8 per cent. Those are roughly the terms. They vary half a per cent or so and sometimes the length of time varies, too. In Denmark, you can borrow 80 per cent. And, until recently, you could borrow it over 14 years.

Mr Bevan

526. From whom?

(Mr Marlow) From the Danish Government, I believe.

527. Not from their banks but from the Government?

(Mr Marlow) From the Government, I believe.

528. A direct injection from Government?

(Mr Marlow) Yes.

529. At what rate of interest?

(Mr Marlow) I think it was 8 per cent but there was a four-year moratorium on capital repayments.

Mr Fry

530. Can I put it to you that if this country—or any country that wanted to build up its merchant marine—adopted this policy, as we have similarly adopted different policies in relation to manning and conditions, for example, while there is still greater supply than demand, there is the danger that other countries would merely increase either their financial incentives or reduce their regulations in relation to flagging out. We could run into the danger of embarking upon an almost unknown amount of public expenditure at the end of which we would not have increased British shipping by one extra vessel.

(Mr Marlow) That is quite true. Almost without exception, the merchant fleets of developed maritime countries have levels of support from their governments. It seems to be retaliatory or reciprocal. You get your retaliation in first if you want your people to benefit.

Chairman

531. Why do you feel that these governments consider it so important to underpin their fleets in that way? Do you feel that they have a more important reason than we have, for example? We are an island nation. We should feel the desire to have a flag fleet under our direct (for lack of a better word) control far more than they should feel it. Do you feel that our thinking is wrong or that their thinking is right? How do you see the situation?

(Mr Marlow) I think that it is historical. I do not know how it started. Possibly, it started with the United States. Everything in the States costs twice as much, so that they used to give them 50 per cent subsidies to build ships, for instance. They were construction differential subsidies. They also gave them operating differential subsidies, something which have recently stopped. Perhaps it is because of that or because shipping operates in a world market place and, therefore, if somebody else who is operating in a international market is receiving some level of support and aid, then shipowners of a particular country will say, "We can't compete with that. Can you give us some support?" Their government then steps in and somebody else jumps on the bandwagon and the thing snowballs.

Mr Dicks

532. Where does all this end? In the end, you have virtually a merchant fleet which is not running for sound economic reasons but because every government is looking over its shoulder at the amount of money that is being given. We have either a merchant fleet which, as I say, is needed strategically and then rests upon a pure economic concept, or we do not have one at all. Where do we stop? We can call it the "United Kingdom Merchant Welfare Benefit Fleet", if you like. But we are getting away from the basic fact about how it can compete. How can we justify, for example, giving funds to owners to build new ships when there is over-supply and under-used ships at the moment? Any government of whatever colour would be crazy to contemplate that. You can pick holes in that idea without even trying!

(Mr Marlow) You cannot justify that at all.

(Dr Garratt) There are other aspects of the matter. Ships are by no means homogeneous—in fact, anything but! Two such ships would be the exception rather than the rule. What these other countries have been able

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[Mr Dicks *Contd.*]

to do is to develop more modern vessels. The Danish incentive scheme, for example, has meant that Mercandia, a Danish company, has built a long series of ro-ro vessels for the short sea trades which are now very important in the short sea charter market. They are good vessels, efficient and advanced in technology. If, for example, a British shipping company wanted to charter a British-flagged ro-ro vessel (roll-on/roll-off freight vessel) to start a new line, they would have problems finding one under the British flag. In the case of the Germans, they have been very important in the development of short sea coasters. These vessels are generally much more efficient than the vessels they have been superseding, often built to demanding port constraints—that is, to be able to reach shallow draughted ports and so on—and have been built in such a way that they can carry much more cargo than the ships from which they have taken over. They are, therefore, a good investment. They have carried along their shipbuilding technologies in a way that has not happened in this country.

Mr Ross

533. What you are telling us is that if we want to stay in this game, if we are going to have any ships, we shall have to do something likewise. What discussions are taking place at the European or even international levels because the Japanese, Koreans, Taiwanese and other people are in this game, too? Are there any discussions going on at which we can get some sanity into this thing? Or are we fighting on our own and are we faced with the fact that unless we build modern ships and can get down to the sorts of limited crews that man these ships, we may as well pack up?

(Dr Garratt) Shipping is a world market and it is perhaps very difficult to organise 30 or 40 countries who are active in that world market. Certainly, the Koreans (and you mentioned Korea) are very bullish at the moment about developing liner fleets and keeping their shipbuilding industry buoyant—despite the fact that three years ago they built the 12 largest container ships in the world (the US Line) which turned out to be unable to attract enough cargo and are now laid up around the world. That has not discouraged them. I think that the evidence is that there is not much co-operation.

Mr Fry

534. Going on from that, does it not therefore seem pretty hopeless to pursue a policy where you cannot get international agreement? If, for example, the Koreans are prepared to go to the lengths that you have just mentioned, the same thing could happen again. It may not be Korea but it might well be another country. When one talks about the possibility of doing the sort of thing that was implied in Mr Ross's question—that is, providing the same sort of regime as is provided by other countries—it presupposes an international agreement.

(Dr Garratt) Unless one can direct one's policy towards a particular form of shipping.

535. Can I ask Mr Marlow a question about what he has written himself. The Paper published in *Maritime Policy and Management* (July-September, 1984) co-written with Messrs Gardner and Goss, appears to recommend:

> "domestic credit arrangements (ie fiscal assistance to ship building via shipowners) [should be allowed] to compensate for any advantage bestowed by fiscal incentives in another country"

including different inflation levels. I wonder, Mr Marlow, whether you would like to say whether you have changed your mind since 1984; how you think this should work and how effective you think it would be if other countries merely altered their regimes to take into account what we are doing in this country?

(Mr Marlow) It all depends upon whether you believe that investment incentives have any effect at all on the decision to invest in shipping. If you believe that they do, then the fiscal or financial regime which persists in your country must be at least as favourable as that which persists in the countries of your competitors. Therefore, to that effect, somebody (I believe it was Mr Dicks) mentioned the idea of a package. You must look at all of this problem. You must look at the operating costs as part of the package; you must look at the fiscal incentives as part of the package and you must look at financial factors, ie domestic credit terms. It is difficult to get harmonisation of tax regimes between different countries for a variety of reasons. The EEC have been looking at this for a long time—some 20 years or so. They have not got very far with it. It is much easier to have domestic credit arrangements which are run by your own Government and administered by your own Government, if necessary with purse strings attached each year, so that it is not a bottomless purse. And you could then evaluate the total package and, if your package on the fiscal side was better than somebody else's, you could have harder domestic credit terms to make the total the same as that of somebody else. In the past, the Danes have always been put up as a good example of very favourable credit arrangements and also the Japanese. They can get their income from a variety of sources. And the Belgians, but they are less of a problem. It would appear that domestic credit arrangements are a means of manipulating the total package. You ask whether I think it should still be necessary. That really depends upon what is happening in world markets. At the moment, there seems to be no justification for it because there is an over-supply. Incidentally, there was an over-supply when we wrote the Paper. We were just putting it forward as an idea in terms of the EEC harmonisation. To do it now, provided the level of assistance which was given in total did not exceed what is currently given, would not add to the problem of over-supply.

536. You mean in terms of the other tax incentives?

(Mr Marlow) All that it would do would be to equalise the treatment in different countries.

(In the absence of the Chairman, Mr Peter Fry took the Chair)

Mr Bevan

537. Could I follow that up? It is a most important question. You touched on the Japanese package. Does not the package not only involve domestic subsidy, as you have said, but also start at a different juncture? Does it not start with the cargo? For instance, the consortium—and please correct me if I am wrong—that

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[Mr Bevan Contd.]

the Japanese operates includes very low interest rates from the banks and subsidy into the shipbuilding, but both those things on a consortium basis with the car manufacturers who are also subsidised, to carry and transport the merchandise (namely, the motorcars) from Japan to Europe or to wherever they are selling the merchandise. That is the total package, is it not, which is dictated by a monopoly control of the merchandise to be carried in the first place? That package would not have been created in that same way or operated by the Japanese, would it, if they had not a guarantee that they would be transporting and carrying their own cars which they had already sold in the first place? In other words, should not the package be cargo-based?

(Mr Marlow) That is one example where it is, in advance. If for a moment you were to abstract from that example the fiscal regime, that is general. The fiscal incentives in Japan—the loans, for instance, the domestic credit terms—are general. They go through the JDB for these things. The tax regime for the companies is the same regardless of what cargo they carry. The only difference is the level of support for particular types of energy-saving vessels, where they give higher levels of grant for those which are energy saving and are even more efficient. So that I am not sure that the same argument would apply, say, to tankers. If you compare the Japanese regime with any of the European countries, it fares very badly indeed from a fiscal point of view.

538. Through you. Chairman, may I ask Mr Marlow and Dr Garratt to draw up a table of comparisons of all these grants and incentives between the various countries which supply them?

(Mr Marlow) I have done this on the fiscal side, not on the operating cost side and not when it has been tied up with cargo. This has been done on a purely fiscal basis.

539. Could it be extended to embrace the other two ingredients?

(Dr Garratt) I think that that would depend upon how many countries you are trying to cover. If you try to cover a wide range of countries, then the different operating costs in the different situations present a major task.

(Mr Marlow) Yes. I think that operating costs are a major problem, which is why we are have not included it in the past. Plymouth Polytechnic have done some work on collection of labour costs.

Mr Bevan: Chairman, we must try to collect some of these statistics through our advisers.

Mr Fry

540. Yes, but I think we shall have to move on a little. Can we turn to Dr Garratt on the subject of short sea trades? The National Union of Seamen suggested that the UK had two different fleets—a small-ship fleet of 500 or 600 tons and below and a large-ship fleet and they said:

"We are rapidly becoming a small ship nation."

Would you agree that that is the way we are going?

(Dr Garratt) I would disagree with the tonnage figure. But, yes, 500 or 600 tons is too small. The British fleet consists of a handful of deep-sea vessels, a reasonable sized coastal fleet and quite a high number (relative to other countries) of ferries. They are ferries, coasters and a handful of deep-sea vessels.

Mr King

541. Is that total traffic expanding because the operations of the ships, obviously, are basically within a European theatre?

(Dr Garratt) Yes.

542. Are they becoming more efficient as they compete with their Continental brethren, as it were? Are there are signs of improved competitiveness among our small-ship fleet?

(Dr Garratt) We are talking now about coasters, of ships of about 1,000 tons to 2,000 tons carrying capacity. The dominant flags are the Dutch and the German. The most modern vessels tend to be the German specials. They would be the most competitive. And that would apply also in the short sea container market where the German vessels tend to be able to offer lower charter rates.

543. Would you say that our coastal fleet was getting older or would you say that it was showing signs of rehabilitation with new ships?

(Dr Garratt) There was a number of new vessels built by British owners about five years ago but relatively few in the last two or three years.

544. Is the small-ship fleet going the same way as the large-ship section?

(Dr Garratt) I would say that it was vulnerable.

545. But that it was not too late to resuscitate in some way or another if that is what is required?

(Dr Garratt) In fact, as the Department of Transport commented in their evidence, it is, generally speaking, competing with other European flags and not with cheap labour. That, at least, is an advantage by comparison with competing with a flag of convenience deep-sea vessel.

546. Am I right in saying that there is a surplus of small shipping within Europe? Or is it about in line with the requirements?

(Dr Garratt) The market conditions are such that the only vessels being built are those with intensive packages. I would say that there was a small surplus.

Mr Fry

547. We have already commented upon the state of realism in relation to pay. Has that realism been translated into greater competitiveness? Or have there been other factors in the last few years which have outweighed that?

(Dr Garratt) I think that the oil companies' behaviour on flagging out says it all, in the sense that they felt they would switch to the Isle of Man register not to seek cheap labour but to maintain more or less the same labour but with more intensive utilisation of that labour and fewer fringe benefits.

548. That could mean cheaper labour costs, could it not?

(Dr Garratt) Yes.

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[*Mr Fry Contd.*]

(Mr Marlow) Does Mr Fry mean lower wages?

(Dr Garratt) No. He means cheaper labour costs.

Mr Fry: I would accept that.

Mr King

549. As this country becomes more export efficient, one has to accept that over the last five or six years we have been saddled with what one could describe as a petro-currency with a high oil price and all that that has meant in terms of our operating costs, in terms of our export costs. That has meant to say that our manufactured products have not been so competitive in the world market as they might have been. That position is changing, and changing quite dramatically. Would you think that that would be translated into a greater demand for shipping—both European and elsewhere?

(Dr Garratt) I would doubt it. It depends upon what is being exported. If what is being exported—that is, increasingly exported—are manufactured goods which move in containers or trailers, then, as far as trade with Europe is concerned, it would have more or less no impact at all; because there is an imbalance of trade. That is to say that there are empty trailers moving back into Europe and if Britain manages to export more it simply will mean occupying the fresh air that would otherwise be moving back. So that the impact on shipping would be negligible. As far as deep-sea markets are concerned, and we are talking about liner shipping, most deep-sea routes are organised in consortia in such a way that perhaps one in five vessels visiting the UK in a particular fleet is a UK-flag vessel. Again, therefore, the impact would be minimal.

550. What about transhipment of cargo—large ships coming into Rotterdam, for instance, and then transhipping to smaller ones? That is a trend that has developed over the past few years. Is it still continuing?

(Dr Garratt) Oh, yes.

551. Are we getting the sort of hub-and-spoke principle that the American airlines now adopt in their own routeage?

(Dr Garratt) Yes. It depends on the shipping line concerned, of course. But every shipping line which serves Europe finds necessarily that less than 20 per cent of its cargo is for the UK and that the economies of scale of moving on a long route are such that it wishes to serve the whole of the European market with one fleet of vessels following a common itinerary; and that shipping line could well find that it is more economic to tranship at Rotterdam. If I can do a little transport geography here, if a deep-sea vessel goes to Rotterdam, it can then put containers on to one ship going to Scotland and one ship going to the Humber and one ship going to Felixstowe. It will thereby minimise its inland haulage costs in the UK. So that there are swings and roundabouts.

552.Some of the transhipments, will of course take the form of ferries going from this country to the mainland. What position are the ferry services in—ignoring the effect possibly of the Channel tunnel link? Are the British lines holding their own; or is foreign competition again exerting an undue influence?

(Dr Garratt) If I could just pick up your last point on ferries. I think that something like one-eighth of all cargo going through Dover is deep-sea. This means that it is transhipment cargo. So that they pick up a bit of that traffic. Coming to the position of the ferries, there are two ferry markets, I think. There is the multipurpose ferry market, which the Dover-Calais ferries aproach. Or there is the freight-only market. The freight-only market is dominated by chartered vessels and the vessels used (just as in the case of any charter vessel) will simply be the ones that offer the cheapest package. That will include not the British because other European countries are able to offer better packages in the registration of their ships. As far as the multipurpose ferries are concerned, I think that the British fleet is holding its own, more or less. It depends upon a handful of ferry companies—particularly with the takeover by P&O of European Ferries. We are talking about P&O and Sea Containers dominating that market.

Mr Fry

553. What happened to the British ex-Sealink roll on-roll off ferries that operate out of Harwich? Were not some being closed down and services abandoned simply because there were not the cargoes? How are those cargoes now going?

(Dr Garratt) The Harwich-Hook of Holland service is still there and illustrates vividly another aspect of the ferry industry. Until about three years ago, there were four ships on that route. There are now two, one Dutch and one British.They are simply twice as large as the ships from which they took over. So that, in terms of ship numbers, the numbers come down. That is a threat to jobs, obviously. But the share of the market is retained. The service which closed was the train ferry from Harwich to Zeebrugge, which was freight only. That business is being redirected through Dover; although I think that it is perhaps encouraging German Railways, not wishing to move traffic through France, to beef up their Immingham-Cuxhaven service.

554. Before we leave this discussion, the Channel has been described as one of the most expensive pieces of water to cross. The Committee last year were able to talk to British Columbia Transit which operates ferries between Vancouver and Vancouver Island. A comparison of the tariffs, even allowing for subsidy, shows that our ferry operators are on a very good thing in relation to ferries over comparable distances in other parts of the world. Would you like to comment on that and to say why, in spite of what are agreed to be very high fares, we still seem to have complaints from the ferry operators about their profitablity?

(Dr Garratt) There is a whole range of factors. I think that the way I should like to illustrate that is to describe what happened at the end of the 70s when a ferry operator attempted to operate out of Dover but was not able to gain a berth and started developing the port at Ramsgate. He went bust but he was succeeded by another company which is able to offer a service from Ramsgate to Dunkerque at competitive rates relative to Dover-Calais on a route on which the vessel utilisation is only a half—and, obviously, costs are related to how many trips a vessel can make. So that when one considers that position, that using European crews and vessels—not UK vessels—he is able to compete despite the geographical disadvantage, then the load factors on the Dover ferries are relatively low.

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[*Mr Fry Contd.*]

555. Low? Over the year?

(Dr Garratt) Yes. This may be an aspect of the way the lines compete with each other. They tend to compete on frequency.

556. It has been suggested that what has happened in the past is that the fares have been kept high so that effectively new vessels can be written off against the fares charged over the shorter routes; and then the ships are actually moved to other, less profitable routes and have to cover the cost of their replacements. Do you think that that is true?

(Dr Garratt) The ferry operator operating across the Dover Straits has a very clear advantage over anyone else because his vessels can work harder. It is impossible for another operator to gain a berth in both ports. All the berths are occupied by the existing operators. So that there is clearly an opportunity there to maintain a profitable position.

557. Do you think that the Government should insist that the present regime remains and not accede to the request of the ferry companies that they should go back to the rather comfortable pooling arrangements that existed in the past?

(Dr Garratt) I think that something else has happened in the intervening years. That is, that the price which freight is prepared to pay on the ferries has declined considerably in real terms. That is because of the charter vessels operating across the North Sea and which are in competition with the Dover Straits services. So, if you went back to that cartel arrangement, then I think it will be the car passenger who would be hit relatively harder because there would be no way that the freight could be penalised. Insofar as that led to the inefficiencies of the cartel, it would be the passenger market that would be hit.

558. And that would be short term in view of the Channel tunnel project?

(Dr Garratt) Yes. There is no question about that. I think that the other point I might make is that the standard argument for a cartel is that without it the unit of production would not be optimal; it would be too small. There would be lots of small ships. I think that that is perhaps a fair argument on the Irish Sea where B & I and Sealink have negotiated a cartel simply because there is not the traffic to support another vessel. But I do not think that that applies in the Channel. European Ferries have happily proceeded with their investment in two much larger ships. The problem for the shipping industry and the employment of mariners, of course, is that big ships tend to replace large numbers of small ships.

Mr Dicks

559. May I say that it is interesting that the view put forward basically is that we must do down the consumer in order to maintain a maritime fleet. We are talking about the ferries now. They want to go back to the cartel and away from competition; whereas on the airline side there is great pressure from the EEC and elsewhere to do away with cartels and cartel pricings to let the consumer pay whatever price he can get—the lowest price he can get to fly around. It seems to me, again, that the conclusion is that provided we "sting" the consumer and take away his opportunity to choose, then we can keep our merchant fleet going. On the other hand, if we allow him to exercise his right to get the best value for money at the cheapest cost, then there is going to be a natural decline in the merchant fleet. And, as I said a moment ago, the ferry highlights the very situation which is facing the merchant fleet: that it is almost an impossible position for an industry to find itself in and for a Government to seek ways of helping.

(Dr Garratt) There is some truth in what you are saying. In generalising it, I have to think carefully about it. You mentioned the airlines—an interesting point. Of course, airline deregulation is actually a blow against the ferries. It has had quite a dramatic effect on the Irish Sea where deregulation to Ireland——

560. Aer Lingus are now charging £69, or something like it?

(Dr Garratt) That is right. And, as a consequence, the margin left for a competing surface transport trip, for the ferry, is now very small.

561. It seems to me that if you go by ferry—and I have been across the Irish Sea and to the Continent by ferry—that the standard on those ferries is still relatively poor compared with flying, say, Aer Lingus or somebody else across either of the channels. But if the travelling public wants to go that way—and I know that you cannot bring back your cans of beer from the hypermarkets if you go by plane—it is basically a lot of trouble that way and I cannot see any reason why the ferries should not seek some kind of cartel arrangement with the authority of Government behind it just to stay in business. They cannot compete with the airlines but they can provide, if you like, a better service to make sure that people want to travel on the ferry. I have travelled on the boat between Vancouver and Vancouver Island. It was clean, the food was good. It was superb in the sense that the people behaved on the ferries operated in Canada and do not have to cater for the yobs from this country who go to the Continent and get into all sorts of trouble. But, in general terms, the facilities were against misbehaviour, if you like. Everything was good and you wanted to share in the high standards that were there on the ferry. You could not say the same about the boats going across, perhaps, the Irish Sea and, certainly, across the Channel. I think that if they do not improve the quality they are going to lose more and more people; for people will say. "Damn that! We'd rather fly, anyway."

(Dr Garratt) It is a vicious circle, actually, because the lower the spending power of the people on the ferries, the poorer is its quality. If people are prepared to spend a lot of money when they are on the boat, then the quality can be good.

562. But that is what the marketplace is all about.

(Mr Marlow) That is right.

Mr Fry

563. A large number of the witnesses that we have had have recommended that this country should restrict its cabotage trade or that there should be an EEC cabotage restriction. The Department said to us that

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[*Mr Fry Contd.*]

if the EEC Commission's proposals on cabotage are rejected—and they were—:

"we have to adopt one of two courses"

That is, either to restrict our own cabotage or refer the case to the European Court. Do you agree with that assessment? Is there any reason why we cannot restrict our own cabotage and, at the same time, refer the case to the European Court?

(Dr Garratt) The problem with restricting our own coastal shipping to UK vessels is currently one of retaliation, the danger of retaliation. I am not quite sure that I can see from where that retaliation will come. The EEC countries which have these restrictions include France, Italy and Greece, for example. I cannot see clearly how restricting the vessels of those countries from working coast-wise in the United Kingdom will create their own retaliation. But I think that the answer is that I cannot immediately see why there would be a problem in restricting coastal shipping to British flags.

564. We have talked about the ferries to the Continent, but what about the ferries across the Irish Sea. Has there been much investment there? We notice that there is a new service being run from Swansea to Cork, I believe. Is it your view that that represents a possible investment for the future; or is that a declining traffic, too?

(Dr Garratt) The Irish market has been stagnant in terms of passengers, cars and freight. It containerised at a very early stage but has been totally stagnant for years. The Swansea-Cork service has been generated by a group of public authorities, essentially. I would have to say that that is a route that has been abandoned in the past and B & I, when they were pressurised by Irish politics into resurrecting it a few years ago, found that it failed again. I think it would be quite difficult to maintain that service. There are new trades starting on the Irish Sea. There is a new service, freight only, to Warrenpoint and, more recently, two container routes. I should like to take the opportunity here of commenting on some statistics contained in the Department of Transport Paper. The Paper uses figures for the freight trade between, I think, 1973 and 1985 and indicates a high rate of growth. It is worth pointing out that, in fact, through the 1980s growth in passengers and cars has been practically negligible. The rapid growth in those fields in the 1970s was through rising car ownership, Continental holidays and so forth. In fact, since 1980, ferries have been capturing a declining proportion of UK foreign-going trips on UK holidays and the ferry industry, as far as passengers are concerned (which is where Britain has a strong representation) is in a stagnant position and, in order to achieve economies, can only go to the policy of one ship replacing two smaller ones—the sort of approach which reduces employment.

565. How do you reconcile that with the forecasts made by the Channel tunnel groups about the increased use of the Channel crossings, the growth in the market on which they are basing all their hopes?

(Dr Garratt) I hear the question.

566. Thank you very much. Your non-answer was very significant. May I, Mr Marlow and Dr Garratt, thank you very much for coming to us this afternoon. Is there any other point that you would like to make before we end this part of the proceedings?

(Dr Garratt) No, sir.

(Mr Marlow) Nor me, sir.

567. Thank you very much indeed. You have been very helpful.

(Mr Marlow) Thank you, sir.

Examination of Witness

DR RONALD HOPE, former Director of Marine Society; called in and examined.

Chairman

568. Dr Hope. I am sorry that we have kept you a little later than the original time; but you have been present and listening to the line of questioning. May I first of all welcome you to the Committee this afternoon. I understand that you have travelled quite a long way to see us. We are grateful. Before we commence our questions, we have been given an excellent biography of you but I wonder whether there is anything you want to say initially before we begin asking the questions.

(Dr Hope) No, I do not think so, Mr Chairman. You are discussing the decline and I have plotted this graph which may be of interest, although you will probably already know much about the items in it. This plot is of the British fleet as a percentage of the world fleet. As you can see, it has declined steadily as a percentage of the world fleet at a rate from 1921, I think—and I did this graph quite rapidly—of about half a percentage point a year.

569. I must say that at first glance, although graphs can sometimes be misleading, one is almost forced to the conclusion that it has gone so far that there is nothing much that anybody can do about it?

(Dr Hope) Right. If you extrapolate, of course, it does appear as if 1994 is the end. But perhaps I may comment on one or two things. We slightly improved our position after World War Two. That was because other people had done worse, I think. The Japs and the German fleet disappeared temporarily. Then, as you will see, I have put in one or two Notes—the investment allowance in 1954, for example, which was raised in 1957. I can remember, as probably you can, that it was really Sir William Currie threatening to flag out P & O at the time that persuaded the Government to raise the investment grant and to keep it. So that for many years for the British fleet it was not worth flagging out. Then, in 1966, came the cash subsidy of 20 per cent when the investment grant was abolished, and that was increased in 1967 to 25 per cent. There, again, you will see a bump in the chart where we acquired foreign tonnage because those grants were not confined to British owners and we got increased tonnage. They all flagged out, of course, as

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[Chairman Contd.]

you will know, between 1975 and 1980, when the oil began to flow and sterling became expensive.

570. Some of the flagging out that has taken place has been to sources that perhaps would be readily available to a British government in the event of emergency—the Isle of Man, Gibraltar, Hong Kong (which is still a British colony) and places like that. Therefore, one has to view the decline in the light of what happened in that direction. Nonetheless, do you feel that steps should be taken to try to stop the decline in UK-registered shipping itself?

(Dr Hope) Yes. I think so. There are the defence reasons, if they convince you: if we want any defence. We have still got the third biggest navy in the world. What do we want it for? We have no merchant fleet. Presumably, it is to launch nuclear missiles but certainly not to defend shipping, which was its original purpose. Everybody tells us that we could not mount the Falklands operation again. Well, maybe it would be done in a different way. Perhaps we are going to fly it all there or something. But there were 40 ships which in the elegant phrase of the Department of Transport were stuft ships taken up from trade. There were 40 and, I think, 60 indirectly involved, as well. You could not do that: but then, having flogged the family silver, why hang on to the family rubbish? You may take that view. I do not know.

Mr King

571. If there is a surplus in shipping, surely you can do what we did during the Falklands and hire ships from anyone—Spanish ships, Belgian ships, anything.

(Dr Hope) It depends upon how much they are at risk. Are you going to man them with British seafarers? If so, where are they going to come from? Or are the Filipinos suddenly going to decide to go home because it is too dangerous?

Mr Ross

572. The answer that we had earlier from the Department of Transport was that although there may not be that number of ships left under the British Red Ensign, those that are flagged out to, say, Gibraltar or the Isle of Man or Bermuda, could be counted in. You seem to be discounting those.

(Dr Hope) I think that once they are foreign-crewed, you have problems, I am not saying that you cannot do it. We are always fighting the last battle and there are always new solutions. They made me a sailor in a fortnight or something in the last war. You can do these jobs very quickly if you want to.

Mr Fry

573. Would you say that there would need to be a fundamental change in the attitude of governments to the shipping industry? I am not making any party political point because the decline has taken place——?

(Dr Hope) I think that the Government—any government, perhaps, in recent times—can be criticised in various ways. I would have seen no problem about shipping disappearing if we were specialising in something else useful. But while you have got large unemployed resources and you have got to maintain unemployed seamen and others on the dole, I think that you could at least subsidise British shipping to the tune of the dole payments. I realise that that raises all sorts of problems. For example, why subsidise the ferries and the container ships which are making money? Can you confine it to British owners? But it is not very different, surely, from the Government's job creation schemes if you said to a British shipowner with ships under the British flag, "We'll give you a subsidy of whatever the dole payment is for every seaman that you take on."

574. You will have heard, perhaps, the line taken by myself and by some of my colleagues that that is only plausible provided that nobody else does anything different, that they accept that we take that action because any kind of subsidy is effectively a subsidy to the price; and other countries could do just the same and we would end up using the taxpayer's money and would not necessarily get a single extra seaman.

(Dr Hope) Well, that is my other criticism of what has happened—whether of the Department of Transport or whatever. You can negotiate if you have got something to negotiate with. You could argue, if you were supporting this, with the Japs by saying, "You get rid of your subsidy and we will get rid of ours." But this goes right through the whole problem, it seems to me. Take cabotage, for example. We do not reserve our shipping. What have we got to offer anybody? Take Russia! I think that it is 5 per cent or something like it that goes into British ships and 90 per cent into Russian ships. Or it is something of this kind. Why do we not say that it is 50/50? Why do we not have something to bargain with? The Rochdale Report (which was written by my friend and student Professor Goss, I think) said—or whoever wrote it said—"Well, that doesn't matter in cabotage, It's only marginal. It does not matter about Brazil having discrimination: it is only marginal". That is economics and, as you say, what the market is all about. It is a matter of margins. Can you make a difference at the margin somewhere? I would suggest that you can do so by something of this kind, a job incentive. If you look at it the other way, it seems to me that what has happened now that we have all flagged out is rather like inviting in the Turkish *Gastarbeiter* now. But Germans do not do that. Once they got large-scale unemployment, they shot them out. It made sense to us in the 1950s, perhaps, to have Commonwealth citizens coming in to do the cheap jobs. We do not do that now. But that, in effect, is what you are doing in shipping.

Mr Ross

575. Should this not be done in an EEC context? Why have they not got a common transport policy within the EEC?

(Dr Hope) I agree. Of course, it should be. But it takes time and I cannot say really that I have been impressed by the Department. Mr Tony Lane (who now, I think, has moved) gave a lecture on the "Wellington" a few years ago. He said:

> "First and most serious is the protectionist threat . . . British Governments have not welcomed these protectionist pressures."

He did not say what they had done about it. It was that they did not welcome it. That is one of his statements. Secondly, he said that there has been:

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[*Mr Ross Contd.*]

"the anti-trust threat... There have been some serious US court cases in recent years which have drawn strong diplomatic protests from... European governments..."

And so he goes on. They make noises at other governments but there is no strength behind it. Nothing is done. I think that there ought to be an EEC policy and that we ought to get together but, again, if the Danes have reserved their coast to their ships and the French have reserved their coast to their ships, why do not we?—and then say to them. "Let's abolish it! Let's have an EEC open to all!"

Mr King

576. The airlines have a very attractive system in many people's eyes in that landing rights and traffic rights between various countries are very closely controlled. We are not able to exploit to the full some of the airline routes because we have to share it with other airlines to get landing rights in their country in exchange for landing rights here. That is a system which is under a great deal of pressure. There are people who say that we should deregulate the lot and have a free-for-all because our airlines are probably stronger than those of most of our competitors if they are unable to stand on their own feet. Although, other airlines are state-owned and their countries would not want to see them go out of business.

(Dr Hope) If you ask me, I think that shipping will go this way. I think that shipping will go the way the airlines are already.

577. You mean, regulated?

(Dr Hope) Yes. And you will get the UNCTAD formula right through. As you say, these countries will not give up their air fleets. When I have talked to Mr Tony Lane in the past, he has always talked about the cross trades and what we would lose if we had new Navigation Acts, if we went for 40/40/20 down the line. But since the cross trades are disappearing anyway, we are not carrying 40 per cent of our own cargo in British Bottoms so that I am not sure that there is not a case for re-enactment of the Navigation Acts. After all, the Department has been saying for years—Mr Mitchell has been saying it since he has been there—"No protection, no subsidy." As if this were handed down by God or Moses or someone. But if you look at British history, how did we get off the ground in the first place? It was the Navigation Acts of Henry VIII onwards against the Dutch. There was a terrible to-do, as you know, when we abolished the Navigation Acts, all the shipowners said that they would go bust—instead of which, of course, they prospered. Now, you have the reverse. There is a terrible to-do if you say, "Re-enact them!" But, probably, if you did so, they would be convinced in 20 years that it had been right. When the Navigation Acts were abolished, we did not stop subsidies. It was only subsidies for steamships, mail subsidies, that got the steamship off the ground and the British became supreme. You would not have had Queen Elizabeth or Queen Mary if the Government had not stepped in and done something.

Mr Dicks

578. I am a bit concerned when the answer seems to be, "Throw money at it!" Can you explain to me, if that is the answer, why it is that those working in the merchant fleet are not prepared to throw their own money at it; in other words, to take off and to compete? We have heard from people who have been before us previously that people did not want to buy ships, they did not see any long-term future in investing in new ships. We were told that it was easier and cheaper to move cargo by going outside the British flag. If that is the case put by those in the industry and by those who know the industry, why should the Government not say, "We see what you are doing, we hear what you are saying. We agree with you completely—and not a penny more!" What is wrong with that view? After all, the information they are getting is from the very people who are running the fleet.

(Dr Hope) There is no reason at all why you should not take that view if you are genuinely prepared to finish up with absolutely no merchant fleet and still more unemployment.

579. Let me remind you that in your opening comments, when you gave us this graph which shows very clearly the decline, you said that we ought to be investing to get people back on to these ships who are unemployed. But last week, we had evidence on the aspect of training for the merchant fleet from people who said quite clearly that there is a dying situation in the merchant fleet and that people do not want to join it now. How are you going to get to sea those unemployed people who do not want to join, those whose fathers say that there is no future in it, that it has been declining since (to use your graph) 1921? How, first of all, can you make people go back to sea who see no future in it? Secondly, your suggestions as to what should take place are quite contrary to your graph.

(Dr Hope) To get them to go back to sea, you have got to give them some incentive. Are you going to take that same attitude to farmers when their farming does not pay and when they are all going to shut up shop? What are we going to do?

Mr King

580. We are getting to it.

(Dr Hope) Yes. You refer to throwing money at it. That is not what I am suggesting at all. I am suggesting that you might give a little money, appropriately. You will remember that the Trinity House vessel, "Mermaid", went to South Korea recently and that there was a great hooh-hah in the Press. We lost the job. The lowest British tender was £5 million above the South Korean tender. That is why we lost it for Britain. I had a look at that at the time. An order here would have employed 500 men for one and a half years and I reckon that they would have earned £6 million, of which, say, £1½ million, (or, say, a quarter of their salary), would have gone back in tax to the Chancellor. He would have saved £2 million on the dole. There is £3.5 million towards your £5 million.

Mr King: With great respect, if we took your view, we would be hiding, we would be running away, from the economic facts. Are you really saying—

Mr Fry: I think that if we are not careful, we are going to get into an argument as opposed to asking questions of the witness.

Mr Dicks

581. I see the difficulty, Chairman. Let me put it this way. Are you suggesting that every time we do not get a

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[*Mr Dicks Contd.*]

contract because we do not tender low enough, we should take into consideration the levels of unemployment in this country and then say that the tender was really (what shall I say?) ten millions below what the official figure said because that is how many people we can employ and will not have to pay dole for? Are you actually suggesting that that should be the line of approach?

(Dr Hope) It depends what you are fighting on the other side—the Koreans giving a 25 per cent subsidy for that contract out of Western aid.

Mr Fry

582. I must come back to the point that was made earlier on that if we did that, the Koreans might then give a 30 per cent subsidy. There is no guarantee . We have had evidence before this Committee that whatever we did to the regime in this country, another country that wanted to keep their merchant shipping at the present size or larger would do even more than we would do. It seems to me that that is the very crux and dilemma facing the Government, and, indeed, the Committee' on the industry. You have suggested help. May I ask in what areas you think the help should be given? One suggestion, for example, that has been put to us is that crews of vessels should have their liability for National Insurance and personal taxation reduced; that that would be one way of reducing the cost of crewing. Another proposal which has been put forward is that there should be direct investment assistance to people to buy ships—which is something that you have just hinted at. Other people, as you may have heard, have suggested other kinds of assistance. Do you think it is a question of the Government giving money all the way round? Or is there one way which you think would be particularly helpful?

(Dr Hope) As I have said, Chairman, you could help. Paying the extra costs, the social service costs, would be a help, I think. Similarly, I think that to a very limited extent—for example, to a vessel like the Trinity House vessel—there could be a limited amount of help to get it built here. That probably led to the closure of one small shipyard for good.This is a very cyclical industry, I know that we are in a particularly bad cycle at the moment but shipbuilding and shipping has always been a cyclical industry. I looked into the profits of British industry between the wars and they were the worst during the inter-war period in going up and down. They went up and down the furthest. So that I think if you want any of these skills to survive, you may have to help in the slump. Of course, we are in a terrible situation at the moment. We have got twice as much shipbuilding capacity in the world as we need; there were 140-million tons of shipping built at a period when world trade fell by some 300-million tons a year, or something of that order. I think that it comes down to whether you want to save any British shipping.

Mr Ross

583. Which of our European partners do you think have got the solution to this problem? Do you think that the French have any solution to it, or the Germans or the Danes?

(Dr Hope) I think that your previous witnesses were probably more expert than I am, I think it is an EEC problem against the Far East. There has been a shift of trade to the Far East. Japan imports 53 per cent of the world's iron ore and 23 per cent of the world's oil or whatever. All this trade has gone there which once came here when we had a Commonwealth. This is a permanent shift in trade and you are not going to bring all that back again.

584. Do you think that the methods that the French have introduced will help them? They have done something about it. Do you think that we should be following something like similar lines?

(Dr Hope) Yes. I think that I come back to the point that you have got something to bargain with. If you do nothing, you have lost it for good.

Mr Fry

585. Let us turn to the question of safety. Several witnesses that we have had before us have been very critical of the classification societies. They have generally felt that they have irreconcilable conflicts of interest. Do you think that those criticisms are justified? Are they correctly directed at the societies or should those criticisms be directed at the Government?

(Dr Hope) I think that classification societies can be criticised. I do not know what their solution is, quite; because they are all competing for business. They could be much more critical. I think, of some of the ships they classify. I am not sure how we go about improving that situation. I strongly believe in port state control. This is something else that we ought to push other countries to do in Europe. We have done pretty well and have helped pioneer this matter in actually inspecting these ships when they come into our waters (and other EEC countries do the same) and not allowing them to sail until they are properly equipped and with qualified men. This is another problem, of course. IMO lays down minimum specifications but you do not have to follow them. Some certificates you can buy, or could buy until recently. They are of a lower standard than ours, anyway. I have heard of ships coming up the Channel with nothing more than a boat's compass. I think that we ought to have an inspectorate to enforce port state control.

586. That has been put to us. But can I put it to you that that might lead to even more transhipment. So that unless other European countries adopt similar standards, those ships will just go to Antwerp——

(Dr Hope) I think that many of the European countries have agreed and are supporting this. But I think that we should push all of them to do so.

Mr King

587. What are your views on training? Are you satisfied that the present system of training is attractive enough to get young people to go to sea?

(Dr Hope) I think the problem with the young people, as was raised just now, is that you have got to offer them a career. When Shell sack all their apprentices after four-years' training—as they did a year or two back—you cannot expect any sensible careers master, headmaster. parent or anybody else to say, "This is the profession for you, boy," We have got ourselves into an awful mess, on training, anyway. One of the things you are competing

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[*Mr King Contd.*]

against is the Filipinos, the Koreans, the Communist Chinese, and so on. These people do not have the kind of training for certificates that we have. We have a quite complicated system—although I know that it has been simplified quite recently or that they have been trying to simplify it. I never could really see the reason why we demanded something on top of the old Board of Trade certificates. But, of course, in the last 20 or 30 years under various pressures these courses were lengthened. However, I am a believer in the degree course. I think that our top flyers ought to take a degree in maritime studies, to get all their academic training out of the way. It is a terrible business for a young man to go to sea at 16. He is not fully qualified until he is 26 or 27 and he has to take four certificates along the way. There is no other profession that I know of that is like that.

588. In most other professions, despite the enormous increase in human knowledge, they tend to shorten the period of training. Apprenticeships, for example, have been considerably reduced in many industries. Do you think that there is scope to shorten the training so that this long period to which you have just referred could be reduced?

(Dr Hope) I do. I think that of all this theoretical training. You might insist on so much practical experience afterwards before you award the Master's Certificate but all the theoretical training could be done in a degree course. The shipowners would have nothing to complain about because young men would automatically get a grant, they would be doubly qualified for shore industry in transport as well as at sea. I think that the industry itself—although the industry has not been very clever in some of its ways—should press for officer entry through a straight degree course. I see no reason why in recent years they have increased the number of certificates and not reduced them. There used to be four; now there are five. I see no reason for more than two. You could have a Watchkeeping Certificate (Deep-sea) and, all right, you might have a simpler one for coast, if you think so; it is not a very high standard anyway; the Class IV Certificate and the Class I Certificate. You may call it the Class I and the Class II, the Master's and the Watchkeeper's. And you could encourage your ratings to aspire to the Watchkeeping Certificate and have various scholarships which will be offered for free by my old Society, the Marine Society, to take their Watchkeeping Certificate and make that an entry to the degree course for the Master's Certificate if they are that good. The Open University takes in adults without three A-levels at B grade. So I think that all that could be simplified. And there are still too many courses.

Mr King

589. Are you generally optimistic about the future of British shipping; or do you remain pessimistic? Do you not think that technology in terms of the future cargo ship with the low number of people employed on it because of the sophisticated technology involved in it at manufacture and in its operation is going to come to our rescue?

(Dr Hope) Well, *Fairplay* when they were a hundred years old, asked me to write an article on what they will be like in the next hundred years. I said that it will be like driving a bus. You will have just one chap! And, theoretically, why not? You might even do it all automatically. Well, the number of crew will come down, but how will that save us?—unless it is so highly sophisticated that nobody else can compete. But then it will be the Japanese rather than us.

590. Assuming that the main costs that we have to bear which put us at a disadvantage are the crewing and running costs of a ship—because ships can be bought anywhere—we can buy a Korean ship and run it under our particular flag if the crewing costs were low enough to compete with Chinese costs.

(Dr Hope) You can do that under the Isle of Man flag. We do not have to do it here any more. I do not see it coming back in any real sense.

Mr Ross

591. Do you not think that we, as an island—and I know the Channel tunnel will come one day, but we are still an island—of all nations of Europe ought to maintain a merchant fleet and have control of that merchant fleet? It is our life line is it not?

(Dr Hope) When I suggested nothing I was pessimistic. I think there will remain, as there is now, a remnant of the ferries. I was interested in the discussion on the ferries because I think that the ferries are, in fact, overmanned. We have three or four crews for every ferry. But I think that we need a ferry fleet, yes. There should be no reason why we cannot make it economic. Similarly with container ships which are highly sophisticated vessels. All the time that you have goods coming to and from this country, you need that kind of ship. The reason that we have lost the tankers and the bulkers is our own oil which reduced the demand for them.

Mr Fry

592. Dr Hope, that ends our questioning. Are there any other points that you would like to put to us?

(Dr Hope) I do not think so sir. You have some very expert witnesses. I was flattered to be asked to come.

593. We are very grateful to you for so doing. Thank you very much for the contribution that you have made.

(Dr Hope) Thank you, sir.

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Supplementary memorandum submitted by Mr Peter Marlow BSc Econ MSc Econ MCIT

Department of Maritime Studies,
University of Wales Institute of Science and Technology, Cardiff

INTRODUCTION

I wish to submit this short Memorandum in response to a point which arose during my evidence to the Transport Committee on 4 March 1987 (see Q 538 of the Minutes of Evidence). I intend to present a brief description of some fiscal regimes for shipping in different countries and then to evaluate the different packages, under certain specified assumptions, so as to provide a ranking of the different regimes.

Almost without exception the governments of nations possessing merchant fleets, whether state owned or privately owned, offer some form of assistance to their shipping industries. This assistance may take the form of cash grants, favourable credit terms or operating subsidies, (and even construction subsidies though these affect the shipbuilding industry more than shipping) but more usually they are tax related incentives designed to encourage investment in shipping by reducing the level of corporate tax payments and hence improving post-tax profitability.

Such investment incentives may take any of the following forms either singly or in combination with others:

(*a*) capital allowances

(*b*) accelerated depreciation

(*c*) initial allowances

(*d*) investment allowances

(*e*) investment grants

(*f*) tax free reserves for replacement or renewal of vessels

(*g*) cheap credit facilities or interest subsidies.

Clearly there are many disparate packages of such incentives which can be assembled and applied to the shipping industry of a particular country. To evaluate the worth of such packages and to assess their impact it is necessary to compare them systematically and objectively. It is necessary to take account of lags in payment of taxes or receipt of grants/allowances and clearly this involves a measurement of the time value of money. The standard technique to achieve this is the discounted cash flow method of investment appraisal. This enables different measures, arising at different points in time and given on different bases, to be reduced to a common value (the net present value) and then compared. In this way international rankings of the encouragement to invest in shipping in different countries can be constructed.

DIFFERENT FISCAL REGIMES

Throughout the analysis contained in this Memorandum I have used common loan arrangements in each country. These are that 80 per cent of the cost of the vessel may be borrowed over a period of 8½ years at an annual rate of interest of 7½ per cent. Repayments are made every six months with interest being charged on the outstanding balance. The countries included for comparison are France, the Federal Republic of Germany, the Netherlands, and the United Kingdom (both the pre-1984 Budget regime and the post-1986 regime).

FRANCE

France has an imputation system of corporation tax at a rate of 50 per cent. Both the straight line and declining balance methods of depreciation are permitted for ships. Where assets qualify for both methods switching from one to the other is also permitted. The maximum rate of straight line depreciation for ships is 12.5 per cent pa; the declining balance rate is 31.25 per cent. Subsidies, based on a percentage of the initial contract price, are available for shipowners who order vessels for the French registry. These subsidies, which vary according to vessel type from 2 per cent to 15 per cent, are analytically equivalent to an investment grant and have been treated as such in the calculations. A 10 per cent rate of grant has been assumed.

FEDERAL REPUBLIC OF GERMANY

Germany has an imputation system of corporation tax at a rate of 56 per cent with no payment lag (though the effective tax rate for shipping is 49 per cent because some local taxes do not apply). Both the straight line and declining balance methods of depreciation are permitted (as is a switch from one method to the other) at rates of 8.33 per cent and 20.83 per cent respectively. If the straight line method is chosen the shipowner may claim in addition accelerated depreciation of up to 40 per cent of the purchase price of a ship during the year of delivery or the following four years. There is an investment grant of 17.5 per cent and tax-free reserves may be created; a distinction arises between new and replacement investment.

NETHERLANDS

The Netherlands has a classical system of corporation tax levied at the rate of 48 per cent with approximately 25 per cent of tax payments being lagged one month. Both straight line and reducing balance methods of depreciation are allowed at rates of 6.67 per cent and 15.0 per cent respectively. Ocean-going vessels attract an

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investment premium of 12 per cent of the asset's cost which does not reduce the depreciable base of the asset. Technically a form of tax credit, such premiums are equivalent to an investment grant. In addition there is a special premium of 2.3 per cent of the vessel's cost paid in each of the first five years (ie 11.5 per cent over 5 years). Tax free reserves also exist.

UNITED KINGDOM (A)—PRE 1984 BUDGET

The pre-1984 Budget regime included an imputation system of corporation tax at a rate of 52 per cent with a payment lag of between 9 and 21 months. There was free depreciation with 100 per cent first year allowances and capital allowances being allowed on expenditure when it was incurred.

UNITED KINGDOM (B)—POST APRIL 1986

From April 1986 there has been an imputation system of corporation tax at a rate of 35 per cent with a payment lag of between 9 and 21 months. There are no first year allowances and the rate of annual writing down allowances is 25 per cent on a reducing balance basis.

EVALUATION OF THESE REGIMES

It should be noted that the fiscal regimes presented above are *not necessarily those currently in force* eg the Netherlands have recently 1/1/87 reduced the level of their investment grants so that the results presented below slightly overstate the true position.

The results presented below are based on the regimes as described and assume a 5 per cent rate of return, discount and inflation and use the common credit arrangements outlined earlier. It follows that the net present value (NPV) result for any country will be improved, ceteris paribus, by the substitution of more favourable domestic credit terms.

Country	NPV (£) per £1 of investment	Rank
France	0.1724	4
F R Germany (new investment)	0.2259	2
F R Germany (replacement investment)	0.2646	1
Netherlands	0.1776	3
UK (*a*)	0.1553	5
UK (*b*)	0.0720	6

Other results, not presented here, suggest that the changes emanating from the 1984 UK Budget could, after their full implementation in April 1986, cause the UK to slip down a league table of fiscal incentives to a level below that of the United States of America and Norway.

It should be noted that the countries which head the ranking do so by virtue of the awarding of investment grants for their shipping industries. The UK experience of investment grants has not been a particularly happy one and indeed the Rochdale Report on Shipping (CMND 4337) concluded in 1970 that the investment grant system was not well suited to shipping.

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HOUSE OF COMMONS

TRANSPORT COMMITTEE

Session 1986–87

DECLINE IN THE UK REGISTERED MERCHANT FLEET

MINUTES OF EVIDENCE

Wednesday 11 March 1987

British Motor Ship Owners Association

Mr A R Winter

British Maritime League

Sir Frederic Bolton MC, Admiral Sir Anthony Griffin, Mr J J L Packer, and Commander M B F Ranken

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Ordered by The House of Commons *to be printed 11 March 1987*

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WEDNESDAY 11 MARCH 1987

Members present:

Mr Gordon A T Bagier, in the Chair

Mr David Gilroy Bevan
Mr Sydney Bidwell
Mr Roger King
Mr David Mudd
Mr Stephen Ross

Memorandum submitted by the British Motor Ship Owners Association
incorporating the Motor Barge Owners Association

DECLINE IN THE UK REGISTERED MERCHANT FLEET

The Association represents 26 owners, operating about 110 vessels between 200 and 3000 tonnes cargo deadweight in the UK coastal, North Sea, Baltic and Mediterranean areas, both dry cargo vessels and tankers.

1. Flagging Out

The principal reason for an owner of British flag ships to flag out is to reduce the cost of manning ships. The UK National or Federated system perpetuates outmoded manning arrangements aboard ships, making distinction between officers and ratings on the one hand and continuing the separations between deck, engine room and catering personnel on the other. There are even two different sets of Union negotiations, one for officers and one for ratings each year. The net result is high cost of manning ships and poor productivity attitudes amongst seafarers. By flagging out, owners of such vessels can change such arrangements, reduce the cost of taxation to themselves and seafarers and thereby improve their competitive position in the international shipping market.

By contrast, Members of our Associations have crew agreements outside the Federation. These are often, but not always, Union agreements but are always on a company rather than national basis of negotiation and are, therefore, tailored to the needs of each particular owner's fleet. They also reflect the particular aspirations of the seafarers concerned. Very often they have a considerable element of productivity payment in them and this produces a situation in which both management and crews are pulling in the same direction, the ships are more productive, with an improvement in safety factors. It follows that the principal reason for flagging out does not exist amongst our Member companies and the vast majority of the tonnage we represent is British flag and will probably remain so.

It is very important, however, that leading officials in the Department of Transport keep a very close eye on the implementation of safety regulations, particularly relating to our small size of ship. Experience over recent years has shown that the British flag can quickly become uncompetitive unless a sensible view is taken of the interpretation of the enormous amount of internationally agreed legislation concerning safety. In recent years there has been a noticeable improvement in the attitudes of the Department at top level. It is appreciated that the vast majority of shipowners are as anxious as the Department to ensure that high standards of safety prevail aboard British ships, whilst taking a commonsense approach in interpreting regulations in individual cases to avoid unnecessary expense.

2. Protectionism

Over the last few years fleets under the flags of our competitors, particularly the West German, have had tremendous protection from their Governments, both Federal and Local. This has resulted in such over-building in West Germany that the market is now over-tonnaged to such an extent that in the dry cargo market, rates are lower than they have been for the last five years (see attached market rates index).

Whilst this has happened in West Germany, British shipowners have had removed from them the small fiscal advantage that they had to the extent that they are now completely unprotected in a savagely competitive international market.

Unless something is done about this, there is absolutely no doubt that the present coasting and shortsea fleet under the British flag will be progressively depleted in the course of the next few years as companies find it impossible to replace their tonnage. Attached is a report recently presented to the Department of Transport and researched by one of our Member companies, comparing fiscal incentives to the West German shipowner compared to British owners. We would particularly draw the Committee's attention to the conclusion on Page 15.*

As far as we know, the UK is now the only maritime country in the world that offers no fiscal incentives or cargo reservation to its shipowners.

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3. INTERNATIONAL COMPETITIVENESS

As far as our members are concerned, research in West Germany has shown that the operating costs of a new UK shortsea vessel are competitive with those of the West German in all areas under the direct control of the shipowner, eg wages, repairs, insurance and overheads. These costs amount to about 40 per cent of the total cost of operating a vessel (excluding voyage costs such as bunkers and port disbursements). The other 60 per cent concerns the financing of the vessel and is influenced by the UK Government's fiscal regime. Here we are hopelessly uncompetitive as the attached report shows. In other words, British coastal owners have got their proportion of operating costs right, but the Government has got the share of the costs under its control badly wrong.

4. CABOTAGE

The UK stands virtually alone within the European Community in having no cabotage regime. Our coasts are open to allcomers and the British owner is exposed to competition from heavily subsidised ships of other flags, particularly West Germany. On the other hand, cabotage regimes exist in most EEC countries. These are strictly enforced and make it extremely difficult for British owners to penetrate the coastal trades of other Member States.

The European Parliament has now specifically decided that Member States should continue to be allowed to operate cabotage, further underlining our EC partners' determination to continue to protect their shipping interests.

This Association has urged the UK Government to close the UK coast to foreign flag vessels. Having created a position of strength, it can then negotiate through the EC Council of Ministers the dismantling of the cabotage regimes of our European partners. It is our view that unless this is done there is little or no hope of opening the Common Market to British tonnage whilst, at the same time, the British owner will continue to be undercut savagely on his own coast.

5. NATIONAL OR EUROPEAN SHIPPING POLICY

The only thing we have to offer in this area tends to repeat what we have already said. If the UK Government wishes to halt the decline of the UK Merchant Fleet a policy must be introduced to place the British owner in the same competitive position as his foreign competitors.

As far as our customers are concerned, it is unrealistic to expect a change in the attitude of UK shippers and receivers of cargo, who, with some notable exceptions, have little interest in supporting the British flag. This contrasts strikingly with the attitudes on the Continent where the national flag carrier can expect considerable support from shippers and receivers on a nationalistic basis.

We should point out that our section of the industry is quite separate from the rest, both in terms of the type of ship we operate, the type of crews we employ and the type of trades we engage in. Measures that would be helpful to other sections of the UK shipping industry may not be to us and vice versa.
We have consistently asked the UK Government for the following:

(*a*) The re-introduction of investment allowances for ships, both new and secondhand

(*b*) The closure of the UK coast to foreign flag vessels at least on a temporary basis until an EC policy on cabotage can be hammered out.

6. SEAFARERS AND OTHER EMPLOYEES

Whilst most of our Members have not suffered a large reduction in the size of their fleets so far, this situation cannot continue for much longer. Already there have been some redundancies and as replacement tonnage is in the main not being built, this process will continue unless something is done to stop it.

Meanwhile, the attitude of our Members' seafarers has been a determination to see their companies stay in business. We cannot praise too highly the support and co-operative attitude displayed by staff ashore and afloat to companies facing an increasingly difficult and uncertain future. Many of our Members' ships sail with masters and senior officers who have spent their working lives in the industry and often in the same company, and who are totally committed to the industry and the British flag. Other sections of the industry may have tales to tell of problems in the industrial relations front, but there is no doubt that our Members' experience has been exactly the opposite. It will be a tragedy if such people are thrown out of work by the indifference of the UK Government.

7. SHORT SEA DRY CARGO MARKET FREIGHT RATES

Attached as an Annex is a copy of the index kept by one of our Members recording the monthly level of freight rates in the near trades. From this it can be seen that the 1986 freight rate levels are on average lower than at any time in the past five years. Bearing in mind that the retail price index has risen over the same five year period by 24 per cent, more or less reflecting the increase in a shipowner's costs of operating a vessel, it demonstrates clearly the problem which which we are now faced.

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8. CONCLUSION

(*a*) Shipowners' profits have now fallen to such a level that sales of existing tonnage are increasing

(*b*) The coastal and short sea sector is in decline to the extent that replacement tonnage is not being built.

(*c*) These two factors put together will accelerate the decline unless something is done to correct them.

(*d*) This Associations' Members' costs are still under control and efficiency of our Members' vessels is second to none

(*e*) The major problem lies in lack of Government support, which needs to take two forms:

(i) The re-introduction of investment allowances to new and secondhand ships; and

(ii) The creation of cabotage in the UK as a precursor to an effective free EC Shipping Policy

1 *October* 1986

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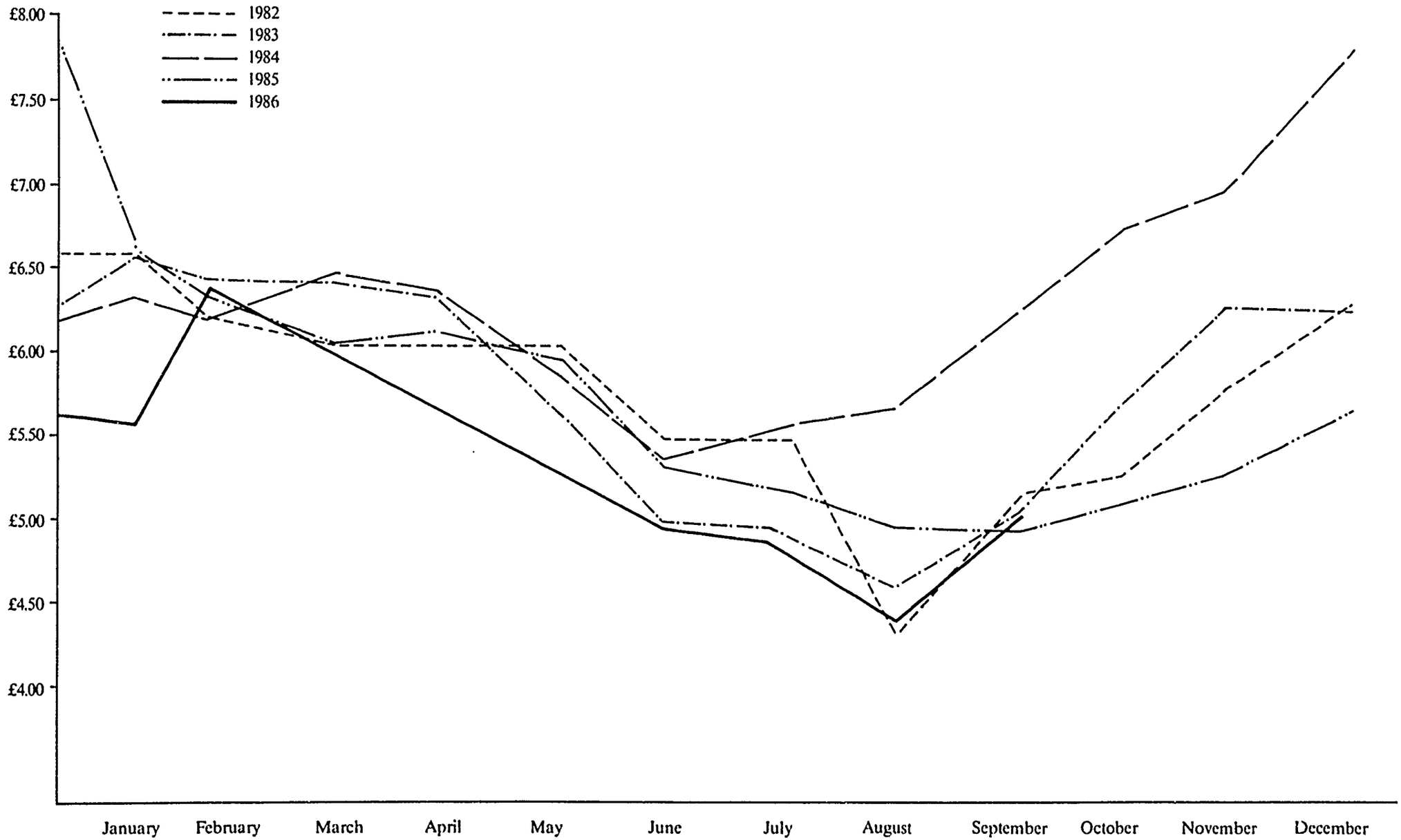
ANNEX

Monthly Levels of Freight Rates in the Near Trades



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Examination of Witness

MR A R WINTER, Chairman, British Motor Ship Owners Association, called in and examined.

Chairman

594. Mr Winter, you are Chairman of the British Motor Ship Owners Association. Would you like to tell us the context in which you have come to the Committee and, if you would like to, make an opening statement?

(Mr Winter) The Association looks after the interests of its members, consisting of about 25 shipping companies owning small vessels in the coastal and short sea trades, trading mainly in the North West European market including the Baltic, to some extent the Mediterranean and occasionally a little further afield. The membership owns 156 vessels and they range in size from 300 tonnes carrying capacity to 3,000 tonnes and the average size means the overall tonnage carried is about 200,000 tonnes deadweight of shipping.

595. On the question of negotiating your agreements I understand your organisation is outside the National Maritime Board agreements as far as manning and payments and the like are concerned. Would you like to say something about whether any of your members do have union agreements? Do they negotiate on a national basis or on a small company basis?

(Mr Winter) Most of our members, Chairman, have union agreements, but they are all on a company basis. The Association does no union negotiating at all, so that each company is able to negotiate its own agreement with its own seafarers. Consequently agreements embody the interests of the shipowners in the particular trades they are in and of the seafarers that they employ.

596. How do these agreements differ by and large from the national agreements? What is the point of being outside? Is there any advantage?

(Mr Winter) The principal difference is that many of them have a large element of productivity payments in them and this means that, whilst the payments to the individual seafarers tend to be higher than those under the national agreement, the manning levels are kept to the minimum safe level because it is in the interests of the crew to operate the ship as cheaply as possible. It means the employer can offer his employees a rather higher level of salary or wage. But it goes much further than that. The productivity agreements produce an involvement, an attitude of mind in the seafarer, in which we find that they tend very largely to be rowing in the same direction as the owner, whereas under the national agreement that has not always been so.

Mr Bidwell

597. On the matter of your organisation, you say you have 26 shipowners operating about 110 vessels. How does that compare with the situation, say, two, three, four or five years ago? This inquiry is about reasons for the rundown of the merchant navy. I wondered if you had comparative figures of your own activities over a reasonable period of time to indicate whether there has been any dropping away of your own activities in consequence of this trend.

(Mr Winter) No. Perhaps I should explain, Chairman, first of all, that British Motor Ship Owners Association has recently amalgamated with the Motor Barge Owners Association so when we are talking about the past we should look at the sum total of those two organisations' members as against the amalgamated position we have today. By and large the number of units has remained much the same, but what has happened is that the estuarial trade in which certainly the motor barge owners were based has evaporated, they have largely gone, and the owners in those trades perhaps ten years ago now find themselves owners of ships rather larger and trading further afield. It is true to say that the broad base of our section of the industry under the UK flag has maintained itself in roughly the same sort of shape.

Chairman

598. Have you not said also that generally speaking those inside the National Maritime Board's arrangements have got outmoded manning agreements? You did say you man to the absolute minimum degree consistent with safety. Are you suggesting if this was altered somewhat this would have a significant effect in reducing the number of ships which are flagging out?

(Mr Winter) Yes, Chairman, I think if one looks at recent history and current practices, more and more shipowners are in fact coming away from the national agreement for just that very reason.

599. Do you believe they could do that safely?

(Mr Winter) I am responsible for the operation of a fleet of 57 units and they are all operated safely, sir, under the non-federated agreements.

600. It seems to me there is some conflict in view here. Could I put it to you that if, for example, the safety standards of a ship—and it is a judgment, after all, as to what is required to man a ship safely—are such that inside the agreements at present in force it is looked on as being safe but you are saying they could be reduced somewhat significantly, you are not, I take it, making any suggestion that the safety standards should take second place to the flagging out procedures?

(Mr Winter) Certainly not, Chairman. Our members are very conscious of safety standards. I spend a lot of my own time worrying about safety standards in our ships but pure numbers of people onboard a vessel do not necessarily make that ship safe. What one is interested in is the quality of the seafarers one is employing and there is no doubt that, when we have negotiated minimum levels of manning with the Department of Transport—and every ship in the Association is operated under an agreed safe manning certificate from the Department of Transport—we have looked very carefully with them at the quality of our seafarers. If I may, I could give an example from my own experience about ten years ago when I took a thousand ton ship out of National Maritime Board arrangements and after a period of lay-up, because she was not profitable in her employment, we put her back with a smaller number of men, reduced the crew from 10 to 7, and the Department of Transport asked to go for a voyage in the vessel and went from the East Coast of the United Kingdom to Brussels and back. When they came back, the Master Mariner from the

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[Chairman Contd.]

Department of Transport who had been aboard the ship said "With that quality of people that ship is perfectly safe" and gave me a safe manning certificate with no problem. Sheer numbers are not that important.

Mr Bevan

601. I would like to probe, if I may, a little further on these two matters, the matters of safety and of manning. Your Association says that the principal reason among British shipowners for flagging out is outmoded manning arrangements aboard ships. You have just made a different point, a point of quality of manning with equal numbers, and you made a distinction with regard to safety being vested in the numbers employed. I quote this because it would not apply, would it, to your own members in the British Motor Ship Owners Association because you have separate agreements on manning and you negotiate outside? You are one of the 20 per cent—the increasing 20 per cent you suggest—that negotiate outside. Could I put it to you, therefore, that if you are right there may well be a real reason for the federation system as it is being dismantled altogether and replaced totally by one of individual agreements such as many members have and your own members have, and would this, if it were done, signficantly reduce the number of British ships being flagged out?

(Mr Winter) Yes, I think that is generally true. I believe that the agreements under the federated system have certainly in recent years been under pressure from people flagging out and getting away from the system, but there is no doubt in my own experience I have removed all my company's ships gradually over a period of time from that system because the ships are better operated, they are more productively operated and they are operated just as safely, if not more safely, under the other system.

602. If we can go on a little bit, the British Motor Ship Owners Association states that the implementation of safety regulations should be an important influence on flagging out—and this is going further into the safety angle—and they talk of a sensible view being taken by the DTp in recent years and a "noticeable improvement in the attitudes of the Department at top level." They continue by emphasising the importance of "taking a common sense approach in interpreting regulations in individual cases to avoid unnecessary expense." What are they suggesting? Are they suggesting that in order to retain a British flag fleet safety standards must take second place to profitability?

(Mr Winter) No, that is not the case at all. The point we are making is that in the past—and it is, to some extent, still true—the Department of Transport have taken a very Rolls-Royce approach to ships' safety. If you are personally responsible for running a fleet of ships I can tell you there is nothing more important in your mind than the safety of vessels, and recent events will illustrate to everybody how difficult it must be to find yourself in a position where you have a major problem on your hands. Ships' safety is very important, therefore, and there is all sorts of legislation to make it, quite properly, the responsibility of the owner to ensure that his ship is as safe as possible. There is, however, an area in which safety can be overdone in that the regulations which perhaps are good for one type of ship might not necessarily be right for another type of ship and in those areas the rules may say one thing but, in fact, an interpretation is required.

603. Could you give us an example?

(Mr Winter) Yes, I can give you an example, the carriage of grain in bulk some years ago. This was a classic case where it is perfectly true if ships are sent to sea with cargoes of grain in bulk they should have proper shifting boards or bagging over arrangements to stop the cargo moving in the ship and a problem occurring with the ship's stability. When you get into very confined waters the situation does not occur that you are going to get into a problem of safety with bulk cargoes of grain. The rules were changed some years ago. It was anticipated that the rules should be changed and the small ship owner trading a barge coastwise was going to be swept up in this international re-arrangement of the grain rules and by talking to the Department of Transport we were able to clarify the position and make sure a sensible view was taken of this particular section of the industry.

604. I am not going to extend that into any contemporary situations because we feel that it is not in line with the present examination of this Committee, but might I ask you, do you consider that our Continental competitors are any more lax in their interpretation of safety standards than we are?

(Mr Winter) Yes, I think that is true. There is no doubt that on the whole they are.

605. Could you illustrate that?

(Mr Winter) Yes, I could give you an illustration there. About 18 months ago there was a collision in the Channel between one of my company's ships and a ship under the West German flag. The matter is *sub judice* but it is probable that the large proportion of blame will fall eventually in court on the shoulders of the West German master, who was navigating at full speed in fog with no radar operating. Our ship sank in the collision, fortunately with no loss of life.

Chairman

606. Could I say am slightly bothered about this line of questioning because of the *sub judice* rule. We are going on record and I am sure you would not wish to discuss something which is subject to the *sub judice* rule, even if it is international. You seem to me to be almost apportioning blame.

(Mr Winter) The point of the case, if we leave blame to one side for the moment, is that our master has had to attend an inquiry as to whether his certificate should be taken away from him by the Department of Transport but there is no evidence yet that any action at all has been taken by the West German equivalent of the Department of Transport. That is a small example of how we feel the regulations are properly applied here but not necessarily overseas, which was the question I was answering.

Mr Bevan

607. Exactly, and I am glad you are interpreting it that way. Would you, say that because of that interpretation of safety standards to a more rigorous

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[*Mr Bevan Contd.*]

standard on ships under the British flag than our Continental competitors, the greater the cost this involves either in the quality of crew or size of crew or the necessity of equipment to emphasise the safety angle? Would that be right?

(Mr Winter) Yes. We have just, strangely enough, flagged in two small tankers into our fleet which have been operating with a British crew on the British coast for the last five years with safety equipment under the flag of Panama in one case and the Bahamas in the other, and we were faced with a very large bill indeed for converting those ships to the British flag but they were going to do exactly the same job as they had been doing in the previous five years. We were able—and I point to the paragraph in our written evidence—by talking to the Department to say, "Is this sensible? You are interpreting the rules by the book," and we were able to come to a reasonable compromise. We had to improve the vessels to bring them under the British flag and were able to come to a compromise.

Mr Ross

608. What is the nationality of your crews—mainly British?

(Mr Winter) Almost entirely without exception British.

609. Could we go on to cabotage. Do you think we are losing out on this issue of cabotage? Do you think we in Britain should take a much tougher attitude, in other words, we are not getting it, although we have had a slight deal with Germany but not much of one? Do you, in fact, believe that an unrestricted European market would be in the best interests of your members or that we should restrict our cabotage to our own vessels?

(Mr Winter) The policy in our Association is that in order to open up the coasts of those EEC countries that will not let us trade at the moment we need to close our own coast to produce a situation in Brussels where we will have a better negotiating position.

610. Do you have actual knowledge of the fact that the Germans are offering fiscal incentives to their freight operators, to people who send freight by German ships, that there are fiscal incentives for them so to do?

(Mr Winter) Yes, indeed. In fact, we submitted a 16-page paper to the Committee which we had researched in West Germany over the last two years, which shows exactly what those fiscal advantages are. They are very complicated and they fall under about four different sections but the conclusion is that the Germans are something like 50 per cent better off on the ship financing part of their operating cost.

611. Your paper confirms the evidence we have taken already, that freight-forwarding companies in this country do not seem to worry whether they are sending their goods by British ships, Japanese ships, Korean ships, as long as they go by the cheapest method available. Do you think we have to introduce some sort of fiscal incentives to try and persuade them to use British-owned ships?

(Mr Winter) I think it would be very difficult to do that. I do not think that is something we would necessarily want to see happen. I think what we have asked is that, as the British operator, and with our costs competitive with our competitors in the international market, particularly perhaps in our case the West Germans, if we got our cost base right, and if our operating costs compared competitively with theirs, the bit that is not right is the financing of the ship. If we were put back in a position where we were competitive with them on financing, then the world would look very different to us, we would be more competitive.

Chairman

612. How do you think that should be pursued, through the EEC, or do you feel that this Government should get into the business of subsidising as well?

(Mr Winter) Chairman, this Government got us out of the business of being subsidised in 1984 by withdrawing investment allowances that year. They, of course, are now progressively reduced and we are left with a 25 per cent writing down allowance. That has made an enormous difference to us and there is no doubt that with the volume of cheap secondhand tonnage in the market today the fleet replacement which is by and large not happening in the UK flag fleets at the moment could happen if we were given back at least part of that advantage that we had.

613. Do you think that would be sufficient?

(Mr Winter) I can certainly tell you in my experience a 50 per cent ship allowance would make a lot of difference; it would tip the balance in favour of buying tonnage at the moment rather than not buying.

614. If that allowance was made, how do you think that should be made, with strings or without strings? Would you be happy, for example, if the allowance was made on the ground that it was built in a UK shipyard as against an overseas one?

(Mr Winter) I think in our case, Chairman, the reduction in the number of small yards that can produce the new ships we are looking for would tie our hands too tightly if that were done. I think we would need the opportunity of placing at least some of the orders abroad because we are an international business and, if we can find a cheaper price abroad, we must take advantage of it.

615. Do you think the Government should pursue that on an overall coverage basis for all types of ships from liners right down to the size of ships you operate, or do you think it could be specialised?

(Mr Winter) I am not really qualified to talk about anything other than coasting and short sea trades. As far as we are concerned, it should be introduced. I guess it applies elsewhere.

616. You are saying that at the moment you are not building new ships, in fact you are replacing old ships with secondhand ships, which does seem to imply that we will have a pretty old fleet before long. How do you see that, again coming back to the safety aspect?

(Mr Winter) It is perfectly true that at the moment it is impossible for us to look at new ships because the costs are just too far out of court. Occasionally we find the odd secondhand vessel worth buying but, of course, if we had the 50 per cent ship allowance on new and

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[Chairman Contd.]

secondhand, we could take advantage of the market. I do not think we should have our future necessarily linked with the British shipbuilding industry; that is something rather different. I think it is important that we should not be fettered by having to place orders in British yards or having to purchase secondhand British tonnage; we should be allowed to purchase——

Mr Bidwell

617. On the question of ability or inability to produce the kind of size of ship in which you are mainly interested, I am curious to know this. We cannot build small ships; can we build big ships? Can we build any ships? Surely the ability to build in quantity greatly determines the whole economics of what can be provided and at what price.

(Mr Winter) Yes, certainly, and there is no doubt that there has been a tremendous rundown in the number of British yards.

618. That can be restored, can it not?

(Mr Winter) I should think we will have to hurry up about it if we want to do it.

619. Get in a bit quick?

(Mr Winter) That is right. We are rapidly running out of time.

Chairman

620. What do you know about a company called Bromley Shipping which has been set up to trade between United Kingdom waterways and Northern Europe, financing itself under the Government's Business Expansion Scheme, as I understand it? Is this an example any of your members could follow?

(Mr Winter) Chairman, I know the company quite well. I know the owner of the company. It is not a member of ours. In fact, I think perhaps I would rather not make any specific comment about that particular company. As far as the Scheme is concerned, the situation with the BES is that it is not applicable, it cannot be taken advantage of by many companies, because it demands individual shareholding; it is not something a company with a large existing shareholding can necessarily take advantage of. That is one objection we have to one aspect which militates against us using it. The other is that, of course, shipping is relatively unprofitable and any BES investor is not only looking for his up-front tax rebate but is also looking to see a return on his money over the five-year investment period and I think, if you look at another BES scheme which recently was launched and the difficulties announced last week in the press with regard to that one in terms of getting subscriptions, it rather bears out the point. We feel BES is a bit of a red herring introduced by the Government to try and head us off. What we really want is a ship allowance, because a ship allowance would be good for everybody, not just a narrow section of the market.

621. Why do you think the Government is reneging on that one? If, as you say, they did take it away, why do you feel it would be to the Government's benefit to put the money back in?

(Mr Winter) In the shape of a tax allowance?

622. Yes.

(Mr Winter) It depends whether the Government wants a shipping industry or not. There are tremendous advantages in terms of earning money for the country by using our ships instead of letting other people come in with their ships. It is part of invisible exports.

623. Invisible exports have now got down to something like about 3 per cent. It is a minute figure compared to what it used to be.

(Mr Winter) We have lost an awful lot of invisibles, but would we not like some of it back?

624. We would like some of it back, but would there be any guarantee that it came back if those allowances came back into operation?

(Mr Winter) Yes, it would make a lot of difference to shipping investment.

625. Do you think the fleet would come back under the British flag?

(Mr Winter) Yes. Certainly as far as we are concerned, we would see a shipbuilding programme and a secondhand ship purchase programme to enlarge the small UK fleet.

626. We have been told by the Shipping Council that they did not care whether it ended up with no flags under the British fleet, they could still survive because they could have their traffic carried.

(Mr Winter) Yes, but you asked me what advantage there would be for the country in having this.

627. I am not putting that point of view, by the way; that is what they told us.

(Mr Winter) I think it should be carried in British ships. That also means more employment in the United Kingdom. We employ a certain amount of people in our ships and they are all Brits.

Mr Bevan

628. Before the question of the Business Expansion Scheme is finally left, whereas your own type of company because of existing shareholdings, could not use the scheme, there is surely a perfectly good use for the scheme in attracting new individual shareholders who can benefit through the scheme, producing existing or new ships to the British flag fleet by utilising what would be a remunerative return on the five-year investment.

(Mr Winter) In the current state of the market I think it is a moot point as to whether the existing BES schemes, subscription dates or closing dates of which have not yet been reached, which we already have will be properly supported. I doubt with the present state of the shipping market there is mileage enough or profit enough in the business to attract subscribers.

629. But you have shipping in your own membership which is plying in the United Kingdom inland waterways and to Northern Europe at the moment surely, and therefore it must be finding some profit in it to do it?

(Mr Winter) Yes. I was trying to distinguish the BES investor who has a number of schemes open to him, and

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[*Mr Bevan Contd.*]

he can put his money into schemes concerned with cable television, or hotels or exhibitions or whatever, or he can ——

630. You cannot put it into hotels in the main because property-intensive schemes might not be eligible and are less structured in certain ways. That is one of the prohibitions which could indeed, I would have thought, benefit, for instance, the British fleet.

(Mr Winter) I think it is far too early to say whether this is going to prove attractive to shipping or not. In my view it will not and it certainly distinguishes between one sort of shipping operator and another. If you look at the German doctors and dentists arrangements, which the BES was intended to copy to some extent, that in itself has not been entirely satisfactory as a method of raising capital and I do not think this one necessarily is either.

Mr Ross

631. Have you looked at other European countries, say Denmark or the Netherlands, to see what sort of fiscal incentives they are providing to their fleets? Have you done an investigation of that?

(Mr Winter) Yes. The Dutch system is very similar in result to the German one. It is arrived at by a slightly different route but has a similar effect. The Danish one also is quite good. There is no doubt that all three of the countries that we have mentioned are in a position where the government offers subsidy through tax advantages to these ship owners.

Chairman

632. And is it fairly considerable? Would you say that it is enough to amount to unfair competition?

(Mr Winter) Very much so, without a doubt, absolutely.

633. To what degree—10 per cent, 12 per cent, 15 per cent?

(Mr Winter) As a very rough guide, the financing cost of a ship of the sort of size we are talking about is about 60 per cent of the total operating cost. In our view, the Germans, the Dutch and the Danes should be approximately 50 per cent better off than we are in that section; in other words, they have a 30 per cent cost advantage over us in pure terms.

634. That is quite considerable.

(Mr Winter) It is, yes.

635. That would probably provide the main reason, would you say, for flagging out?

(Mr Winter) Of course our members have not flagged out.

636. I know, but I take it that competitive element applies in all sections of shipping?

(Mr Winter) It is the reason why our Continental competitors have built a lot of ships in the last five or six years but we have built hardly any, yes.

637. So it has affected shipbuilding?

(Mr Winter) Yes, very much so.

638. I will underline that bit in the evidence. You did say "Our section of the industry is quite separate from the rest"—you have already made that absolutely clear—"both in terms of the type of ship we operate, the type of crews we employ and the type of trades we engage in. Measures that would be helpful to other sections of the UK shipping industry may not be to us and vice versa." Bearing in mind that your two recommendations, that is to say, investment allowances and restricted UK cabotage until an EC policy is hammered out, coincide with those of the GCBS, what measures do you have in mind which would be different from those of the GCBS?

(Mr Winter) Are you talking about help that the Government might give, for example?

639. Yes.

(Mr Winter) One classic example we have already talked about is the BES, where the GCBS has welcomed cautiously the BES but our Association has not, for the reasons I have gone into, and I think there are perhaps some other Department of Transport areas where help to other classes of ships would not necessarily help very small ships, help which perhaps does not make larger ships more efficient in some ways, where already we have those efficiencies, perhaps with manning, where we already have the lowest possible level of safe manning, which perhaps many other sections of the larger industry do not have. So, yes, I think we have homed in on the two things we think would make a significant difference to our section.

640. You have said it is because of the flexibility of the Department that you have been able to reach agreement on this level of safe manning. What sort of agreements or aid have you had from, for example, the NUS and NUMAST, where you have union agreements? One can understand them wanting to give employment but if it is a question of some employment or no employment what has been the attitude generally of your members?

(Mr Winter) At the last negotiating committee meeting I attended with the NUS in my company, which was some years ago now, I was told by the NUS that their agreement which we were discussing—and I was pointing out the unsuitability of it for the third time—was negotiated after a lot of effort in 1910 and they were not intending to change it for me, at which point I am afraid I gave up and decided that perhaps the best thing to do would be to take the rest of the ships out of the NUS and into the Transport and General Workers, where we have our own separate agreement.

641. And the TGWU took the members?

(Mr Winter) It was not done quite like that but eventually we took the ships out.

Mr Ross

642. Have you made representations about light dues, which presumably fall on your owners?

(Mr Winter) Yes, we have indeed.

643. That is an extra expense which you really should not have to bear, is that right?

(Mr Winter) Yes. I have recently written to the Minister about that and pointed out not only has he put

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[*Mr Ross Contd.*]

up light dues by 14 per cent but also put up fees in other areas—radio licences, survey fees and this sort of thing—way above the level of inflation. This has been going on for several years and it is all right for the Government to say, "Stand on your own two feet," but we are not able to influence the level of charges they make and it is rubbing salt into the wound if they take our allowances away on the one hand and put all their own charges up way above the level of inflation, let alone the increases we can make in our freight rates, which are minimal.

Mr Bevan

644. What about lighterage charges? Does this help?

(Mr Winter) That is not particularly relevant to us.

Chairman

645. Is there anything else you would like to put on record, Mr Winter?

(Mr Winter) No, I do not think so, thank you.

Chairman: I am most grateful to you for your time. I am certain your information will help us a great deal. Thank you.

Memorandum submitted by the British Maritime League

DECLINE IN THE UK REGISTERED MERCHANT FLEET

"BRITISH AND EUROPEAN MERCHANT FLEETS WILL DISAPPEAR UNLESS GOVERNMENTS TAKE ACTION INTERNATIONALLY"

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The British Maritime League was formed in March 1982 precisely because a wide range of people within and without the maritime industries were so concerned about the accelerating decline in most of them, and the lack of comprehension by the general public of the extent and consequencies of that decline to the Country's interests at home and around the world. Worse still, there was no sign that any Government since the war had had any coherent policy towards maritime affairs, let alone recognition of the interlinkages between the different activities, ashore as well as afloat. That situation persists, despite a better understanding amongst back-benchers of the issues at stake, and a great deal of unanimity in the anxieties expressed in debate by members of all parties.

The League has recognised from the beginning that the health of the Merchant Navy is the key to virtually every other activity in the sea, and to the many supporting industries and services on which it depends. Most of our available effort, much of it entirely voluntary, has been concentrated on the ills of the merchant service and related industries.

The League therefore welcomes this Inquiry by your Committee, which has become even more timely since it was announced in July, as figures are now becoming public that alert us to the ever-growing urgency of governments taking concerted action to arrest the accelerating decline of every major national-flag merchant fleet.

The UK-registered merchant fleet of trading vessels over 500 GRT will comprise less than 500 ships of under 7 million DWT by 31 December this year, and is predicted to shrink to fewer than 100 of perhaps 3 million DWT by or before 1995, no more than one sixteenth of its size in 1975; the Norwegian, West German, French, Spanish, Italian, and even Greek fleets are in similar headlong decline in Europe.

The OECD in its "Maritime Transport 1983" Report declared that "OECD governments must take a more active part in shipping". That call to action has yet to be answered by the British government, or to any effective extent by other European governments; nor is there any optimism that the European Community's Common Maritime Transport Policy will be adopted as planned by the end of this year. If aviation and inland transport policies are anything to go by, we cannot count on even this first important step for shipping being taken before it is too late, let alone other major steps that need to follow in several international fora and groupings of trading nations, as well as nationally.

We contend that the United Kingdom, while it still retains its wide range of expertise and its reputation as a major maritime nation, should take the lead in establishing international maritime policies aimed at creating an international commercial environment within which the various maritime activities, most particularly merchant shipping, can have a chance to prosper.

We set out in this memorandum some of the principal issues as we see them. We also suggest certain short- medium- and longer-term actions which are needed, first to save the industries concerned, then to provide them with a more certain future once they are again healthy in commercial terms.

It is worth emphasising at the start that we do not consider the present critical state of decline both of shipping and shipbuilding as being cyclical as it usually was in the past. Because of vast over-capacity and the unlikelihood of any rapid increase in the volume of world trade, the actions now required must be aimed at removing the over-capacity and meanwhile retaining the fleets, the shipyards and the supporting activities at levels sufficient to ensure their survival.

We are responding freely to the last sentence of your Terms of Reference, as the eight points you list are too restrictive if we are to suggest some constructive actions which might be taken, most particularly in an international context and also taking in certain other activities that are crucial to developing any solutions.

OTHER REPORTS.

We attach a list of reports and memoranda which we have published, all but two of which directly concern merchant shipping and shipbuilding. We are submitting with this memorandum copies of the following, which are most directly relevant to your inquiry:

1. British-Owned Merchant Shipping—Flagging Out? or Selling Out? August 1984.

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2. Why The Ships Went—A fully quantified analysis of the causes of decline of the UK registered merchant fleet. Published by our associated charity The British Maritime Charitable Foundation, in conjunction with Lloyds of London Press Ltd., April 1986 (price £70).
3. The Merchant Shipping Industry—Recommendations for Actions to Restore Profitability, (The League's responses to 2. above), April 1986.
4. Position Paper No. 1—Actions to Deal with Crises in Shipping and Shipbuilding, June 1986.

We have also received copies of Professor Goss's memorandum to your Committee and will for the most part concentrate on different issues. Apart from his comment on cabotage which we suspect refers only to national (UK) cabotage, we endorse most of the points he makes, and reinforce many of them in what follows.

We have seen a paper from Captain C M R Lloyd which we believe he has submitted to your Committee personally from sea, and that deals with certain issues particularly relating to recruitment, education and training; to labour relations and morale; to the vital role of the merchant service as the fourth arm of defence; to legal niceties versus commercial reality; and to future innovation or final extinction. This represents a highly personal view from a practitioner presently in command of a major vessel flying a flag of convenience. Much of what he writes is deeply disquieting as outlining long-standing divisions between the several actors with essential parts to play but nowadays with no coherent direction to mould them into a "band of brothers" (in Nelson's famous phrase), whether at company, national or international level. His comments and criticisms need to be taken seriously even where they are plainly one-sided, unfair or even perhaps wrong.

"WHY THE SHIPS WENT"

The British Maritime Charitable Foundation's Report "Why the Ships Went", which the League commissioned, spells out clearly what has happened in the various sectors of the merchant fleet, and its important conclusions (Chapter 2) are reproduced as Annex 1 to this memorandum. That Report's forecast in January this year for 1987–88 will already be reached by January next, in two months time. Nevertheless it is quite clear from these Conclusions and much other evidence that the primary cause of the present crisis in shipping, now extending across almost every sector of the industry, is gross overtonnage and over-capacity in the world's fleets that together depress freight rates to levels at which profitability is unachievable.

Virtually all the actions proposed or initiated by individual governments can have little beyond cosmetic or short-term benefit. They may reduce or hide losses, but they cannot restore profitability so long as overtonnage persists.

Concerted international actions are required at various levels—the EEC, OECD, GATT and Heads of State—to restore the conditions where ships can operate profitably. These will take some years first to initiate and then to produce the required effects. Shorter-term actions are therefore required immediately to save the various maritime industries from extinction, at least in Europe and North America.

The League's recommendations based on "Why the Ships Went" are also reproduced as Annex 2. They aim firstly to reduce world shipbuilding output coupled with accelerated scrapping of unwanted tonnage. It is estimated that overall the size of the world fleet is between one and a quarter and one and a half times the size needed to carry the present volumes of cargo in world trade. On that basis, Japan's output during 1985, 53 per cent of the world total, was almost sufficient by itself to meet all the worlds requirements for ships without any other country building any ships at all. (Far East yards together delivered over 69.2 per cent, Europe only 16.3 per cent including the United Kingdom's 0.95 per cent, the USA and Canada 1.3 per cent, COMECON 7.3 per cent, all the rest only 5.9 per cent.)

The second group of recommendations aimed at creating equality of opportunity is particularly apposite in the light of the current race by more and more owners to flag out their remaining ships to various flags of convenience, only a proportion of them to British Dependent Territories, where the ships are theoretically still within British legal jurisdiction. We draw attention especially to the suggestion that "those features of national regimes which cause owners to flag out" be re-examined and if at all possible reduced, preferably eliminated altogether. It must always remain incongruous that national shipowning companies are able, indeed obliged by commercial disincentives to operate many of their ships under flags of convenience, most of which have no maritime traditions and only minimal requirements of their own for merchant shipping. It is certainly beneficial to any trading nation to have its own flag fleet for all manner of reasons stretching far beyond simple tax revenue and employment, but owners must be given a national commercial and fiscal environment in which they can earn profits with the classes of ships they operate; otherwise flagging out is inevitable if they are to stay in business.

The League's other recommendations are aimed at short-term measures to halt the decline, and medium- and long-term actions to meet strategic requirements and to remain in the van of technological progress, since shipping is the principal maritime activity around which all the training, research, commercial, financial, manufacturing, professional, technical, legal and other supporting and related capabilities must be built.

Finally we call for leadership and co-ordinated policies in this important field both at national and Community levels. Sea trade is more important today than ever in the past and the many elements that go to providing and sustaining the maritime transport industry are far too important to be left to fend for themselves.

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ANNEX 1

Summary of Conclusions from "WHY THE SHIPS WENT", published by The British Maritime Charitable Foundation and Lloyds of London Press Ltd., April 1986.

1. The UK liner tonnage of container ships remained roughly static, but the UK market share of trade volume fell about 25 per cent in an expanding market. The reasons are various and too complex to summarise, but although of concern did not give cause for alarm. Overtonnaging had not yet become serious, though it is beginning to be. Cargo reservation, which is mainly concentrated in the liner sector, affected perhaps 14 per cent to 20 per cent of the liner trade; the UN liner code itself, which only came into operaton at the end of the period studied, is having little additional effect.

2. The remaining break-bulk cargo-liner tonnage decreased by over 80 per cent. Containerisation was given as the reason for disposing of 88 per cent of the ships which left the fleet. The UK break-bulk tramp fleet had already virtually disappeared, squeezed between the container ships and the bulk carriers.

3. The root cause of the unhealthy state of the dry bulk sector was undoubtedly over-tonnaging. As soon as any sign of a recovery appeared, ships were ordered on what appeared irresistibly attractive terms mainly by Far Eastern owners from Far Eastern yards, and the resultant excess tonnage immediately depressed the freight rates again. Easy bank loans to those who snapped up quite new ships sold at even lower prices by distressed European owners made the market worse still.

In these conditions, cost factors which are normally relatively unimportant became critical, and it is not surprising that about 10 per cent of the world's dry bulk tonnage left the OECD registry, and tonnage under other flags increased by a like amount. The main question to be examined was why the UK and Scandanavian share of world tonnage instead of going down 10 per cent was roughly halved. As regards UK, half the ships sold had belonged to foreign owners attracted by investment grants and the exchange rate, who moved out when these factors ceased to operate in their favour. The greater readiness of foreign competitors under foreign flags to rely mainly on the sale and purchase of ships for their profits was probably another factor. Although crew costs were often mentioned, they are no higher in UK than in many OECD countries.

4. The UK deep sea tanker fleet capacity (representing 60 per cent of total UK Fleet capacity) reduced by nearly 50 per cent over the 1978–83 period and numbers were down 38 per cent. The major reductions were in large crude oil carriers. This reduction is continuing fast and is now accompanied by a reduction in pretroleum products tankers. The UK gas carrier fleet remained fairly stable over the period, although it too has subsequently nearly halved. The UK short sea tanker fleet remained fairly stable.

The change in the oil market, including the 40 per cent reduction in OPEC oil volumes, has caused severe tanker over-capacity and revenue remains at best little above operating cost levels for the world deep sea tanker fleet. The oil majors (who owned nearly two-thirds of the UK tanker fleet) as a result of the changed oil market needed fewer ships to carry their own oil. the oil majors' fleet reduction was due to this loss of trade, with no alternative profitable market on which to trade their ships, and to a lesser extent to the reduced attractiveness of the UK flag. The independent owners' UK tanker fleet reduced for much the same reasons as the UK bulk fleet.

5. This study has shown that the poor market and financial pressures have been more important reasons for decline than government interference, unfair competition or uncompetitive operating costs. We believe that the decline will continue unless action is taken to stop it.

ANNEX 2

The Merchant Shipping Industry Recomendations for Actions to Restore Profitability

Governments have clear roles to perform that cannot be undertaken by the shipping or shipbuilding industries either individually or jointly, especially in the worldwide international context of their operations. Governments can "No longer limit themselves to the role of observers" (Maritime Transport 1983, OECD 1984).

The principal actions required by governments may be summarised as follows:—

A. *Immediate Priority*

1. National, Community and worldwide action to curtail drastically world shipbuilding output.
2. National, Community and worldwide action to accelerate greatly the rate of scrapping.

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b. *Important*

3. National, Community and international action to create equality of opportunity for all shipowners:
   i. By reducing and eliminating those features of national regimes which cause Owners to flag out.
   ii. By fiscal measures.
   iii. By monitoring and eliminating unfair competition from both sub-standard ships and unacceptable commercial practices.
   iv. By creating uniformity of conditions in coastal shipping (cabotage).

C. *Medium and Longer Term*

4. National action to create a Merchant Navy Reserve of trained seafarers.
5. Extension of national and allied research effort into the commercial and strategic conditions in the shipping industry.
6. Expansion of national and Community technological research into "The Efficient Ship", a "Radically Improved Maritime Transport System", and other projects aimed at keeping the UK and European countries in the van of progress.

D. *Co-ordination and Leadership*

7. National and Community action to co-ordinate policies between the various maritime activities and supporting industries.
8. The creation of National and Community Maritime Policies.

. We attach the greatest urgency to the initiation of all these and related actions.

INTERNATIONAL TRADE AND SEA TRANSPORT

International trade has long been important to the United Kingdom. It has been essential to its economy and survival for at least a century.

World trade has increased eightfold since 1946, and now totals about 3,330 million tonnes a year. Today it is vital to most countries' economies and interdependence between countries is great and growing due to:

a. Population increases and rising standards of living. The world population reached 5,000 million this summer, is set to reach 6,000 million by the year 2000, and predicted to double to around 10,000 million by mid- to late-21st century, when equilibrium may be achieved if we are very lucky.
b. Resources exhaustion in accessible places, leading to growing imports from ever-more remote locations around the world—and offshore.

All imports require exports to pay for them; these too must increase as most countries become more dependent on each other's products.

The pattern of UK trade has changed, most particularly since we joined the European Community (and retreated from empire), so that a large proportion is carried between UK and European continental ports. In addition some for worldwide destinations is trans-shipped through European ports, which tend to be more competitive ports-of-call at least in some trades for the types of vessel involved.

All trade depends on transport. 95 per cent by weight of all trade that crosses frontiers is waterborne, including inland.

Over 99.5 per cent by weight of all trans-ocean cargo is carried in ships, under half a per cent in aircraft, and there is no viable alternative mode for most of it.

Western Europe, whether the EEC12 or European NATO13, is today being described as a "sub-continental island", now utterly dependent on imports, particularly of energy

European ports load and unload some 27 per cent of world trade (27.4 per cent in 1984). That is over twice the United States and Canada (13 per cent), almost three times Japan (10.2 per cent). The EEC now conducts some 45 per cent of world seabourne trade.

Seabourne trade is international, and, since shipping is the handmaiden of trade, it too operates in an entirely international market, providing one essential service, for which there is no alternative mode.

We see no value nowadays in considering the UK-registered fleet in isolation. The aim today needs to be to develop a strong European fleet, of which the UK fleet would remain one of the major parts, and in which we should be taking the lead.

TRADE AND FLAG

It can be argued that the flag flown by a ship is of no significance to the shipper or exporter seeking cargo space in which to despatch his goods to another destination. The attitude of most is that, provided the ship is

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reasonably well-found and quotes the cheapest freight rate, there is no reason to choose a nationally registered vessel in preference to a foreign one. Freight charges form a significant proportion of the delivered price of many bulk and semi-finished goods, and British and European exporters are not prepared to pay any premium simply to support national flag ships. The situation is less stark in the case of high-value dry and manufactured goods, nowadays mostly shipped in containers, where security and minimum handling greatly reduce costs, losses and damage, and total freight charges are generally insignificant in the total delivered price.

UK-flag ships nowadays carry under a quarter by weight of UK imports, 30 per cent of exports, but as little as 18 per cent of some bulk materials, solid and liquid. What is carried is however mainly of high value, particularly in the export trades, though a large proportion nowadays goes to Europe, either to our major market there or for trans-shipment to long-distance destinations.

Entry to the UK shipping market is totally free to all-comers, but almost every country in Europe and many abroad restrict certain cargoes, eg government aid and military, and most reserve cabotage, ie carriage between two or more national ports, to nationally-owned and flagged ships.

Some overseas competitors like the Soviet Union are far more restrictive, requiring their export cargoes to be delivered CIF abroad and purchased FOB foreign port, whenever they are allowed to get away with it. The UNCTAD liner code seeks to reserve 40 per cent each of liner cargo to the exporting and importing countries' ships, leaving 20 per cent to all-comers serving the cross-trades. This principal may come into general usage in time, but is not so far very onerous, since many of the countries of the Third World do not have the ships needed to implement it. UNCTAD's attempts to extend this principle to the bulk trades, which are presently almost wholly free of restriction, have so far made little progress. Review of the present liner code is about to start, with a view to extending it further.

All manner of other restrictive practices are embodied in the legislation of some 63 countries which we have studied, but nevertheless experience shows that few of these are applied overtly in practice, and it is generally agreed that only about 15 per cent of certain categories of cargo are restricted to national flag fleets.

Nevertheless there are a considerable number of bi-lateral agreements where cargo-reservation is inherent or compulsory, most notably between the United States and certain South American countries.

All this militates against most high standard, European-flag ships, and the United Kingdom in particular, which has always engaged heavily in the cross-trades, carrying cargo between two foreign countries, rather than only to and from the United Kingdom. This is demonstrated most clearly in the liquid and dry-bulk trades where so many of the remaining UK-registered ships are now being flagged-out.

Ports are necessarily flag-blind if they are to prosper, especially in the face of inter-port competition, eg. between UK and nearby European ports. Nevertheless there are plenty of instances of preferential treatment overseas, usually towards national-flag ships, by no means always officially-inspired.

UK-flag ships derive little advantage nowadays by virtue of the flag they fly. The future of the Country's trade lies increasingly with Europe directly, and as Europeans towards the rest of the world. Our Transport Commissioner, Mr Stanley Clinton Davis, has floated the idea of a European Flag fleet, and that must be a long-term aim in conjunction with his immediate priority of establishing a Common Maritime Transport Policy amongst the twelve, including a free internal market, followed by various other steps towards unifying European practice in international trade. The proposed time scale for introducing a free market is so long, that many more ships will be lost from EEC fleets, and that includes the trained men that man the ships.

In the meantime the United Kingdom fleet is at a disadvantage and many question its ability to survive long enough to allow genuine European and international reforms to be developed and adopted. The latest figures for the UK-owned and registered fleet of trading vessels seem to confirm this pessimistic forecast and we are told that by early next year UK owners will control more ships under foreign flags than they do under the Red Ensign. This already applies to the West German fleet, and will soon to the Norwegian and some others.

JUSTIFICATION FOR HAVING A MERCHANT SHIPPING INDUSTRY

Concurrently with the early work by the Foundation on its research report "Why the Ships Went" the League produced its memorandum for the Defence Committee entitled "the Vital Role of Merchant Shipping in Western Defence" (published in the First Report from the Defence Committee, Session 1984–85, "The Use of Merchant Shipping for Defence Purposes", HC 114, 21 May 1985).

As one sequel to "Why the Ships Went", the British Maritime Charitable Foundation has now been commissioned to undertake another research report to be entitled "The Economic Case for a Merchant Fleet", to be completed in the spring of 1987. This is being undertaken because the economic case has not on the whole been well-understood beyond a few fairly obvious generalisations, some of them set out below, and most governments have been reluctant in recent years to provide the kind of support now seen to be needed if national flag fleets and all that depend on them are to survive and flourish. Copies of this new report will be submitted to the Committee if it becomes available in time.

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National flag shipping benefits its own country in a number of ways:—

(*a*) By carrying national trade and limiting foreign exchange outgoings on paying for foreign flag shipping; this is a double benefit, and countries need to encourage trading conditions in which their own flag ships can take full advantage of the UNCTAD liner code.

(*b*) By providing some influence over freight rates, also a means of retaliation against practices by others, and a safeguard against being held to ransom by any of our competitors.

(*c*) By earning foreign exchange from cross-trading, to the benefit of each country's balance of payments. Licence and royalty fees from North Sea oil have dwarfed most treasury receipts from everything else, not least shipping's diminishing contribution to the balance of payments. But fluctuating oil prices and the long-term decline in output are beginning to make other sources of revenue more important again to our future prosperity. A healthy shipping industry that engages heavily in the cross-trades should generate substantial net earnings of foreign exchange, as well as remittances from expatriate employees. A profitable national flag fleet also generates tax revenue from the investment employed and from crew and staff wages.

(*d*) By major indirect earnings of foreign exchange by City financial, insurance, technical, legal, broking, commercial and other services all contributing further to each country's balance of payments.

(*e*) By employing nationals as seafarers, thereby providing a principal national resource of people experienced in the sea, for employment also in many other maritime activities besides shipping itself. This training base is of the greatest benefit in fisheries, the offshore industry, ports and harbours, pilotage, the lights service, government administration, the City, commerce and manufacturing industry, salvage and dredging, communications, national and international organisations. All these together form a country's maritime capabilities, which depend first and foremost on trained people and their wide range of expertise in and connected with the sea.

(*f*) By providing some, preferably all the merchant shipping of several types that are essential to support and enhance the armed forces in times of emergency and war, whether acting alone, as in the Falklands, or within an Alliance, such as NATO. Grave concern is now being expressed about the adequacy of the UK-flag and indeed most other NATO-flag merchant fleets to provide the numbers of extra ships required for military purposes in addition to meeting the continuing requirements of economic shipping. Potentially even more serious in the future, say beyond 1995, will be a shortage of trained men to man any extra ships that can be obtained from other flags; this shortage of men will also affect the Royal Naval Reserve, and led us to suggest to the Defence Committee last year that there is a growing need for a Merchant Navy Reserve (see Reference at beginning of this section).

(*g*) By providing a home market for shipbuilding and related industries, as well as numerous services to shipping and world trade, not forgetting research and development, education and training in the technical and other skills required in all of these, quite apart from seafaring and service in the ships themselves around the world. Several of these are strategically important in economic as well as defence terms, and provide major employment opportunities, often in areas or regions where there are few other industries.

SIZE OF THE FLEET

The world fleet increased 2.6 times in number of ships, 5.3 times in gross tonnage between 1948 and 1982. Tonnage dropped marginally in the following three years, and more markedly in the past year to 30th June 1986. That was due to considerable success in increasing the rate of scrapping to no less than 42.1 million DWT (around 24 million GRT) of major vessels during 1985, which more than offset newbuilding completions, that however did not themselves decline; completions in 1986 are expected to be lower, and new orders very much lower.* Nevertheless much higher rates of scrapping and reduced newbuilding deliveries, especially in the Far East, most particularly in Japan, are essential before real progress can be made towards eliminating massive overtonnage, now afflicting nearly every class of large vessel.

At least 40 per cent of the current world fleet is registered under Flags of Convenience (FOC), though the greater part of this tonnage is controlled, most also owned by companies registered and resident in various West European countries or in the United States. That already high proportion is rapidly increasing, as these countries' owners strive to restore profitability by flagging out of their national flags; to encourage them, a new crop of FOC is emerging loosely tied to or associated with traditional West European maritime countries, eg the United Kingdom (Dependencies, Isle of Man), Norway (Svalbard), France (Kerguelen; "French Antarctic Territories"), Spain (Canary Islands), now Luxembourg and Finland (Aland); of these, only the UK Dependencies are so far listed separately in Lloyd's Register's Statistical Tables. Today these and most of the older FOC maintain technical standards of construction and equipment to IMO Convention standards, but permit the employment of low cost crews, charge nominal fees and no taxes, and make no provision for the training of seafarers, nor levy any health, social security and pension payments.

The consequence of all this is the rapid decline of most industrialised countries' national flag merchant fleets, in the case of the United States partly obscured by the substantial number of ships owned by various government

* *Note by witness:* Completions dropped 1.3 million GRT (Supplementary Table X) during 1986, and orders in hand at the year end were 2.0 million GRT lower.

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agencies, most especially the large and growing reserve and military sealift fleets of the US Navy and Defence Department. The facts of the decline in UK shipping and shipbuilding are outlined in Figures 1 to 7;—Tables 1 to 5 give details of the principal merchant fleets and analyses of the decline of the UK merchant navy and of the total fleets of various groupings of nations over the past few years.

So far as the UK-registered fleet is concerned, the decline recorded since 1974, amounting to almost 100 ships a year (2 ships a week) over the whole period, has been at a rate almost twice as rapid as in other West European fleets; as shown in "Why The Ships Went", a large part of this initially was due to the exodus from the UK-registry of foreign-owned vessels when our financial and fiscal conditions lost their attractiveness. The consequent loss of seafarers has been at a rate of some 5,000 every year since 1974.

Particular attention should be drawn to the major flight of UK-owned vessels from the UK Register in the past year or more, a good many to UK Dependencies like Bermuda, the Cayman Islands and Gibraltar, most recently to the new Isle of Man register, the figures for which are not yet shown separately in Lloyd's Statistical Tables; early in October they amounted to 35 ships of 250,000 GRT, and rising.* The principal "defections" have been of BP and Shell tankers, but P & O, Cunard and several smaller owners have flagged-out, not only to Dependency flags. Many of these ships are still manned by UK officers and often ratings too, albeit on offshore agreements of little or no benefit to the Exchequer; there is no guarantee that that will continue.

The General Council of British Shipping's (GCBS) historical figures for the tonnage of the trading fleet are shown in Figure 1, and various forecasts in Figure 1A indicating the likely rate of continuing decline over the next decade or less. What these graphs mean in numbers of ships is given in the adjacent table.

All these totals include the Royal Fleet Auxiliary (RFA), now probably the largest single owner on the UK register; the President of the GCBS on 29 October predicted that, unless government took a firm hand soon, there would be fewer than 100 trading ships of perhaps 3 million DWT on the UK register by 1995, excluding the RFA, offshore supply and work vessels and rigs, coasters and a number of specialised craft and tenders.

Hong Kong is in quite a different category, and it would be rash to count on these ships to be available to meet national requirements in emergency; few of them are owned by UK-registered and resident companies. Hong Kong is already taking steps to establish an independent register.

It should be pointed out that several reputable owners have become simply ship managers and operators, and there are a number of categories of these to meet rapidly changing market conditions. Many of the ships they manage are under a wide variety of flags other than the Red Ensign.

* *Note by witness:* From Lloyds List 9 April 1987: Isle of Man and Channel Islands "at least 75 ships of 3 million DWT."

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FIGURE 1
UK OWNED AND REGISTERED FLEET
(over 500grt)

a. Average annual loss over past 10 years was about 3.5m DWT. This figure was exceeded in the first 6 months of 1986.
b. Main reductions have been in tankers, bulk carriers and break bulk general cargo ships. Latter have now virtually disappeared.
c. Ships leaving British Registry are not just changing their flag. Well over three-quarters of them are being sold abroad, and mainly to competitors not scrapyards.
d. Recent predictions as to Fleet size are illustrated in Figure 1A. below.
e. The consequences of decline are widespread. Some of the related areas affected are illustrated in Figures 2-5 below.

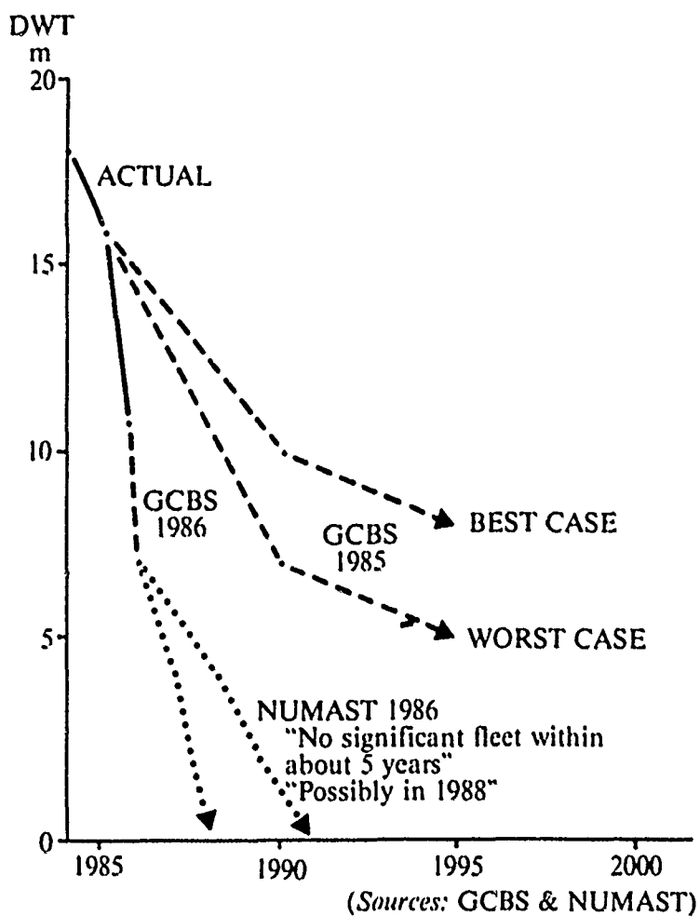

FIGURE 1A
RECENT TONNAGE PREDICTIONS OF UK OWNED AND REGISTERED FLEET
(over 500grt)

a. The predictions were presented by GCBS and NUMAST to a Conference on 'Perceptions of Maritime Operations in the 1990s' on 29th October 1986.

Trading Vessel Numbers

31 Dec 1975	1,614
31 Dec 1980	1,143
31 Dec 1981	994
31 Dec 1983	769
31 Dec 1985	627
31 Aug 1986	552
31 Dec 1986	500
1995	100*

*excluding Royal Fleet Auxiliary and some other specialised craft.

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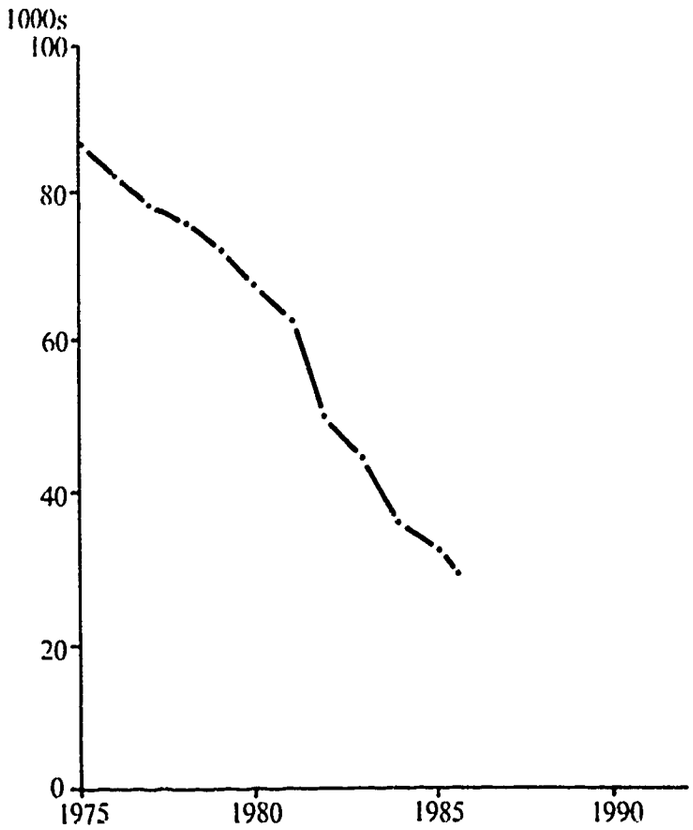

(*Source:* GCBS)

FIGURE 2
UK SEAFARERS

a. The Figure shows qualified Merchant Navy seafarers. Similar trends apply to recruitment. For example the average annual intake of marine engineering cadets up to 1975 was 1000. Full qualification of officers takes about 7 years.
b. UK qualified seafarers are a major reliable source of reserve manpower for the Royal and Merchant Navies in times of emergency.
c. At least 5 marine training establishments have closed down or are threatened with closure. They used to train many people from overseas.
d. Similar losses have been experienced throughout the marine industries.

(*Source:* GCBS)

FIGURE 3
UK OWNED SHIPS DIRECT CONTRIBUTION TO INVISIBLE EXPORTS
(1985 prices)

a. Current annual figures have been adjusted to 1985 price levels. They show that about 9.5 thousand million pounds have been lost to the economy over the past 10 years and we are now earning about 1.5 thousand million pounds less per year than we were 10 years ago.

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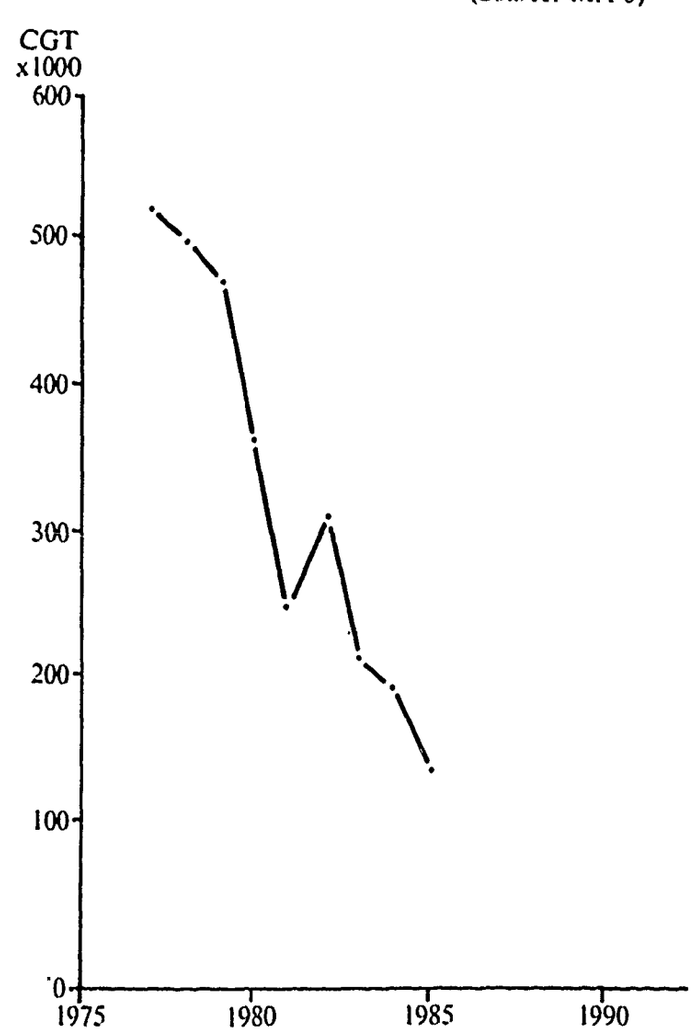
(*Source:* MA 8)

FIGURE 4
PERCENTAGE OF TONNE/MILES OF UK HOME TRADE EXPORTS CARRIED BY UK SHIPS

a. Much of the effect illustrated in Figure 4 is due to an increase in short-haul trade with the EEC, a reduction of long-haul Commonwealth trade and a reduction in Middle East oil cargoes.
b. The percentage relating to *weight* of exports has been halved over the past ten years.
c. UK coastal trade in tonne/miles amounts to about 25% of our inland commercial traffic and about 1/3 of it is carried by foreign ships.



(*Source:* British Shipbuilders)

FIGURE 5
MERCHANT SHIPS COMPLETED BY BRITISH SHIPBUILDERS

a. Between 1978 and 1985 BS's material costs increased by 73%. In the same period the world shipbuilding contract prices for most types of cargo vessel have been roughly halved.
b. There is at least a 30% surplus in world shipbuilding capacity.
c. The Swedish merchant shipbuilding industry has virtually closed down. The French are about to reduce to only 1 or 2 merchant shipbuilding yards. Most West European countries are in a similar plight and their combined output is now at about 1/5 of the level achieved in 1977.
d. The EEC's shipbuilding policy has led to a grossly disproportionate reduction compared with the Far East.

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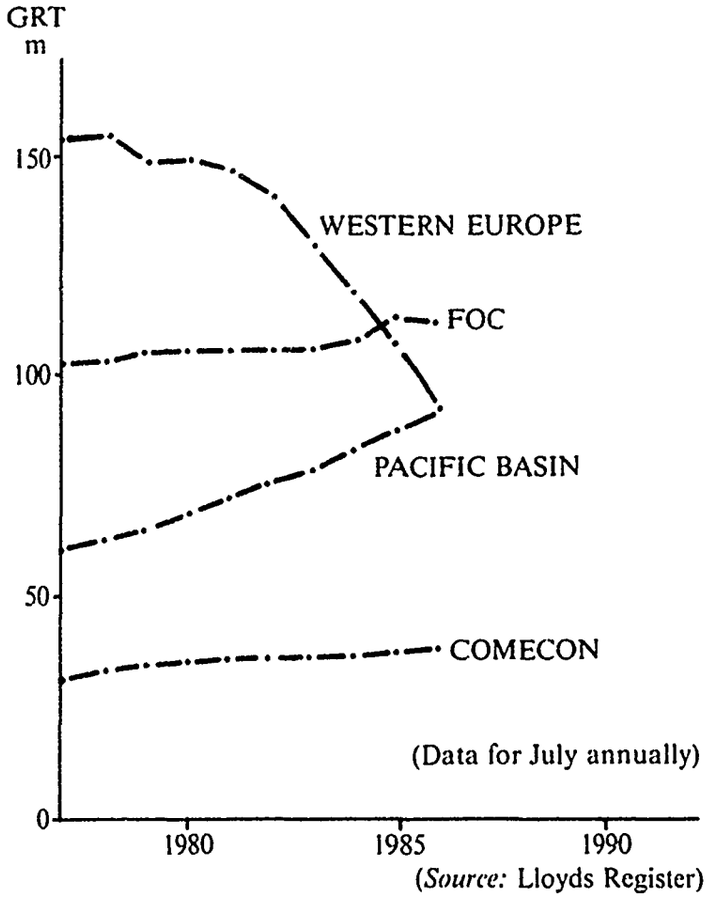

FIGURE 6
THE MAIN MERCHANT FLEETS

a. **Western Europe:** EEC countries plus Norway, Sweden and Finland.

Flags of Convenience: Liberia, Panama, Bahamas, Cyprus and Bermuda. (Isle of Man not shown)

Pacific Basin: All countries bordering on the Pacific except the USSR and Americas.

COMECON: Albania, Bulgaria, GDR, Hungary, Poland, Romania, USSR, Czechoslovakia, and Yugoslavia.

b. FOC overtook Western Europe in 1985 and the Pacific Basin is about to do so in 1986. On present trends COMECON will overtake Western Europe by 1990.

c. Western Europe is the largest maritime trading bloc in the world. It is engaged in twice as much weight of maritime trade as Japan and about 1.5 times as much as the whole of North America.

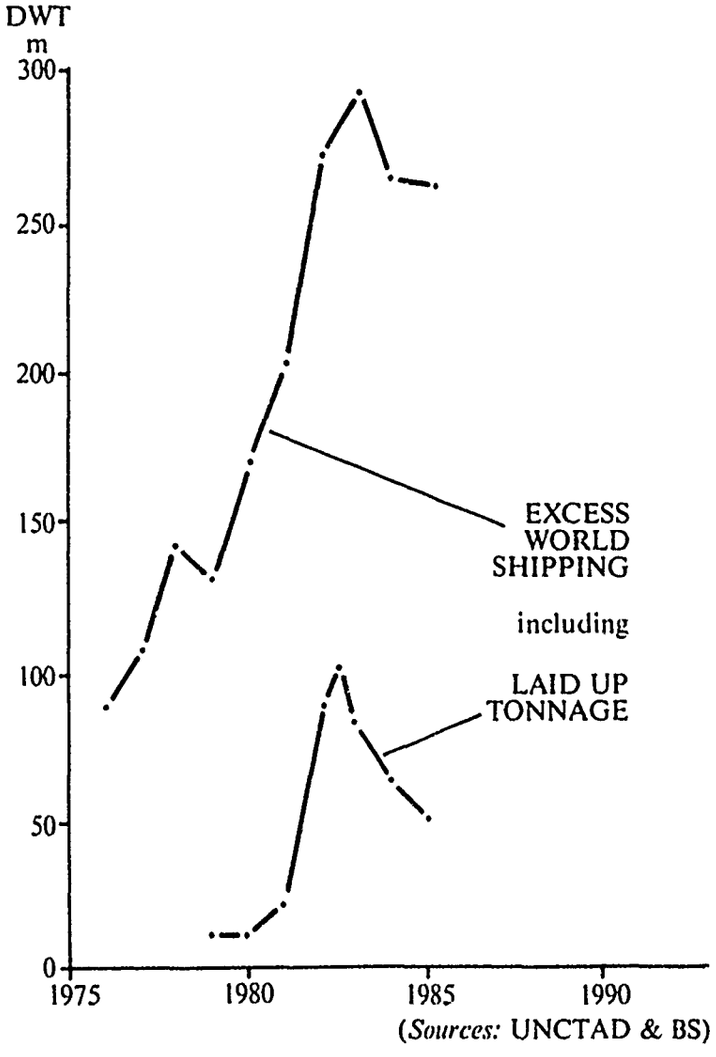

FIGURE 7
WORLD SHIPPING OVERTONNAGE

a. The overtonnage shown is the excess of actual world tonnage over that calculated by dividing annual world maritime trade by the performance achieved in 1970 when overtonnage was not such a significant problem. Gross overtonnage is the main obstacle to any profitability based on normal commercial criteria.

b. Scrap and build schemes have so far had little significant impact.

c. Despite severe cutting back of West European shipbuilding the Far East continues to produce large numbers of new ships for which there is no proper trade.

d. There is now very little chance that the problem of overtonnage will be resolved before most of the shipping and shipbuilding industries of Western Europe, including those of the UK, have passed the point of no recovery.

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TABLES I TO VII

NOTES

TABLE I

Although the UK-register had fallen by almost 2.8 million GRT by 30 June 1986, (including ships flagged out to the Isle of Man), the UK returned to seventh place in the world league, Norway having dropped 6 million GRT. Other noteworthy losses were Greece (2.6 million), France (2.3 million), Italy (0.9 million), and Spain (0.8 million) GRT. Significant gains are Cyprus (2.4 million), Bahamas (2.1 million), Hong Kong (1.3 million), Gibraltar (1 million), and Cayman Islands (1 million) GRT; all the latter are Flags of Convenience. The fall in world tonnage (11 million GRT) is due to the high volume of scrapping which much more than outweighed the rate of new deliveries during 1985. Very much higher tonnages need to be demolished if the fleet size is to be brought back into balance with the cargo to be carried.

TABLES II, III AND IV.

The high proportion of tankers and bulk carriers should be noted, 30–35 per cent in number, 70 per cent in tonnage amongst the trading vessels. There has been a general rise in container ships and substantial fall in general cargo (break bulk), some of that offset by a rise in the number of these ships carrying containers as well as some general and bulk cargoes. Passenger ships and ferries have generally thrived, some reduction in numbers being offset by increases in size.

The fall in UK fishing vessels has been considerable, most particularly in the larger sizes which have virtually all left fishing since 1977 when the 200-mile fishing limits were introduced. By contrast, the large number over 500 GRT in the EEC fleet is mainly within the Spanish fleet, which in total is almost as large as all the other Member States' fleets put together; the large increase in the NATO fleet total is due to the US tuna clippers.

TABLE II.

There has been a noteworthy increase in the Dependencies' fleets during the past year, reflecting the increasing role of several of them as Flags of Convenience: Bermuda (+0.33 million). Cayman Islands (+0.98 million), Gibraltar (+1.03 million), Hong Kong (+1.32 million) GRT. (Isle of Man figures are included under UK.)

TABLE V.

Noteworthy is the average size of trading vessels in the COMECON fleet (7,364 GRT), reflecting the small number (894) and average size of tanker and bulk carrier (14,443 GRT) compared with NATO, the EEC or the UK. All these ships are handy sizes for military purposes, in contrast to the very many of the NATO fleet which are inconveniently large.

TABLES II, III, IV AND V.

"Trading Vessels" comprise:

Tankers—Oil Tankers; Oil/Chemical Tankers; Chemical Tankers; Liquefied Gas Carriers; Miscellaneous Tankers (trading).

Bulk Carriers—Bulk/Oil Carriers (including ore/oil); Ore and Bulk Carriers.

General Cargo (single deck; multi-deck); Passenger/Cargo Ships.

Container Ships and Lighter Carriers; Vehicle Carriers.

Ferries and Passenger Vessels.

TABLE I

Principal Merchant Fleets of the World 1986

Compared with 1985 (as at 30th June)

	Number	*GRT*	*Change 85/6*	*Position 1985*
1. Liberia	1,658	52.649	−5.531	1
2. Panama	5,252	41.305	+0.631	2
3. Japan	10,011	38.488	−1.452	3
4. Greece	2,255	28.390	−2.642	4
5. USSR	6,726	24.960	+0.215	5
6. USA	6,496	19.901	+0.383	6
7. United Kingdom (including Isle of Man)	2,256	11.567	−2.777	8
8. PRC (People's Republic of China)	1,562	11.567	+0.999	9
9. Cyprus	940	10.617	+2.421	12
10. Norway	2,107	9.295	−6.044	7
11. Hong Kong	416	8.180	+1.322	14
12. Italy	1,569	7.897	−0.946	10
13. South Korea	1,837	7.184	+0.015	13
14. Philippines	1,131	6.922	−1.672	21
15. India	736	6.540	−0.065	15
16. Singapore	716	6.268	−0.237	16
17. Brazil	697	6.212	−0.055	19
18. Bahamas	302	5.985	+2.078	24
19. France	984	5.936	−2.301	11
20. West Germany	1,752	5.565	−0.612	18
21. Spain	2,397	5.422	−0.834	17
22. Denmark	1,063	4.651	−0.291	20
23. Netherlands	1,334	4.324	−0.023	23
24. Taiwan	587	4.273	−0.054	22
WORLD	75,266	404.910	−11.359	

Approximately half the World Fleet numbers are below 500 GRT.

All figures from Lloyd's Register of Shipping Statistical Tables.

GRT in million tons.

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TABLE II: **United Kingdom Merchant Fleet**

(as at 30th June in each year)

	Number	*1981 GRT*	*Number*	*1983 GRT*	*Number*	*1985 GRT*	*Number*	*1986 GRT*
Totals over 100 GRT (all types)	2,975	25.4	2,570	19.1	2,378	14.3	2,256	11.6
including Trading Vessels	1,624	24.4	1,326	18.2	1,127	13.3	1,025	10.6
but of these—Tankers	527	15.8	417	9.7	345	6.8	298	5.3
Bulk Carriers	150	4.0	123	4.6	80	3.0	62	2.1
	677	19.8	540	14.3	425	9.8	360	7.4
also—General Cargo	724	2.5	578	1.7	513	1.3	472	1.1
Container Ships	65	1.6	64	1.6	53	1.5	55	1.4
Passenger Ships/Ferries	158	0.6	144	0.6	136	0.64	138	0.64
Fishing Vessels over 100 GRT	473	0.14	372	0.1	324	0.09	319	0.08
over 500 GRT			33	0.033	23	0.024		
ADD—UK Dependencies: Anguilla, Bermuda, British Virgin Islands, Cayman Islands, Falkland Islands, Gibraltar, Hong Kong, Montserrat, St Helena, Turks & Caicos Islands.								
Totals over 100 GRT (all types)					869	8.9	963	12.4
including Trading Vessels					697	8.7	761	12.3
but of these—Tankers					81	1.3	128	3.3
Bulk Carriers					178	6.1	205	7.3
					259	7.4	333	10.6

At least half of the General Cargo vessels listed are very small; few today are break-bulk.

Numerous Trading Vessels under UK Dependencies' flags are very small.

All above figures from Lloyd's Register of Shipping Statistical Tables for year concerned; GRT in million tons.

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TABLE III: **EEC 12 Merchant Fleet**

(as at 30th June in each year)

	1981		*1983*		*1985*		*1986*	
	Number	*GRT*	*Number*	*GRT*	*Number*	*GRT*	*Number*	*GRT*
Totals over 100 GRT (all types)	17,318	119.5	16,119	104.8	15,256	85.2	14,484	77.4
including Trading Vessels	10,471	116.0	9,484	101.4	8,509	83.2	7,888	73.9
but of these—Tankers	2,106	61.7	1,636	38.9	1,578	34.1	1,458	29.2
Bulk Carriers	1,314	26.1	1,259	30.8	1,107	27.6	945	23.6
	3,420	87.8	2,895	69.7	2,685	61.7	2,403	52.8
also—General Cargo	5,804	20.3	4,515	15.3	4,501	13.8	4,148	12.1
Container Ships	228	4.7	233	5.3	307	5.9	329	6.3
Passenger Ships/Ferries	1,118	3.0	944	2.8	1,016	2.8	1,008	2.8
Fishing Vessels over 100 GRT	4,211	1.44	3,988	1.25	3,928	1.3	3,814	1.2
including over 500 GRT					479	0.53		

Included above are: Isle of Man, French Antarctic Territories (Kerguelen), Netherland Antilles.

in October 1986:— 35 (.25 GRT); 14 (0.56 GRT).

Add—Dependencies: Totals over 100 GRT (all types)—

UK(Ten)	869	8.9	963	12.4
Danish (Faeroes)	186	0.1	195	0.12
French (Djibouti)	6	0.003	7	0.003

A large number of the tankers (mainly VLCCs) and large bulk carriers are laid up.

At least half of the General Cargo vessels listed are very small; few today are break-bulk.

Numerous Trading Vessels under Dependencies' flags are very small.

All above figures from Lloyd's Register of Shipping Statistical Tables for year concerned; GRT in million tons.

[Continued

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TABLE IV: NATO Merchant Fleet
(as at 30th June in each year)

	1983 Number	1983 GRT	1985 Number	1985 GRT	1986 Number	1986 GRT
Totals over 100 GRT (all types)	27,277	142	26,268	130	25,396	113
including Trading Vessels	13,118	143.3	12,020	122.3	11,233	107
but of these—Tankers	2,570	66.2	2,282	53.8	2,070	43.7
Bulk Carriers	1,752	42.5	1,501	36.7	1,290	31.3
	4,322	108.7	3,783	90.5	3,360	75.0
also—General Cargo	6,706	21.9	6,120	19.6	5,726	18.1
Container Ships	418	8.5	437	9.3	451	9.6
Passenger Ships/Ferries	1,670	4.2	1,688	4.0	1,696	4.2
Fishing Vessels over 100 GRT	8,612	2.4	8,507	2.4	8,310	2.3
inc. over 500 GRT			944	0.93		
ADD—UK Dependencies: Ten; Danish (Faeroes) and French (Djibouti) are insignificant.						
Total (all types)			869	8.9	963	12.4
including Trading Vessels			697	8.7	761	12.3
but of these—Tankers			81	1.3	128	3.3
Bulk Carriers			178	6.1	205	7.3
			259	7.4	333	10.6

A large number of the tankers (mainly VLCCs) and large bulk carriers are laid up.
At least half of the General Cargo vessels listed are very small; few are break-bulk.
Numerous Trading Vessels under UK Dependencies' flags are very small.
All above figures come from Lloyd's Register of Shipping Statistical Tables for the year concerned.
GRT in million tons.

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TABLE V: COMECON Merchant Fleet
(as at 30th June in each year)

	1983		1985		1986	
	Number	*GRT*	*Number*	*GRT*	*Number*	*GRT*
Totals over 100 GRT (all types)	9,597	33.6	8,785	32.8	8,551	34.8
(excluding Albania, Cuba, Yugoslavia)			922	3.7	932	4.3
including Trading Vessels	3,736	24.6	3,573	25.3	3,490	25.7
also—Fishing Vessels over 100 GRT*	4,981	7.8	4,209	7.5	3,903	7.6
inc. over 500 GRT*			2,676	3.5		
Offshore Support Vessels	31	0.03	63	0.04	70	0.041
Research & Intelligence*	184	0.34	190	0.34	190	0.35
Icebreakers*	43	0.24	35	0.22	40	0.25

* Largest Fleets of their types in the world (but fish catch only 2nd after Japan).

For Comparison:
Japan is the largest national-flag fleet, ie. not a 'flag of convenience':

			10,288	40.0	10,011	38.5
2nd largest fishing fleet	3,003	1.1	2,917	1.0	2,828	1.1
but only over 500 GRT		0.36	147	0.39		
WORLD	76,106	422.6	76,395	416.3	75,266	404.9
including Trading Vessels	40,665	399.6	40,217	392.5	39,200	381.0

All above figures from Lloyd's Register of Shipping Statistical Tables for year concerned.
GRT in million tons.

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TABLE VI: **Merchant Ships completed in 1984**

		Number	*GRT*	*% of Total*
F.	Japan	902	9,711,381	52.97
F.	South Korea	87	1,472,897	8.03
F.	Taiwan	20	821,879	4.48
E.	Fed. Republic of Germany	109	516,590	2.82
E.	Denmark	46	474,181	2.59
E.	United Kingdom	46	444,743	2.43
C.	USSR	210	395,584	2.16
C.	Dem. Republic of Germany	58	366,841	2.00
C.	Romania	18	365,211	1.99
E.	Spain	92	354,955	1.94
E.	Finland	30	340,358	1.86
F.	People's Republic of China	41	328,963	1.79
E.	France	36	326,552	1.78
E.	Sweden	13	303,620	1.66
C.	Poland	52	302,013	1.65
E.	Italy	30	273,701	1.49
	Brazil	23	271,450	1.48
	Yugoslavia	21	270,797	1.48
E.	Netherlands	68	153,977	0.84
C.	Bulgaria	9	153,292	0.84
E.	Belgium	11	152,255	0.83
E.	Norway	39	111,519	0.61
	USA	73	83,738	0.46
	Turkey	33	67,613	0.37
	Argentina	7	67,115	0.37
	India	9	36,827	0.20
E.	Greece	7	36,347	0.20
	Singapore	43	30,393	0.17
	Canada	5	26,083	0.14
	Australia	30	8,827	0.05
	Others (12 countries)	42	64,359	0.35
	WORLD	2,210	18,334,061	
F.	Far East	1,009	12,335,120	67.27
E.	Europe	527	3,488,798	19.03
C.	COMECON	347	1,582,941	8.63
	USA & Canada	78	109,821	0.60

Source: Lloyd's Register of Shipping: Annual Summary of Merchant Ships completed in the World during 1984.

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TABLE VII: Merchant Ships completed in 1985*

		Number	*GRT*	*% of Total*
F.	Japan	817	9,502,831	52.34
F.	South Korea	115	2,620,472	14.43
	Brazil	18	581,237	3.20
E.	Fed. Republic of Germany	135	562,378	3.10
E.	Spain	58	550,557	3.05
E.	Denmark	39	457,596	2.52
C.	Poland	44	360,917	1.99
C.	Dem. Republic of Germany	59	358,002	1.97
F.	Taiwan	16	277,748	1.53
	Yugoslavia	36	259,173	1.43
C.	USSR	74	229,063	1.26
E.	Finland	25	212,883	1.17
C.	Romania	18	204,222	1.12
E.	Sweden	20	201,289	1.11
E.	France	25	199,617	1.10
E.	Netherlands	90	180,261	0.99
	USA	66	179,735	0.99
C.	Bulgaria	10	173,023	0.95
E.	United Kingdom	35	171,940	0.95
F.	People's Republic of China	25	165,826	0.91
E.	Belgium	20	132,743	0.73
E.	Norway	57	122,324	0.67
E.	Italy	30	88,064	0.49
	Canada	7	54,315	0.30
	India	8	48,322	0.27
	Turkey	15	43,901	0.24
	Argentina	7	42,386	0.23
E.	Portugal	9	40,893	0.23
E.	Greece	9	37,471	0.21
	Singapore	24	25,423	0.14
	Others (16 countries)	53	71,914	0.39
	WORLD	1,964	18,156,526	100.00
F.	Far East	973	12,566,877	69.21
E.	Europe	552	2,958,016	16.32
C.	COMECON	205	1,325,227	7.29
	USA & Canada	73	234,050	1.29

Source: Lloyd's Register of Shipping: Annual Summary of Merchant Ships completed in the World during 1985.

WORLD TRADE, OVERTONNAGE AND PROFITABILITY

It is now universally recognised that the freight rates in virtually every trade and on every route are depressed below the point at which most ships, and particularly tankers and bulk carriers, are able to operate profitably, almost irrespective of flag. It is also generally accepted that the lack of profitability is entirely due to the gross excess in available cargo-carrying capacity, in the face of declining or static trade volumes and little likelihood of major expansion that might absorb any significant proportion of the vast over-capacity of the present fleet.

The trading fleet over 100 GRT in 1986 comprised about 39,000 ships of around 381 million GRT. Perhaps 27,000 of these were over 500 GRT, say 378 million GRT in total. If we can judge from the number of ships slow-steaming or under-employed in other ways, and the vast numbers of vessels laid up, cuts are required of at least one third, possibly even more of the present trading fleet, of course varying according to the class of vessel employed and the type and value of cargo being carried.

On that basis, the world fleet over 500 GRT should be reduced at least to 18,000 of about 252 million GRT. Whatever the optimum figure is, it would be of great assistance to government and international planners to have an accurate estimate on which to base their support policies for shipping and for the world shipbuilding industry that continues to supply the overtonnage—many more ships than can be employed profitably.

Recent slight increases in the volume of the oil trade have led some to express quite unwarranted optimism about an upturn in traffic sufficient to justify new building, most incredible of all, of tankers! (eg "Debt shakeout prompts shipping optimism", *Financial Times* 23 October 1986). That is in spite of the vast number of tankers and large bulk carriers laid up around the world, especially in Greek and Norwegian bays, inlets and fjords.

There has been much wild talk about the lack of competitiveness of British shipping, and on the 23rd October the Prime Minister said in the Commons "that the National Union of Seamen has priced itself out of the market". Whilst crew costs were a problem in some classes of ship, and European crew costs were major elements in operating costs, it is well to point out that UK crew costs are nowadays closely in line with those of most other OECD members, and lower than several including Japan. The best British companies are as competitive as any other, and the situation varies from trade to trade (from class of ship to class of ship). But

* See also Evidence, p. 215.

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competitiveness is one thing, profitability quite another; so long as massive overtonnage persists, competitiveness alone will not produce profits.

The General Council of British Shipping (GCBS), the British Ports Association (BPA), the Association of British Chambers of Commerce (ABCC), the British Shippers' Council (BSC) and the Freight Transport Association (FTA) are calling for the elimination of light dues as a direct charge on trading vessels, foreign as well as British, using UK ports (but not charged on yachts, fishing vessels or the Royal Navy), on the grounds that these charges are not imposed in nearby continental ports, where they are apparently covered in general taxation; hence our ports are seen to be at a disadvantage, to the detriment both of our ports and of merchant shipping, some of it calling at continental ports in preference whenever it has the choice. The GCBS also wishes to cut the cost of pilotage. Both these levies are calculated on formulae laid down by statute many years ago when ships were much smaller and much more numerous; the United Kingdom's worldwide trade was also much greater by comparison with that through European ports. Unquestionably both these charges need to be revised and hopefully made more equitable; if light dues can be transferred to general taxation and pilotage become part of port dues, so much the better vis-a-vis the continental competition. But no one should be under any illusions that these changes either will restore profitability.

WORLD SHIPBUILDING

The primary cause of the present gross over-supply of ships and cargo capacity is the building of far too many ships by most shipbuilding countries in the late sixties and continued reckless ordering up to the first oil crisis triggered by the Yom Kippur War in October 1973. The principal culprit has been Japan which has delivered the largest tonnage of any country at least since 1961, close to or above 50 per cent of world deliveries in most years, at least since 1968. In 1984 and 1985 Japan's output alone of over 9.5 million GRT (almost 53 per cent of the world total in each of those years) was nearly sufficient by itself to meet all the needs of a world fleet of the size required to match the cargo actually carried in world trade in those years; Japanese shipyard capacity is well able to meet all the world's demands. (See Supplementary Table X for 1986 figures.)

Despite the slump in demand after 1973, South Korea has expanded its deliveries of new ships every year to 2.6 million GRT in 1985, 14.4 per cent of world output. Japan, South Korea, Taiwan and the People's Republic of China delivered 67.3 per cent and 69.2 per cent of world output in 1984 and 1985.

By contrast, Europe delivered only 19 per cent (3.5 million GRT) and 16.3 per cent (under 3 million GRT) in those two years, COMECON 8.6 per cent and 7.3 per cent, the rest of the world only 5.1 per cent and 7.2 per cent respectively (see Tables 6 and 7).

European yards have cut back drastically since the highpoint of deliveries in 1975 when they produced almost 13 million GRT, 37.7 per cent of the world total; that drop of 10 million GRT in ten years also led to a manpower cut from 282,000 to 134,000 (207,000 to 84,000 in the EEC alone; the UK from 48,000 to 13,000 and many more during 1986). So far every cutback in European yards has been matched by an almost equal rise in South Korea's output, though that may not be repeated in 1986, during which prices for new orders there have dropped below the cost of raw materials alone. (S. Korea's output increased over 1 million GRT in 1986; Europe's dropped by 860,000 GRT.)

The European Commission forecast in October that 45,000 more shipbuilding jobs needed to be lost "to fight off South-East Asian competition". That is a recipe for the destruction of another large part of what remains of the industry, with disastrous consequences for the survival of merchant shipbuilding in Europe and all that depends on it; it is most unhealthy for any major industry to rely solely on warship building for its survival, as has been the case in the United States for several years, now also in Sweden, and to a growing extent in the United Kingdom and other European countries. As we indicate in this section, drastic surgery in Europe will do little to reduce world shipbuilding output and restore profitability to shipping. Only major cuts in the Far East, especially in Japan, can have any worthwhile curative effect.

On the basis that ships should last 15 to 20 years, and ignoring present large-scale overtonnage, shipyard deliveries to replace a world fleet of the right size, as suggested above, should not exceed 12.6 to 16.8 million GRT. The lowest of these figures is as much as 31 per cent below recent annual completion rates, themselves still 86.5 per cent of the world deliveries in 1970; within this figure, Japan had only dropped her output to 94 per cent of 1970, compared with the UK at 13 per cent.

Japan by herself could easily supply all the requirements of the world fleet, and her announced cuts in capacity of 20 per cent are much less than half what are needed including also the closure of several yards, since it is inconceivable that any one country can be allowed to become the sole monopoly supplier of so essential and important a range of artefacts as the ships to carry all the world's vital trade. Japan entered the seventies with the declared intention of capturing 80 per cent of the world output of ships by 1980; that was entirely in line with her performance in several other industries—motorcycles, cameras, television and electronics, motor cars, to name but a few, all part of her economic offensive begun in 1945, following the defeat of her military aspirations. (What behaviour can we expect in our financial markets following the "big bang"?).

While shipbuilders do of course need to build ships to remain in business, and offer government-backed loans and subsidies to attract shipowners to order ships, they seldom build purely speculatively; export orders are also important to them. They do need an order from a prospective owner for each ship. Governments should remove the ability for owners to build with almost no personal commitment; they should contribute at least 50

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per cent of the purchase price. Many owners used to buy ships with their own cash throughout, some still do; that is to be encouraged again as one way of reducing speculation. (Current demands by Japan for the OECD to reduce minimum interest rates on export credits well below the present 8 per cent must be resisted if overtonnage is ever to be reduced or eliminated.)

LAYING-UP OF SURPLUS TONNAGE

The first response to overtonnaging has always been for shipowners to lay up their least profitable ships, and the vast number of surplus ships rusting away in rivers and fjords and bays around the world represent huge fictitious capital entries in shipowners' books, as well as largely irrecoverable loans (claimed to exceed $20 billion) in the portfolios of many banks, mostly guaranteed by governments, which ultimately means by every taxpayer, especially in Europe and North America; every one of us is therefore paying for the profligacy and dangerous opportunism of those countries that have continued for at least 13 years to flood the seas with unnecessary and unwanted ships, and are still doing it though on a somewhat reduced scale.

We read, for instance of $6 billion worth of ultra large crude carriers, at book values, whose real worth for scrap is no more than 10 per cent of that huge sum. Plenty of other examples abound in smaller tankers and in bulk carriers, with major bankruptcies like SANKO, as well as hundreds of less spectacular failures around the world. Certain container ships and some other classes will meet the same fate in the near future now that overcapacity is nearing 30 per cent. The United States Line's bankruptcy is the most spectacular recent failure of a container ship owner.

SHIPBREAKING TO REDUCE OVERTONNAGE

Beyond a certain level lay-ups are insufficient and "older" ships come to be scrapped. In current circumstances of gross over-tonnaging, ships only 5 or 6 years old may be ready for scrapping, provided that scrap prices are high enough to enable outstanding loan repayments to be covered.

Considerable success has been achieved by the International Maritime Industries Forum in increasing the rate of scrapping, stated to have been some 42 million DWT in 1985, but clearly that large tonnage needs to be greatly increased until available shipping capacity is brought more nearly into balance with the volume of cargo to be carried.

More ship-breaking yards are needed around the world, some of them conversions of redundant building yards; they should also be located in places where re-rolled steel and scrap iron are in demand at prices high enough to enable the shipbreaker to offer shipowners prices at which they can afford to dispose of their ships. It has already been suggested that government or other subsidies may be appropriate to bridge the gap, if prices offered are too low. There may be roles here for the European Commission, the World Bank, regional banks, perhaps the Commonwealth Secretariat, in setting up the facilities and arranging for any necessary scrapping subsidies which would be providing a worthwhile incentive towards reducing overtonnage, in contrast to shipbuilding subsidies that perpetuate the malady.

IMO, PORT STATE CONTROL AND SUB-STANDARD SHIPS

The International Maritime Organisation (IMO) is the repository, and in many cases was the initiator of International Conventions covering all or most aspects of safety at sea. These include in particular minimum safety standards of construction, operation and training.

Port State Control (PSC) involves inspections by government surveyors of foreign vessels visiting a nation's ports, and these inspections aim to ensure that all these ships meet the standards laid down in the IMO Conventions. Such inspections first and foremost seek to ensure that all ships in service are operated at or above these minimum standards. They have a secondary and equally important purpose of excluding sub-standard ships from a country's ports, and encouraging their owners to scrap them because they are delayed too often by PSC inspections.

There is clearly a need for PSC to be applied as widely as possible around the world, ideally in every port, but the European Community, as the largest trading bloc, must have a major impact, and such inspections are being applied in several other countries gradually extending to most of the major trading nations.

Removal of sub-standard ships from the marketplace obviously helps to reduce overtonnage, whether or not they are scrapped. Lay-ups are equally effective in reducing the numbers of vessels trading.

Insurance strictures could have very real impact on sub-standard ships and bad practices in their operation and management, but underwriters and the P & I Clubs have not on the whole been willing to apply such restrictions to anything like the extent necessary or desirable, in conjunction with the classification societies, themselves somewhat inhibited by commercial consideration, especially when it comes to in-service surveys; the surveyor is not paid by the shipowner to act like a policeman.

Pilots and health and customs officers, harbour staff and others could all contribute to the effectiveness of PSC inspections and general surveillance; all that is lacking are the procedures and directives, possibly backed by new legislation in some countries, gradually tightening rules, and above all more comprehensive surveys than are often possible at present with very limited staff; some of these surveys could well be delegated to classification society surveyors by contract.

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NATIONAL AND REGIONAL SUPPORT FOR THE MARITIME TRANSPORT INDUSTRY

Governments have long acted individually and in concert to impose minimum standards of safety in the construction and operation of merchant shipping. These actions are today embodied in the almost universally accepted Conventions now administered by the United Nations' International Maritime Organisation. Port State control now provides an additional means of ensuring that shipowners and operators maintain the minimum international safety standards. The classification societies too are devoted to enforcing safety in the design and maintenance of ships, often acting also for governments.

What is new is the growing necessity for governments to co-operate with the industry to deal with "unfair" and unacceptable practices by other governments in the commercial field. To quote one of the OECD Maritime Transport Committee's annual reports: "OECD governments must take a more active part in shipping and can no longer rely on the resolution of problems between shippers and shipowners, while limiting themselves to the role of observers." .... "The traditional concept of free circulation of shipping in free and fair competition is currently at stake." (Maritime Transport 1983, OECD 1984.)

The most essential tasks of governments are to provide trading conditions at home, and strive to ensure that they also exist abroad, in which shipowners have full equality of opportunity in their international marketplaces; that requires fiscal freedoms on the one hand, and robust reactions to "unfair" practices on the other, where posssible in concert with friendly governments, eg within the European Community.

At Community level in Europe, or regionally elsewhere, there are a number of measures that could be adopted which would have far more impact on a collaborative basis than would be possible by individual governments acting alone. Some of these in the context of the EEC are:

(*a*) **The Common Maritime Transport Policy (CMTP).** No doubt the Committee will be studying the 9th Report of the Lords Select Committee on the European Communities, Session 1985–86, entitled "European Maritime Transport Policy" (18 March 1986, HMSO HL 106); we draw its attention particularly to our memoranda and oral evidence published on pages 202 to 230 of the Evidence. The community should adopt as soon as possible a common Maritime Transport Policy generally on the lines at present envisaged, but modified in purpose to provide the means to react effectively against non-member governments attempting protectionism, cargo-reservation, excessive undercutting of freight rates, discrimination or other unfair practices against Community members' shipping or trade. Port State Control could be extended to apply retaliatory measures against the shipping or trade of non-member states engaging in such unfair practices. The aim needs to be to ensure the freedom of all shipowners to provide services. In the case of the shipping of COMECON countries, their actions and practices are currently being monitored by the Commission, which will presumably take retaliatory action if it becomes necessary; monitoring needs to be extended to the Trans-Siberian Railway, now that the BAM extension and a greatly expanded service are coming into service that could compete more strongly and is a potential political weapon against shipping on the Europe to the Far East routes. (We are told that monitoring is limited to COMECON vessels only, and one wonders how the detailed material now being collected can be analysed effectively in the absence of comparative figures from EEC member states' and other flags' vessels operating in the same trades.)

(*b*) **Common Market Cabotage.** The present intention under the Community's Common Maritime Transport Policy is to open up the cabotage of every member state to the shipping of all the other member states, but not necessarily to exclude non-member states' shipping, unless it is presently excluded under any individual country's own legislation.

Since reserved cabotage is almost universal around the world, eg the United States (Jones Act), LAFTA, ASEAN, Japan, Australia and New Zealand, the aim of the Community should be to do likewise and only open its own cabotage to foreign countries' shipping on a reciprocal basis; only the United Kingdom would be applying a new restriction, which most would consider beneficial anyway. Community cabotage once properly established should provide a worthwhile home shipping market, stretching from the Baltic to the Aegean, in which to develop a strong European merchant fleet.

The logical next stage would be to establish a Community flag, as now being suggested by the Transport Commissioner, Mr Stanley Clinton Davis. This would become the principal flag in the world, as the Community handles over 27 per cent of world seaborne trade through its ports, and is the largest trading bloc in the world.

(That idea needs to be extended also to aviation, where progress towards a common market has already taken two and a half years (inland transport has so far made minimal progress over almost four years). There virtually every member state practises cabotage with its own national airline, and so has great difficulty in competing with the United States, where there are no such restrictions internally and deregulation is almost complete with immensely strong domestic carriers now challenging competition around the world. Europe as a whole would be nearly as large a market for aviation as the United States, and that could easily support a full-scale Community aircraft construction industry. The same principles apply to European shipping and shipbuilding industries).

One interim measure that would help shipping is the removal of costly bureaucratically-inspired alterations that are required when transferring ships from one European flag to some others, including the British register.

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(*c*) **Community Maritime Policy.** With the possible exception of France with her Ministry for the Sea few national governments make any attempt to develop clear and well co-ordinated maritime policies; for example, 14 departments of state deal directly with maritime affairs in the United Kingdom, some others indirectly, and there is no machinery for developing coherent national policies. The Commission is no better, with nine directorates-general directly involved and six indirectly. Most particularly the Competition, Industry and Transport Directorates need to devise Community policies that cover shipping and shipbuilding comprehensively, not as separate industries; that is a sure recipe for failure.

The sea is important to the community, and there should be clear Community maritime policies and Commission machinery to support and develop them, short, medium, and long-term, for all the industries and activities involved, including technological development, education and training, qualifications, eventually a European flag.

DEFENCE

Your Committee is not concerned directly with Defence, but nevertheless commercial merchant shipping is of vital importance in war, just as much as in peace, and, in the absence of a massive reserve fleet (much larger than that presently maintained by the United States), the size and structure of the merchant navy in peace is an important element in conventional deterrence, and in raising the nuclear threshold. It must always be remembered that war is mostly logistics, so is a stable economy. Neither the armed forces nor the civilian population and industry can be sustained for long without merchant shipping, and the men and women who man them. In war conditions it is most imprudent to rely on foreign-flag ships and particularly on foreign seafarers, most of whom are likely to be very reluctant to enter any major war zone. Some of these issues are addressed in more detail in our evidence to the Defence Committee in 1985, to which we referred earlier in this memorandum (HC 114, 21 May 1985).

Merchant shipping and its supporting industries, including shipbuilding and marine engineering are important strategically to national security and defence, as well as to the economy. In the NATO context, which must now always take precedence in war planning, the extra tasks of allied merchant shipping in war are:

- Cross-channel reinforcement/resupply of UK, US and NATO forces in Europe.
- Trans-Atlantic reinforcement/resupply of NATO forces in the UK and Europe from North America.
- Reinforcement/resupply of NATO forces in other theatres, eg in Northern Norway from the UK, the Netherlands and elsewhere.
- Transport, deployment and support of military forces in any theatre.
- Logistic support of naval operations afloat in any theatre.
- As auxiliary vessels ("force multipliers") for Allied Navies to relieve warships of numerous supporting tasks-auxiliary aircraft carriers, minelayers and mine counter-measures vessels, escorts, etc.

All these tasks are additional to economic shipping that must continue in war just as much as in peace. The problem therefore is to find the extra ships needed in war, and the trained officers and men to man them. With the rapid decline of most of the Allies' merchant fleets over the past decade, large numbers of seafarers have left the sea and the numbers entering employment at sea have also declined. In a few years time there will be a great shortage of trained men to man extra ships. We have therefore suggested that there needs to be a Merchant Navy Reserve to provide the men required quickly in emergencies.

The conditions described above for NATO apply even more seriously in the Pacific and Indian Oceans, where the huge distances involved enormously increase the resources required to support operations; it should not be forgotten that Allied commands in these areas may be competing for the same resources as are needed to support NATO operations in Europe.

A particular anxiety is the legal position of ships that are flagged out although still owned by UK-registered and resident companies. The United States have made special provision for these ships with the flag states concerned and require the US-owning companies to disclose to the US Maritime Administration the names and details of all foreign-flag ships that they own. The United Kingdom and other European countries need to consider seriously some similar procedure by which to keep such ships available for requisition or charter in emergency.

EFFECT OF FLEET REDUCTION ON MANPOWER

The General Council of British Shipping will no doubt provide the figures for the drastic fall in employment of seafarers, from 74,000 to below 30,000 in the past 9½ years, a loss of almost 5,000 a year in maritime transport. Qualified officers have dropped 26,500, nearly 3,000 a year, with a major impact on education and training requirements and the near-disappearance of cadetships; the GCBS has had to discourage schools' careers masters from offering seagoing careers, and at least five nautical schools have closed, together with a large number of technical courses for deck, radio and engineer officers at all levels.

The entry of UK candidates for marine engineering courses in universities is greatly reduced, and ways are being studied of extending the courses into offshore engineering and other maritime fields, something that naval architecture courses have already done.

But few of these people have sea-going experience, in contrast to those who serve in ships as mates and master mariners, chief and other engineers, including electrical, refrigerating and hotel services engineers and technicians.

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A large number of these people are employed ashore later in their working lives in all manner of appointments in the maritime industries, in many City organisations, marine equipment manufacturers, consultancies, administration and elsewhere, where first-hand sea experience is valuable or essential. Many of these people are also essential to man a wide range of vessels and services not directly concerned with, or providing essential services to maritime transport, eg. pilotage, the lights service, offshore vessels, some fishing vessels, tugs, dredgers, research vessels and the like.

The Royal Fleet Auxiliary may well become one of the few, if not the only owner providing a cadet training facility. That too is under threat, as these vessels become more and more like warships that may eventually need to fly the White Ensign and be Naval manned.

Trained people are the most vital element in any national capability, and form its technological base. The United Kingdom's maritime capability is now under threat as the age spectrum of trained people gets progressively older, and the numbers inevitably decline.

The United Kingdom still provides the training for many Commonwealth nationals, to the immense long-term benefit of this country. That training base too is at stake.

OTHER ISSUES

Of the areas of investigation listed in your committee's Terms of Reference, we have dealt elsewhere with "flagging-out", protectionism, cabotage and manpower and employment consequences of the decline; others will no doubt deal in detail with fiscal incentives. We give below some thoughts on:

(*a*) *International Competitiveness.* This is very much at the mercy of profitability and equality of opportunity. The shipping companies that still fly the Red Ensign are certainly competitive in the trades they serve, particularly container ships of various types, coastal and short-sea shipping, offshore supply vessels (now amongst the most highly-sophisticated ships afloat) and certain specialised work vessels, also certain cruise liners; some ferries are competitive, others are not as recent events have indicated (and few internal island services are either, eg to the Scottish islands). Apart from particular trades and certain highly specialised vessels, container services, offshore supply vessels and cruise liners are all suffering already, or are about to, from various degrees of overtonnage, which has not yet reached its limit.

Large tankers and bulk carriers, with few exceptions, have either been laid up, flagged out or sold. some owners have gone into liquidation, though very few British. Product carriers and some gas carriers have also changed flags, often hands as well. Other owners have become ship managers and operators. A few have bought second-hand tonnage, often from liquidators, eg reefer vessels in Sweden, thereby greatly reducing capital charges. Some operating companies have been established to serve particular trades, eg to West Africa, using independently-owned vessels specially built for the trade, with the help of (foreign) shipyard subsidies.

The best British owners are as competitive as anyone else, innovative and selective to suit the trades they serve, including the all-important cross trades, but real earnings have dropped to about 25 per cent of the 1975 level so far as the balance of payments is concerned, partly through fleet reductions, partly changes in trading patterns.

(*b*) *Structure of the Shipping Industry.* Shipping in the past tended to behave as though it was an end in itself, quite divorced from the needs of its customers, the shippers and exporters. There appears to us to be too little contact and co-operation even now between most shipowners and the shippers and forwarders who generate their cargoes. Conversely the shippers do not appear to consider, or even to be aware of the important service performed for them by shipping, a service for which there is no alternative mode. In particular shippers see no reason for co-operation with shipowners, nor to prefer a national flag line to a foreign one.

The division between shipowners and shipbuilders is almost equally complete. British owners express no loyalty to British shipbuilders unless they can compete with the world; nor do they see any reason to co-operate in the development of more advanced ship designs, better suited to their future needs. Other European countries appear better in this respect. By contrast, no Japanese ship, at least since 1946, has been built abroad.

At government level there is inadequate co-ordination between trade and industry and transport divisions or departments; in the Commission this translates into inadequate or non-existent communication, even conflicting policies, between transport, industry and competition directorates, nor proper consideration of the external, as opposed to purely internal inter-member-state rivalries and entrenched national vested interests.

(*c*) *Tourism.* Shipping gave way to aircraft for passenger transport in the '60s, apart from short-sea ferries—foot, rail and road (including cars). Ferries are clearly expanding their capacity in the tourist trade, but are vulnerable to seasonal peaks and troughs, eg on one of the Danish/West German routes, where one owner has announced free passenger travel betwen September and May.

Quite apart from seeking to meet competition from the Channel Tunnel, there is the move to much larger ferries on the Dover routes and improved, maybe much faster vessels on routes further west. North Sea ferries to Germany and Scandinavia also seem to be meeting, in some cases expanding tourist demand.

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A feature of all ferries is the importance of their duty-free shops to profitable operation. Anxiety has been expressed that these concessions may be abolished by the Commission, as a part of the internal free market.

Virtually all the short-sea ferries also carry freight, mostly in loaded trailers or lorries, and this year-round traffic is vital to the ferries' viability.

Trans-Atlantic liners were displaced by the jumbo jets by the end of the sixties, as were the vessels serving Africa, South America and Australasia over the succeeding decade or so. Some switched to cruising, eg P & O and Cunard, others were sold; many of the latter ended up cruising for foreign owners, some larger vessels were sold to the Soviet Union, others were scrapped.

There has been an amazing expansion of cruising in the past ten years or so, with many new vessels of all sizes entering service in the past few years, small and medium size, spartan and luxury, for the Mediterranean, medium and large in the central Atlantic, Norwegian Coast, South America, and North Pacific including Alaska, South-East Asia, Australasia, and round-the-world. Apart from the major set-back following the "Achille Lauro", cruising seems set for further expansion to suit every purse, but nevertheless there is danger here too of serious over-capacity. British companies, primarily P & O and Cunard, have done well in cruising, and the major reconstruction and re-engining of the "QE2" to improve her economy of operation is very good news, as was the "Royal Princess" a year ago. The "Oriana" has now been sold, and the "Canberra", of similar age, must be nearing her end too.

Manning has become a major problem in large cruise ships, and a frequent cause of friction with the seafarers' unions, mainly in the catering departments.

Passenger ships of all sizes are important for defence, and this sector is one which remains healthy both nationally and within the NATO allied flags.

Other areas that should be considered as potentially important to shipping are:

(*d*) *The Free Ports.* These are aimed at generating larger volumes of trade, trans-shipment, manufacture and assembly under duty-free conditions, all of which involve inward and outward shipping, potentially beneficial to British shipping companies. There are said to be unnecessary bureaucratic formalities that seriously handicap freeport operations; if this is so, eg in regard to VAT, they should be removed or simplified.

(*e*) *The Marine Directorate (Department of Transport).* It is said that ministers have been considering the desirability of privatising the Marine Directorate, which is the governments's principal repository of all knowledge, expertise and long-term development of safety measures and regulations concerning the construction, operation and manning of ships, the education and training of seafarers, and is also the lead department in all the United Kingdom's international dealings in this field, particularly within the International Maritime Organisation (IMO) where we are the host country and have always taken a lead. The Directorate is responsible for inspections and surveys, the examination of officers, port state control and much else, in the pollution field, offshore safety, fishing vessels, pilotage, hydrography, lights and marks, radio beacons, etc, not to mention accident and loss inquiries.

It is very important that the government retains the technical competence and long-term expertise to handle often detailed technical changes in regulations that become necessary. While some surveys can certainly be sub-contracted to classification societies, perhaps to other private consultants, privatisation of too much of the technical work could leave the Directorate with few, if any, people that have any on-going contact with ships and the sea. Many of the tasks are far beyond the competence of any administrator, both at national and international levels, and it is significant that the Surveyor-General is presently a Chartered Marine Engineer, who also leads our IMO delegation; other sectors too are necessarily headed by professional seamen, engineers or scientists.

(*f*) *Other Types of Vessel.* While the Committee's inquiry is primarily concerned with maritime transport, it must not be forgotten that UK-registered shipping includes offshore supply vessels, numerous specialised work vessels, the Royal Fleet Auxiliary, research vessels, fishing vessels, harbour and ocean-going tugs, dredgers, lights and pilot tenders, fishery protection and HM Customs patrol vessels, and a miscellany of other craft. All of these employ qualified seafarers; there are also the lifeboats, mostly manned by volunteer fishermen, some of them ex-deep sea mariners. The Hovercraft service from Dover should also be remembered.

MARITIME POLICY

It will be clear from the wide range of issues to which we have referred in this memorandum that coherent, well-co-ordinated actions are required by several departments, agencies, industries and other bodies. The League's call is for national, Community and international policies; we have also drawn attention to the OECD Maritime Transport Committee's call for Governments to cease being merely observers.

Shipping is of vital importance to an island nation like the United Kingdom, and it is incredible not only that successive governments have been content to give responsibility for it to the most junior minister in what is now the Department of Transport, but also that we now have the sixth such minister since the present government took office in 1979; we also have the third or fourth Secretary of State. The latest change of shipping

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minister came in the middle of our presidency of the European Community, during which the very important negotiations towards settling a common Maritime Transport Policy are in his hands; it really is not reasonable to expect the civil servants, however good they are, to deal with all the highly political issues involved on top of their own jobs.

The Department of Trade and Industry has been no better in regard to shipbuilding and shiprepair, now also shipbreaking; there we have the fourth minister in charge and at least the fourth Secretary of State.

These two industries and others cannot be treated successfully in isolation from one another. The problems of world shipping emanate largely from the profligacy of banks and governments supporting the building of so many unwanted ships in Far East yards. The shipbuilding industry is now killing the shipping industry, and to a considerable extent the reverse is also true.

The League has suggested that there should be a permanent Maritime Policy Committee of the Cabinet, preferably chaired by the Prime Minister, to formulate a coherent national maritime policy. Certainly maritime policy is too important to be left to find its own solutions sector by sector without co-ordination. Similar coherence and co-ordination is required within the European Commission.

Over many years the shipping industry and the City institutions required governments to keep their hands off shipping and many related international commercial services and industries. In consequence the Departments do not have a back history of the commercial progress of these maritime activities, knowledge which is now badly needed if the government is to intervene constructively on the world stage, and hopefully lead within the Community. No doubt that lack of knowledge is just as great in Brussels.

A large number of necessary actions have been suggested in earlier sections of this paper. We list in Table VIII Some Possible Curative Measures that collectively might save the day for ourselves, for Europe and on a world canvas.

But over-riding all of these are the two vital requirements:

1. to reduce world shipbuilding output by some 50 per cent, and
2. to scrap as much surplus tonnage as possible,

both actions aimed at restoring profitability to the shipping industry, without which virtually every action is superfluous except as a means of delaying the collapse of this vital industry.

CONCLUSIONS

Transportation is an essential function in modern civilisation, and maritime transport is vital to international trade.

Profitability is equally vital to the world shipping industry and that depends on freight rates being paid that are realistic in relation to overall operating costs.

Shipbuilding can only survive by building ships. Persistent over-building, especially in Japan, has resulted in a vast glut of overtonnage. Unless Japan herself is persuaded or compelled to cut output, there is no possibility of the rest of the world restoring profitability to either industry, nor stability in world trade.

The shipping industry remains central to all the other maritime industries and activities, and to our future performance in every maritime activity, and in the industries and services that depend on them. Neither shipping nor shipbuilding are "sunset industries", nor have they been slow to meet the demands of a rapidly changing marketplace.

The question has been asked "Does It Matter—to our world trade whether the United Kingdom, or for that matter European countries retain control of their shipping industries, preferably flying their own national flags?" Also "Does It Matter—if shipping is important whether we are able to build our own ships for the fleets?" We have sought to answer these questions and to indicate some of the things that need to be done to retrieve an increasingly critical situation.

These vital industries can no longer solve their problems alone. Governments, regional and international bodies must also collaborate and take positive and early actions to deal with causes that are beyond the control or influence of the industries themselves.

Otherwise both industries will likely perish within ten years.

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TABLE VIII: **Some Possible Curative Measures**

No government individually can solve the current crises in the maritime transport and shipbuilding industries; nor will protectionism, discrimination and the like work.

All the measures outlined below are needed NOW, but some will take time to have any effect.

The Short-Term Measures listed are some of the actions governments can use to retard the rate of decline and hopefully ensure survival for long enough to enable the longer-term measures to be implemented and then

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take effect. Some of these measures are inevitably in direct conflict because of the already critical state of the industries concerned. Unless overtonnage is reduced and profitability restored, all these short-term measures will simply put off the date of collapse, but not prevent its eventual dawning.

SHORT-TERM MEASURES BY GOVERNMENT

A first priority must be to secure the minimum number of orders for British Shipbuilders, Harland and Wolff and other merchant shipbuilders to be able to survive the next few very lean years.

— To this end bring forward as many public sector orders as necessary.

— Encourage commercial orders, both for home and overseas owners, by providing suitable incentives, but only for ships to fulfil genuine commercial needs.

— Provide incentives for scrapping say 2 or 3 old ships, and their replacement by no more than one new vessel built in a domestic yard.

— Similar actions should also be encouraged on a Community-wide basis to sustain West European yards at a level consistent with the Community's position as the largest trading bloc in the world.

Encourage owners to scrap without building anew, at home or within the Community, by means of subsidies or other incentives. There may be merit in placing an age limit on different classes of ship beyond which they go out of class.

Encourage shipbreaking elsewhere, if necessary with financial as well as technical assistance, eg in Africa, South-East Asia and the People's Republic of China; also by international political co-operation, if necessary with the help of Overseas Aid funds directly or through the World Bank, Commonwealth Development Corporation, regional development banks, etc.

Declare cabotage for offshore supply vessels operating in our Continental Shelf waters as "an area of special interest".

Eliminate the obstacles to transfers of ships between Community registers (eg the high cost of transfer onto the UK Register).

Expand Port State Control to eliminate sub-standard ships, and extend it to commercial matters where necessary to retaliate against unfair practices by foreign governments, eg restrictions on the entry of ships flying the flags of these states.

Limit or suspend Aid to countries engaging in unfair practices—protectionism, discrimination, etc.

Insurers and classification societies should be encouraged to strengthen their strictures and survey standards aimed at eliminating potentially sub-standard ships, in particular also at the time of onward sale, ie should there be a more stringent survey every time a ship changes hands, quite apart from any special requirements laid down by the purchaser?

FINANCIAL

Provide tax incentives to investors in new ships, including suitable help to shipbuilders, but only for valid, viable schemes.

Adjust the EEC shipbuilding intervention fund assistance upwards, maybe as a part of the Sixth Directive.

Ensure that the Community's Sixth Directive is correctly drawn to safeguard what remains of European shipbuilding, not to emasculate it much further.

Claim all assistance available from Community funds, regional schemes, etc.

Provide credit packages that really do match foreign competition for realistic orders; maybe also direct subsidies in some cases to builders and/or to owners; the credit repayment period should be increased to 12 years or the life of the ship.

Restore tax allowances to 100 per cent.

Make the United Kingdom a "tax haven" for shipping, on the lines of what was done in Greece; does the example of the Free Ports provide a pattern for some such scheme?

Remove the disincentives that encourage or force owners to flag out as the only alternative to going out of business.

MEDIUM-TERM MEASURES BY GOVERNMENT, SHIPOWNERS, SHIPBUILDERS, BANKERS & EXPORTERS.

Every economic activity deserves its just reward, and profitability is essential to the shipping industry. Its customers do not benefit from a service that is losing money, nor is there any viable alternative to merchant shipping.

The Government should press for strong European shipping policies, including the establishment of the Common Maritime Transport Policy, covering both an internal free market and overseas trading practices.

The Government should press for co-ordinated EEC shipbuilding policies, and pursue these and those of shipping through the OECD, UNCTAD, GATT and other international bodies as appropriate, sometimes also

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at heads of state level, all aimed at bringing the size of the world fleet more closely into balance with the volumes of cargo in world trade.

The Government must resist and avoid protectionism—it does not work. (Present US actions along this path, and the potential intentions of the new Congress, are most unhelpful and dangerous.)

Government actions are required internationally to encourage shipbreaking, in some regions also to assist in the establishment of shipbreaking facilities—as top priority actions. The work of the International Maritime Industries Forum in this field should be actively encouraged.

The Government should review its export credit schemes as applied to shipbuilding.

The shipbuilding industries themselves need to maintain discussions directly and through their trade associations (eg the Association of West European Shipbuilders—AWES) to rationalise shipbuilding capacity worldwide, eg using "production ceilings" especially in the Far East—Japan (Shipbuilding Association of Japan—SAJ) and South Korea. (Such principles apply also in every country—in theory; but presently to only a negligible extent, because the output of each is so tiny by comparison with Japan or South Korea.)

Similar co-operation and pressures are required amongst shipowners and the shipbuilding industry to maximise the scrapping of surplus ships by all the major countries including ships under Flags of Convenience controlled by their nationals.

The banks should discourage the speculative financing of shipping ventures—most should be self-financing from equity finance.

Newbuilding finance provided by banks should be limited to no more than 60 per cent of the purchase price; owners should commit at least 40 per cent.

Shippers and exporters need to encourage conditions in which freight and charter rates can stabilise at levels which permit owners to achieve profitability while maintaining the standards of the transport services they provide.

Shipowners must be discouraged from indulging in speculative new building or other shipping ventures; their primary aim must be to fulfil the requirements of their customers, the shippers and exporters, at minimum cost; shipowning and ship operating are not ends in themselves.

LONG-TERM MEASURES BY GOVERNMENT

The government should encourage and support Research and Development aimed at maintaining the shipping and shipbuilding industries in the van of progress.

The government and the industries themselves should collaborate in supporting "The Efficient Ship Project", other work on specialised types, sophisticated/high technology ships, radically advanced maritime transport systems, more economical ship production systems, etc.

The government needs to take positive steps with the industries to preserve and sustain national skills in the shipping and shipbuilding industries, and in their suppliers and supporting services.

The government needs to collaborate with other governments, also with the industry and its trade associations, eg AWES, in maintaining pressure on certain other countries, especially Japan and South Korea, to cut their shipbuilding capacities to levels that are more in line with the future requirements of a world trading fleet approximately two thirds its present size; this entails a cut in output of at least 50 per cent. In the case of Japan, this needs to be pursued as part of the task of cutting her rocketing trade surpluses.

The government should develop a scheme for the gradual rejuvenation of our merchant fleet that at the same time provides more work for the national shipyards.

The government should support the eventual establishment of a European flag fleet and a Community shipping register.

STRATEGIC AND DEFENCE IMPLICATIONS

In all the actions taken, the defence aspects of both industries need to be taken fully into account.

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Examination of witnesses

SIR FREDERIC BOLTON, MC, President, ADMIRAL SIR ANTHONY GRIFFIN, Chairman, Executive and General Purposes Committee, MR J J L PACKER, Research Director, and COMMANDER M B F RANKEN, Director, British Maritime League, called in and examined.

Chairman

646. Gentlemen, welcome to my Committee. Do you wish to make an opening statement, Sir Frederic, or shall we go straight into the questions?

(Sir Frederic Bolton) Perhaps I might briefly say you have had, of course, our submission and the point I would like to make is that we for our part regard one aspect as of overriding importance and overriding priority in the whole of the maritime scene and shipping in particular, and that is the lack of worldwide profitability in shipping. While shipping is as fundamentally unprofitable as it is, it is impossible for there to be any real incentive to get into shipping again and it is extremely difficult for most classes of owner anywhere in the world to make any money out of shipping, in some cases to cover operating costs and in most cases to make any reasonable contribution to their financing costs. Profitability has to be restored before almost any other measures that are being recommended generally, and which we fully support, to restore the health of British and international shipping are really going to have any effect at all. We have identified without any doubt—I think it is widely recognised—that the cause of this lack of profitability is overtonning, massive overtonning in almost all classes of ship. That overtonning must be addressed and must be reduced and it can be in our view without throwing money at the industry by a diplomatic effort, first of all, to turn the tap off, first of all, to reduce the massive over-capacity in shipyards of the world, particularly in the Far East, and at the same to reduce, and as far as possible limit or eliminate, the unprofitable, the uncommercial availability of credit for shipbuilding which has encouraged foolish owners and, worse still, encouraged non-shipping interests to get into shipping for totally the wrong reasons. This must be addressed and must be addressed urgently. Having turned the tap off, the plug has to be removed. We have something like one in four too many ships in the world today. It is perfectly possible to create a scenario which says we shall have exactly this number of surplus ships in ten years time. Unless positive and early efforts are taken to eliminate this surplus tonnage, we shall be in a state of misery. Now, what in our view is absolutely essential is that government should hoist in the central core of lack of profitability and they need to do something about it and should make a positive declaration that they are addressing themselves to this and it is their intention to work through the EEC to deal with these three aspects of overtonning. In fact, if this is addressed, there is a very real chance that the health of shipping can be restored worldwide and, because we are the Maritime League and not the Shipping League, we are equally interested that the restoration of the health of shipping is going to have very substantial benefits to the other aspects of the maritime scene. Shipbuilding cannot be regarded as a totally separate industry which must be thought about in isolation—it is not. The ills of shipbuilding are very closely allied to the health or lack of health of shipping and this will mean that some attention is inevitably going to have to be paid to co-ordinating the interests of all the aspects of the maritime scene more effectively by government than is done now. Against the background of restored profitability, all the measures which are now being recommended by the various sectional interests—the General Council of British Shipping, the maritime unions—are all going to begin to pay off. What they are after, and we fully subscribe to, is what we call equality of opportunity. It is absolutely essential that advantage can be taken of restored profitability by having an equality of opportunity to take advantage of it. By this we mean, among other things, the ability to do away with the sort of restraints which are forcing people to flag out now. A flag of convenience is something which is quite unnecessary, something which will not be stopped simply by saying "Nobody may fly a flag of convenience". It will be stopped only when people address their minds to the reason why owners flag out, what obstacles there are to national flag operation for flags of all nations in equal and competitive terms, and then see that they can enjoy those advantages under a national flag. When once we get to this state of affairs, we can then start taking advantage of the higher technology opportunities which are open to us in this country—and indeed equally in Europe—to get a more efficient and better paying shipping operation. But until profitability is restored equality of opportunity is only going to be equality of misery.

647. Thank you very much, Sir Frederic, for that opening statement, but I think I am almost bound to pose the question, what steps are we going to take? For example, you recommended that the British Government should tackle the problems of world shipping, expecially overtonning, by exerting pressure on international organisations, the EEC, OECD and UNCTAD. But the recent EEC package did not include a regulation on cabotage; pressure from OECD to reduce shipbuilding has had no effect on South Korea. We know that very well in this country. I know that very well in Sunderland, as Admiral Griffin well knew when he used to have his other hat on. Then because they are not members of OECD no one has been able to do anything internationally to put pressure on South Korea. The Liner Code developed by UNCTAD is, in the words of the Department, not working terribly well—that is an understatement if ever there was one—and not being implemented in good faith. In February 1986 the UN Conference on conditions for Registration of Ships adopted a Convention stipulating that there must be a "genuine link" between a ship and the flag it flies, but there is no prospect of it coming into force. Indeed, the United Kingdom has not ratified it and is not likely to ratify it. So it appears that almost everywhere one turns international efforts seem to be failing. So we are faced with this problem. This is why we are looking at it, to see what we can recommend the Government to do, in this particular situation. So what does the British Maritime League expect of the British Government?

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[*Chairman Contd.*]

(Sir Frederic Bolton) I am quite clear that there are two broad alternatives. One is throwing money at the situation; the other is trying to get to the heart of what is really wrong. A lot of things you were referring to then—forgive me—are not relevant to this particular issue. I really could not care less whether the Government ratifies the "genuine link" or does not ratify the "genuine link"—it is attempting to deal with a secondary matter—because profitability is my prime point. It is a secondary point the wrong way round. It tries to restrict flags of convenience rather than liberalising the operation of ships under national flags. But what can be done? First of all, I think it can be, and must be, acknowledged by this Government that, unless profitability is restored by elimination of overtonnaging, all the measures that are adopted will only take us a fraction of the way. Tax reductions are going to be no good at all in the broad—maybe to certain classes of shipping they are, but tax reductions are no good at all if the operations are unprofitable.

648. I am trying to come round to this, Sir Frederic. None of us, I am sure, would disagree with that. What I am trying to get at is how that profitability is returned to. Is it not a fact that protectionism seems to be taking place in umpteen governments throughout the world in world shipping bacause of the depressed market there is. It is a question of survival. What do you suggest this Government should do about restoring that profitability in the face of this widespread protectionism?

(Sir Frederic Bolton) The first thing they should do, having decided and declared publicly what they intend to do, is to get the next stage of an EEC shipping policy through. They had the one last year which went a long way to establishing freedom of operation, but this particular aspect was not addressed. We made representations to the Department of Transport last year about this and we were told quite firmly that they did not want to have the issue befogged; if we had tried to get too much through the EEC last year we might very well have ended up with nothing. As it is, having got as far as we have got, the next stage must be to get the EEC behind profitability. Clearly in terms of reducing shipyard capacity it is Japan that has got to be leant upon first and then, through Japan, Korea. The Japanese are already taking steps to reduce their shipyard capacity but not nearly enough. What we are urging is that it should be EEC policy to make representations to Japan—they should go a good deal further than they are going—then get Japan to lean on Korea.

649. Can they? Has Japan any influence that way?

(Sir Frederic Bolton) I think Japan will become as worried about what Korea is doing as we are about what the Japanese are doing.

650. They are worried because they have cut back on a lot of their shipbuilding capacity.

(Sir Frederic Bolton) Although still not enough.

651. But Korea is still building it up?

(Sir Frederic Bolton) Yes.

652. So it is almost a question of capitulating to Korea?

(Sir Frederic Bolton) But there is no international move now to determine that this is going to happen.

653. I would love to see it happen but I am not certain that we have sufficient muscle to have a go at that.

(Sir Frederic Bolton) Or determination.

(Admiral Sir Anthony Griffin) Whilst entirely supporting Sir Frederic's basic aim, which is profitability in the shipping field, I think there are some things that could and should be done quite early. I think a declaration of intent is important by the British Government, and hopefully in conjunction with our West European friends. I do not think the outside world observes that we are all that worried about it, that we are just letting it go, but a very firm declaration of intent that we in this country and West Europe attach very great importance to our maritime trading capability and retaining control of it is important. The second thing is establishing a mechanism to bring this about. There are so many agencies, within this country, within Western Europe, the EEC and worldwide, that it is impossible to devise and implement a co-ordinated policy. As you will recall, in shipbuilding there were 14 departments of state that one dealt with and they did not speak to each other. It is the same in the EEC. We have been working there and the Research Department does not talk to the Industry Department, they do not talk to the Trade Department, for months on end.

654. Shipbuilding is not even ours now; we are the Transport Committee.

(Admiral Sir Anthony Griffin) So I think these are two important steps that could be taken rightaway, and the more internationally they can be taken the better. The third point is to take account of our strengths. Despite the size of the R & D in the Far East—and apparently the Japanese effort is more than the whole of Western Europe put together—there is still considerable expertise available in Western Europe if only it could be brought together and co-ordinated. And that expertise is still of value to people in the Far East, not necessarily confined to shipping but certainly to shipbuilding, and this applies to Japan, Korea, China, Taiwan and Singapore, all of whom value what Europe can offer in the way of R & D, so that is a plus that we ought to capitalise on. Another plus I think we should capitalise on is the extent of the maritime trade in Western Europe. It is the largest maritime trading bloc in the world and carries, in terms of imports and exports, at least twice that of Japan and one-and-a-half times that of the whole of North America. One would have thought if one could devise a policy and a mechanism for implementing it, there are some important levers that could be used to bring some sort of sense to a world where everyone is just exploiting the situation regardless. I might say, Mr Chairman, that the Koreans, have made the Japanese very worried and the Japanese have made the Europeans very worried but I find that the Koreans are very worried about China. They have no holds on them whatsoever and there are 1,000 million Chinese.

Mr Bevan

655. Could I follow up those very carefully enunciated points, especially the one linking ship manufacturing to the size of the fleet. In this process of world splintering of interests I wonder if our interest is

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[*Mr Bevan Contd.*]

really encompassed within even that of Western Europe. You are the British Maritime League. We are making an inquiry on behalf of the British fleet and we are at the same time considering British shipyards. Last time I posed a question on the number of ships built in British shipyards, I asked if it was true only one was being built and I was corrected and told two. That is only some three months ago. If the capacity of manufacturing is reduced internationally as you suggest, God knows what we will be left with in our portion of that manufacturing capacity if we are only building two ships now. One of the areas with which you linked us was Western Europe, where you say our interests lie because of research and development and so forth. One of the areas which has caused us to suffer, for instance the very company whose ferry regrettably and tragically has gone down, is a company which placed orders in Bremerhaven at the expense of the British manufacturers. Indeed, it has been said recently, in the last few days, that without the orders of the ferry business the whole economic survival capacity of Bremerhaven would be reduced considerably. So could I ask you, please, what level of British fleet you consider we should have, what level of British manufacturing capacity you consider we should have and how that could be reduced, first, and secondly, what level of merchant fleet you feel we ought to have from a defence point of view?

(Sir Frederic Bolton) What level of fleet we think is necessary I do not think is a question which anyone, whether one is dealing with the GCBS or the British Maritime League, is really capable of saying. My answer to that is, the largest possible fleet which can trade profitably. We have in this country a long history of experience. We have a large pool of maritime expertise still. If the decline goes on very much longer we shall find we have dissipated this and if profitability does return, which inevitably it must even if it takes 20 years, we shall have nothing left in this country on which to be able to build a satisfactory fleet. My reply, therefore, must be, the largest possible fleet we can have operating profitably for peacetime economic purposes.

Chairman

656. That is under the British flag?

(Sir Frederic Bolton) Yes.

(Admiral Sir Anthony Griffin) I agree absolutely with what Sir Frederic says and there is no question of trying to go for a fleet which cannot be operated profitably on a commercial basis. What one would hope is that the size of fleet that could be so operated would be sufficient to ensure that our maritime trade did not fall too much into the hands of our trading competitors. This is the question of exploitation. We have reached the point already where the flags of convenience with all their mixed loyalties exceeded in 1985 the whole of the Western European merchant fleet; the Pacific Basin exceeded the Western European fleet in 1986, and the COMECON fleet will overtake Western Europe on present trends by 1990. Where will Western Europe be when it is in need of imports and substantial exports if it has to rely on its commercial competitors to do the carrying? Shippers will say, "We do not mind because we can pick up at the cab rank. Ships will be passing our door all the time." But I think there is room for serious commercial discrimination in the event of, say, a major Western European venture to export vehicles to Latin America against competition from the Pacific Basin. If the Pacific Basin has all the ships, guess whose cars will get to Latin America. It may be an extreme case but it is, I think, this sort of argument which has led a lot of developing countries to insist on having some control of their own seaborne trade and trading capability. This is what is really behind the UNCTAD Code, the same sort of thought. So it is very difficult to put a finger on this. At a rough guess, I would have said that, if your ships only carried 10 per cent of your trade you would probably be becoming a bit vulnerable. I would have thought if you insisted on 60 per cent of your trade being carried in your own ships you were unrealistic, but it seems as if we are now very close to a vulnerable point. The same sort of argument, I believe, applies to shipbuilding.

657. So you would totally take issue then with the Department of Transport who say that the only reason they can see for a British merchant fleet is from a defence point of view, and also with the British Shippers Council who say that as far as they are concerned from a business point of view it does not matter if the British fleet dwindles to zero?

(Admiral Sir Anthony Griffin) I believe that the British Shippers are taking a rather short term view.

658. And the Department of Transport?

(Admiral Sir Anthony Griffin) I feel the Department of Transport are placing excessive emphasis on the strategic justification for shipping: there are others. That is a very important one. I have not really answered your third question.

659. Before you go on to the third question a very important point has been made here. As well as the two items which Mr Bevan mentioned we also have on record from the Department to this Committee, in reply to this very question about being held to ransom, that Ministers are not convinced by the case that, if overnight we found ourselves without a merchant marine, we would then be at the mercy of potential monopolists. How would you seek to convince them they are wrong? I am not saying I agree with them, I do not.

(Sir Frederic Bolton) Can I reslant the line of these questions?

Mr Bevan

660. Please do not, not at all. I want the most emphatic responses.

(Sir Frederic Bolton) What I want to say is, if you asked the Department in such a way that the alternative was for them to have to pay for a fleet, then I would say that I agree with what they are saying. What we want to have is a fleet which can trade commercially and use the expertise we have in this country. They can do that. We would be perfectly happy if shipping was profitable. So one does not get to the point of saying "How large a fleet must we maintain by artificial means?" We cannot contemplate a shipping industry which can only be supported by subsidy; we do not need to contemplate a fleet which is only supported by subsidy because, if shipping were profitable, then we would have a commercial operation in this country. The question,

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[*Mr Bevan Contd.*]

therefore—and that is why I said "May I reslant it?"—does not actually arise in our view.

661. But, granted the soundness of what you said, how do you deal with the aspect of the level of international cargo carrying tariffs which are available and which could undercut——

(Sir Frederic Bolton) The level of tariff is dependent upon the strength of the market. That is fundamental. It is dependent on the number of available cargoes. The amount of cargo reduces the number of ships and I say if you reduce overtonning you automatically bring the revenue up to a reasonable level. As far as the shippers are concerned, they would complain hard if they thought they had to pay more but in actual fact my own personal experience as a shipowner is that shippers do not complain at whatever level of freight provided everyone is paying the same. What they cannot stand is a volatile market in which one man can get in and ship his goods more cheaply than the other. Given a stable market, they are quite as happy with a high market as with a low. Although they never would like to admit it, in fact, they can exist much more satisfactorily with a high market and therefore the good base of shipping services which the high market can supply, than they can with a very low market when they are at the mercy of cowboys, unmaintained ships and potential trouble.

662. Are you saying there should be a universal tariff?

(Sir Frederic Bolton) I am absolutely not saying there should be a universal tariff. Leave it to the market and the market will produce the right commercial tariff, provided there are the right numbers of ships, which means that you are not pumping ships by government support into the world when there is no requirement for them.

663. So you reduce the tonnage of ships and you reduce the manufacturing capability of ships. Now, my question was, how do you retain the greatest British proportion?

(Sir Frederic Bolton) Of Shipbuilding or shipowning?

664. Both.

(Sir Frederic Bolton) Shipowning—I say with confidence that there is no reason why, given profitability and then equality of opportunity, we should not go back into shipping and rebuild the fleet. I have total confidence that we can trade against the rest of the world with equality of opportunity.

665. Thank you very much. Finally on the defence aspect, I wonder if I ought to ask Admiral Sir Anthony Griffin about this one. I am not very happy that it appears that the British Army is carried to manoeuvres annually in a non-British fleet and the sole reason stated by the Department of Transport that we should have a British fleet is for defence purposes. How would you comment upon that?

(Admiral Sir Anthony Griffin) There are three basic strategic requirements, as we see it, for merchant shipping. One is the general support of maritime operations, which may occur anywhere around the world, requiring one or several merchant ships to support naval forces, like the Falklands when 54 merchant ships of one kind or another were required and produced and performed admirably. Practically all of them were British. There is no telling when this sort of thing is likely to occur.

666. But could we do it again?

(Admiral Sir Anthony Griffin) I do not believe we could. The second requirement is connected with NATO strategy and requires, first of all, units in the United Kingdom to be transported very quickly across to the Continent as part of the reinforcement exercise which also requires a large number of ships for the things that cannot be flown from North America to Europe, the heavy equipment and so on. So those are two requirements. The third requirement, of course, in the event of war, is that the whole of Western Europe needs to be constantly supplied with essential goods to live on. In our view, none of those three requirements (except possibly part of the second one, the ferries across from the United Kingdom to the Continent) can currently be met. They are being very closely watched and studied and increasing concern is being voiced on the subject by SACLANT and various other bodies and statements have been made by members of the Admiralty Board, but I do not believe that the precise figures have yet been identified; they certainly have not been published.

Mr King

667. Coming back to the number of ships that would be available in the unlikely event that this country was obliged to carry out a Falklands-style operation, surely if there are surpluses, or normally speaking at all events surpluses of ships within the world, British owners would be only too willing to contract them to the UK Government and keep their fingers crossed that they might go to the bottom and they collect any remittance which the UK Government might feel obliged to make. It is not necessary, surely, given the world shipping surplus, to carry in our own ships? We could contract with any operator. The difficulty might be to man those ships and that is a very real problem. If one could not find a friendly people to man them in an area of conflict we might be in some shortage of skilled crews there, but equally in the European context we cannot just look at the UK merchant marine in isolation. Surely we have to look at the totality of the commercial shipping position within Europe, Dutch ships and German ships and so on, not to mention, of course, the United States merchant marine? Are you saying, looking at that particular scenario, that there will not be adequate merchant ships available for the NATO force to use from NATO countries?

(Admiral Sir Anthony Griffin) I believe we are very close to the point where that is so; we may well be past it. Could I make two points. On the first one you mentioned about being able to pick up surplus ships from around the world, given the money I think this is probably so. You could somehow get crews together and somehow get the ships, but it would be very expensive, you would not necessarily get the ships you wanted, you would not get them quickly and so on. It would in theory be feasible, but in practice I think your military operations may be jeopardised. On the second point about drawing on the western European or NATO

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[*Mr King Contd.*]

merchant fleet, figure No. 6 in our evidence shows how Western Europe's merchant fleet, the individual merchant fleets, are also running down very severely, so what we thought we could do before, which is rely on the NATO pool, is an illusion.

(Commander Ranken) I have looked at this pretty thoroughly and I think there is a terrible lot of nonsense talked about defence because, unfortunately, the questions are never asked—I am not blaming anyone here in such a way that Ministers cannot get out of answering them correctly. They are always saying there is enough for defence but they never define what they mean by defence. As Admiral Griffin said, we have to accept that all the requirements for defence are additional to economic shipping. I gave you a table in our evidence of NATO's total merchant fleet, which, of course, includes the US and Canadian fleets. If you do get involved in a world war situation it is then very much more difficult because we have to think not only of European operations but also have the probability of Pacific operations. We did some calculations for the Defence Committee and I think you have probably seen the evidence we gave to them on the numbers of ships required just to sustain the Western European element of NATO. I will start from that point and I will go back to the UK element. We are told by the NATO people we require 2,000 shiploads a month in the first couple of months, reducing to 1,000 per month thereafter, as the level of replenishment across the Atlantic. To sustain that level of shipping across the Atlantic, that number of shiploads, you need something like 4–5,000 ships. I have identified trading vessels of all sizes and all types and there were something like 11,000 ships over 100 GRT available to the whole of NATO on 30 June 1986.* If we were working only in the Atlantic, in theory that might be sufficient for requirements in the Atlantic, but it would not allow anything for all the other tasks, such as the Pacific, such as economic shipping, such as force multipliers, which are ships which are taken over and converted for naval purposes, such as support of military operations; so there is no doubt if you take the totality of the problem there is anxiety that there are enough ships of the sizes which are convenient for defence and economic purposes at the same time. If you go down the scale to what we are talking about in relation to the Falklands, for instance, in the case of a Falklands situation I am sure we can get enough ships from various sources; they certainly will not be all UK. Our estimate is by the mid-1990s we shall have the greatest difficulty in manning them. At the moment we could do it but by the mid-1990s the number of trained crews and particularly trained masters and engineers that will be available is going to be too small. Those are the reasons why we put forward to the Defence Committee the idea that there should be something like a Merchant Navy Reserve, and you will see that John Moore picked that up. Whether he picked it up from us or somewhere else does not matter. the point was to try and maintain some kind of reserve of expert people, some of whom were those coming ashore but youngsters coming in as well. With the training situation at the moment, where fewer than 80 cadets are actually being trained, there is no possibility of maintaining the levels of people that will be needed if we do have that kind of emergency in a few years' time. So it is a cumulative thing and whenever we are told there are enough ships and men for defence purposes it is in the very isolated conditions of one area but does not cover the whole spectrum.

Chairman

668. You have been going on about the question of what was referred to by one previous witness in front of us as "Dad's Navy", as put forward by the Minister. What would your comments be about the problem that was put that, having rejected trained personnel from the sea in the present circumstances, they have gone ashore and found something else and they are not going to come dashing back in an emergency, flying their flags and wanting to go out and do it? It did not seem a very realistic proposal.

(Commander Ranken) Let me explain how the idea arose. At the moment when they come ashore, when they have been ashore for one year they come off the merchant navy establishment and we lose contact with them. The original idea grew out of the idea that we should at least keep tabs on the people who have come ashore. It has got beyond that stage now where we need to think how can we make sure we can maintain those people. It has had a poor press and a very poor response. The unions have told us the "Dad's Navy" idea is really rather puerile. But we were looking at much wider issues than that. There is a real issue, something which needs to be faced, and it is not a question of how we can say here how to do it but something that needs to be looked at. Of course, it comes back to the training end, where the problem at the moment is that we are not even training enough people to maintain the size of fleet we have at the moment, so it is a very big issue.

Mr Ross

669. Can I come back to where we started. Sir Frederic, you said that, putting it very briefly, the solution lay in getting rid of the over-capacity of ships and shipbuilding capacity and liberalising the present regulations under national flags. How actually do you

* *Note by Witness:* It must be pointed out that at least one third of these 11,000 ships are under 500 GRT, leaving no more than 7,300 for ocean-going service; the Department of Transport or Lloyd's Register of Shipping could be asked for firm figures, but they are in any case much lower on NATO Member-State registers now than on 30 June 1986, over nine months ago; Dependency and fully Open Registers can only be relied upon for a small number of ships owned by NATO-State owners, and whatever others can be chartered or purchased, probably at high prices, and not necessarily of convenient types and sizes.
Last June at SEA LINK 86 the Supreme Allied Commander Atlantic (SACLANT) stated a requirement of 800 shiploads a month for military reinforcement/resupply and about 2,000 shiploads a month for economic shipping; "... The NATO Defense Shipping Authority shipping pool is now 5,500 ships larger than 1,600 DWT. ... For military reinforcement/resupply, the United States and the European Allies are each committed to providing 600 ships." Please note that shiploads per month do not equate to number of ships to carry them; ship numbers are dictated by round-voyage times including loading/unloading in port, transit and waiting times. (See Annex to BML's Evidence to the Defence Committee's First Report 1984–85 ref. 114 21.5.85, pp. 58/99. We have no doubt that numbers are already seriously deficient to meet the requirements of a general war in Europe, but not necessarily in every class of ship. (Supplementary Table IX gives ship numbers and tonnage over 500 GRT on the UK Register since 1950.)

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[*Mr Ross Contd.*]

get rid of the over-capacity of shipping which is about at the present time, laid up, without some fiscal incentives?

(Sir Frederic Bolton) I suspect there has to be a degree of fiscal incentives here because if you are going to scrap you really have to scrap. You cannot have a scrap and build scheme which says you scrap one and can build another because that will get us nowhere. You have to have a scheme in which perhaps scrapping is linked to building but at something like three for one. You have to have incentives to scrap to get the ships out of the way. Having said what I said earlier against subsidy, I would defend having to give way towards subsidy here but this is a one-off subsidy. It is paying to get ships off the sea and it is of a different nature from something which is paying people to continue an uneconomic operation.

670. Can I give you something which I am sure will be much closer to your heart, and that is the costs that ship owners have to bear coming into British ports. I think you will be sympathetic to this. According to information given to us by the British Shipping Review, a large container ship coming up the Channel pays some £14,000 if it turns left into Southampton and nothing at all if it turns right into Le Havre, Antwerp or Rotterdam. Do you think the Government might help in that respect, too?

(Sir Frederic Bolton) Yes. I would not want to take up a lot of the Committee's time in going on about this as I should be venturing to wear another hat. There is quite a lot of evidence that the Government does recognise the burdens and some of the reasons for them which are laid upon shipping using British ports and not Continental ports. We talk about Continental subsidies. I think it is fairer to talk about a different practice on the Continent from here. We do not argue that the Government paying for roads is a subsidy and the Continentals would not argue that the government paying for wharves and docks and locks is a subsidy; it is local practice. But this is the sort of thing which distorts economically the use of ports here and on the Continent.

Chairman: They recognised your problem all right and put light dues up 14 per cent!

Mr Mudd

671. Could I take Commander Ranken back over two points? First I would ask him to cross the "t"s and dot the "i"s. Secondly I would seek an observation. It is often prayed in aid by the Department of Transport that in the event of hostilities our own merchant navy requirement could be supplemented by the aid of our NATO Allies. But the scenario would be, would it not, were it to be a NATO-Warsaw Pact conflict, that the majority of the NATO merchant fleet would actually happen to be in the wrong place at the outbreak of hostilities and not able to come back into the theatre of operations and would be more vulnerable than any merchant service in the history of world conflict to the greater efficiency of enemy submarine and maritime aviation attack. Equally, would it not be the case that non-belligerent nations would be much more reluctant to take part in supplementing either side until literally the outcome of the conflict became available? So this would stress the "don't rely on your friends" philosophy. Secondly, we have heard a great deal again from the Department of Transport about the Merchant Navy Reserve which we now have tracked down as being a British Maritime League brainchild, but since the Secretary of State waxed eloquent about this and enthusiastic in his speech nobody seems to have heard anything about any follow-up whatsoever. Has the British Maritime League in any way received any indication that something constructive is proceeding?

(Commander Ranken) I do not know how far to go on that one. Can I answer the second one first? The other is a major issue. My understanding is that the Department is still considering how to handle it. In fact, one of the things we have in hand at the moment is this: there was a meeting held in January and one of the members of the staff of the General Council of British Shipping addressed the meeting with the Nautical Institute and various other bodies. We all discussed this matter. It was quite obvious that a lot of people were very puzzled and confused as to how it might be got off the ground. What we are proposing to do, we feel that all the different bodies ought to talk to each other and come up with something constructive which can go to the Minister. We feel, if that is done in the normal way with the Department talking to each of them separately, then coming back and producing some ideas, we are a little concerned that, like others in the past, it may not happen. What we are proposing to do—I have a draft in my bag; it has just been taking shape—is to approach John Moore and suggest to him that we might be able to help in this because we really have not got an axe to grind, we are not a faction of any sort, and perhaps we could help by trying to bring some of these people together and see what the practicalities are and try to throw out some of the silly ideas and see if there is something that can be developed. It may well be that we cannot see a way of doing it, but on the other hand I do feel this is something that ought to be explored and probably outside bodies can be more helpful on this initially than perhaps the Department can. If I may come back to the other one, you are absolutely right, of course, that the problem of the neutral shipping is a major one as soon as the balloon goes up. You have no doubt heard of the Planning Board for Ocean Shipping, part of the NATO organisation, which is responsible. A lot of people involved in it are civilians, shipowners. Sir Frederic was involved at one stage. Michael Miller, who is another member, is involved at the present time; he is involved in the insurance market. There are various people. It is actually chaired by an Under Secretary in the Department of Transport on behalf of NATO, because we had a superb organisation at the end of the war and it has continued under a British secretariat ever since. Now, my understanding is that they are hoping that they can start this Atlantic Bridge going well before the balloon goes up and, in that case, they can employ national flag ships of the members of NATO on that task while the neutral shipping continues to carry economic shipping. I also understand (perhaps this is getting a little bit delicate) that they are a bit doubtful about what scenario to paint from the point where the balloon does go up and they then have to see how they can get enough shipping to continue the economic shipping as well as the replenishment shipping and all the other support tasks for the armed forces. My own view is that the ships of some types that are available round the world may be

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[*Mr Mudd Contd.*]

able to be got back but, unless we have nationals of NATO to man them, we may be in dead trouble in about ten years' time if something like this did happen. So the scenario is pretty grim and does not allow also for a very high rate of attrition of ships coming across because there are great doubts about how we protect them. That is another issue entirely, but it is a major problem.

(Sir Frederic Bolton) Chairman, of these three tasks for defence I think, although there is uncertainty about the number of ships required and the number of ships available for all of them, there is more certainty about support for the military and movement over the Atlantic Bridge. What has been worrying us for some considerable time is the total inability to get anyone to put any figures on the requirements both in terms of tonnages of goods and, therefore, of ships which would be required for economic resupply of Europe. All of this is in a NATO context, taking credit for the other ships of NATO and not simply in a narrowly nationalistic situation.

Chairman

672. Thank you very much. It is tempting to go down those lines.

(Commander Ranken) What I forgot to say a moment ago ties up exactly with what Sir Frederic just said. In fact, the PBOS organisation is trying to get through the senior committee for planning in NATO a study done on exactly those terms to see what requirements really are. I will leave with you, if I may, a copy of this unclassified document* which was the outcome of a meeting last October which describes most of this quite clearly. I think that will make the whole picture clear.

673. Thank you. I would like to go down the defence line but we are in danger of straying away from the objective of our inquiry today. Obviously there are implications there of interest to the Members. Could I come to the question of assistance to the fleet? You recommended in your document a number of curative measures. In your Table No. VIII, you mention providing tax incentives to investors in new ships, adjusting the EEC shipbuilding intervention fund assistance upwards, ensuring that the Community's Sixth Directive is correctly drawn—I do not have to read your own document to you—providing credit packages, restoring tax allowances to 100 per cent, making the UK a "tax haven"—that does not seem to me exactly likely, a thing we are not looking for—and some assistance from government. Have you got a point on that?

(Commander Ranken) Can I explain how this arose. The point was that we reckoned there was a certain line we should take, which Sir Frederic has, in fact, explained, which is priority one. There is no question about that. But there are a number of things which need to be done in the short term to keep the shipbuilding industry alive, to keep shipping alive and various things of that sort. These are some of the measures which are available to governments and to other bodies, not only governments, who could help to keep it alive until such time as the overtonnage can be eliminated, but unless the overtonnage is eliminated all this is a load of rubbish. Unless we can get rid of the overtonnage none of this will result in our having a fleet at the end of the day unless it is very highly subsidised.

674. I take your point but one of the last things on the financial packet was that you said: "Remove the disincentives that encourage or force owners to flag out as the only alternative to going out of business." What do you mean by that?

(Sir Frederic Bolton) This is what I referred to briefly earlier on, that to attack the flag of convenience concept by saying barriers must be put in the way of operation of ships under flags of convenience is the wrong way round. What we ought to be doing is analysing the barriers, the disincentives to flag operation which are causing owners to flag out and then make it possible for owners to trade for the benefit of those owners under a national flag. To take an example, if you have a large sector of the world where seafarers are trading internationally and paying no tax at all you are making it quite impossible for an operation where seafarers do pay tax. This is one of the reasons why there is a very successful, from the commercial point of view although unsuccessful from other points of view, I agree, situation now where it is possible to trade with a British crew, British officers and British ratings, with an offshore agreement outside this country on a flagged-out ship in competition with a Far East crew, and I know this because I am doing it in the ships of my own company.

675. Even if the basic salary is the same you are saying it is these sorts of incentives which make all the difference?

(Sir Frederic Bolton) It is possible to negotiate with British unions for a remunerative package for British officers and British ratings employed offshore which competes very nearly with Far East manning—not quite but near enough to make it tenable. It is ridiculous that an owner has to go and flag out to Bermuda and then man through the Bahamas in order to employ British officers and British ratings on an hitherto British-registered ship. This is the sort of thing which ought to be addressed very seriously by Government and it should be possible to man on those conditions whilst still a British-registered ship. You can very nearly do this by going to the Isle of Man but you cannot quite because you pay National Health contributions to the Isle of Man and that kills it stone dead, so you have to go to Bermuda and you are making it one stage more difficult for the Department of Transport to get your ship back in a time of emergency and you are going through a farce, frankly. That is what I mean when I say those sorts of conditions ought to be addressed and it ought to be possible for all Western European ships—but we are talking about British ships in particular—to have the benefits of flag of convenience operation whilst trading under the British flag.

676. Would you say it would be possible for you to have a unified approach along those lines with NUMAST and the NUS?

(Sir Frederic Bolton) All I am saying is that the negotiations that my company have done have been through the NUS and NUMAST and they were highly realistic about what has been happening and in so far as they were being realistic they were being sympathetic. I can see no reason why this should not be possible. After

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[*Chairman Contd.*]

all, to a large extent what we are doing is reducing the cost to an owner at the expense of the taxpayer, and as this is what is happening with a large slice of crews throughout the world with whom we are competing now I do not think there is anything particularly immoral about it. In fact, the Government has only recently made it more difficult by reducing or taking away the tax concessions which used to be available to our foreign-going seafarers.

677. So would you say that is probably your No. 1 objective if that could be negotiated or recommended or brought into operation with the agreement of the unions concerned, that this could create a competitive element which would return some measure of profitability taking the world competitive market as a whole?

(Sir Frederic Bolton) The return to profitability is No. 1 in my numbering of categories, yes. This is more important than the principle of making it possible for flag of convenience operation to take place under the national flag, and then an examination of all the issues is important. This is one of the more important of them but it is not by any means the only one.

678. Has anybody done any costings as to what would be the loss in tax revenue?

(Mr Packer) The answer is no, but what may be lost in tax revenue by these ships may be gained in the long run by maintaining ships which are earning revenues for the UK, which would have disappeared anyway.

679. So the whole subject falls into this and it is as well to have these sorts of sums around. This is the sort of question that is asked and you can argue a case on it. Now, suppose you took over our position. You are the experts in this field and you are producing a report on the flagging-out of ships. What would you feel would be the most important factors that you think this Committee should aim its mind at with a realistic view to getting whatever aid is required or whatever machinery is required to bring about your objectives?

(Sir Frederic Bolton) I have to go back to my first point about a commitment from Government that profitability has to be restored.

680. And then?

(Sir Frederic Bolton) How to do it? Then I say it has to be done through the EEC. The EEC have to adopt this as their major objective, too.

681. What occurs to me in my simple, non-expert mind in this particular field as yet is that the problem that is with us at the moment is almost vital. The ships are fleeing like flies. Every week there seems to be somebody else flagging out, and the EEC machinery is not exactly known for its speed in getting things done, so there is a short-term and a long-term answer.

(Commander Ranken) I think the point is this: we are looking at the world trade situation. If you have all the problems through the GATT measures that are being discussed at the moment, particularly the problem of Japanese surpluses versus US deficits, the biggest headache of all is the Japanese surpluses, which have destroyed so many other countries' industries, and they did set out to destroy shipbuilding. In the early 1970s they said, "By 1980 we will have 80 per cent of all shipbuilding in Japan." The oil industry, the OPEC people, clobbered that one, but even so they have produced over 45 per cent; in the last three years they have produced 53 per cent, 52 per cent and just now 48 per cent of all the new ships joining the fleet. That is plus the Koreans and the others out there. They have now reached 74 per cent of all new deliveries last year, 1986, which is not helping at all in the aim which other people, such as the International Maritime Industries Forum, have been pushing of scrapping to reduce the overtonnage. The net decline in tonnage in the last couple of years is very small. It is 2.7 per cent or something of that order. What we are asking governments to look at—and it is a major issue, not for the junior minister in the Department of Transport but for the Prime Minister and the Commissioners and the President and people like that to be getting together on this—is reducing about one-third of the fleet, the total world fleet, to get us back into balance over a period. That is a big job, so we must tackle it in the world trade context, not just shipping. That is why we are saying you must work with all the clout you can muster. The clout is in not having this thing about the EEC versus the US. These silly squabbles across the Atlantic are making the Japanese laugh at us. The Japanese at the moment are asking for reduced credit interest to build more ships yet at the same time they are cutting back on shipbuilding—only by 20 per cent but they need to cut back 50 per cent. The Koreans have gone up another 50 million tonnes last year where they ought to be cutting back. It is up to the rest of the world to take them by the scruff of the neck and drag them into the 21st century. At the moment they are letting them get away with it. It is not like that. It is a concerted effort to destroy the rest of the world's shipbuilding. It is true in the other industries but in the shipbuilding industry this is the cause of all the problems we have with the Western European fleets, because shipbuilding is the cause of it. But the two are linked together; we cannot deal with the one without dealing with the other.

682. I think we are bound to agree that this is a concerted Japanese thing done in a way we cannot do. I know you would not agree with this Government telling you you would have all your ships built in England or in the United Kingdom; you never have done. But no Japanese ships are built other than in Japan. So obviously some central direction works in that field and this is a ballgame where we play by the rules of the Marquess of Queensbury. I take very much on board the question of EEC clout. I am not certain how quickly it can be put into operation but certainly with the expertise and ability you have got, we welcome your having a go and we will certainly take into consideration what you have said on that point anyway.

(Mr Packer) It extends beyond the EEC to OECD, the forum for shipbuilding, and certainly the shipbuilding credit terms forum, for at least ensuring that we do not see now a reduction in credit terms, maybe through policing of credit terms so that money is not lent to high risk shipowners. That is one forum. The other forum is the port state control forum. This is the elimination of substandard ships. Maybe we should have tighter measures on this. This is one area where the British Government can take the lead.

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[*Chairman Contd.*]

683. You mean substandard mechanically?
(Mr Packer) Yes.

684. Substandard from that point of view?
(Mr Packer) Yes, indeed. Perhaps the Commander would like to come in here.
(Commander Ranken) I am going to go further than that and say the port state control idea is absolutely sound; it is very much something which we were leading the world in, safety at sea, until International Maritime came along, and we as the host government still take a major lead in it, as you well know. The port state control in Western Europe is a well set-up organisation but it is, for instance, on the ground as far as surveyors are concerned and the time they are able to give to individual surveys, there is no question, needs to be strengthened up. The fact remains that if they push on with it as they intend to I believe, and all the countries (not only ourselves, do not forget the US Coastguard, do not forget the others in the Far East and so on—various other countries come into the same category) do so, no doubt a large number of those ships can be eliminated quite quickly. There is another thought——

685. Eliminated by not coming up to standard?
(Commander Ranken) By virtue of the fact that they cannot trade, it would not be worthwhile going on trading with them. That is the best way to do it. In fact, the more difficult it becomes for them to enter the main trading areas of the world, Europe, the United States, Japan, the more quickly we will get rid of those ships. Some may remain working around the islands in the South Pacific or various places in the Third World for a time, but they will gradually fade out. The other idea that some people have put forward is that perhaps we should be considering that we cannot actually register a ship beyond a certain age. This has been tried in the past and it did not work properly in the early part of the last century, but there are other ways of eliminating some of the tonnage through that channel and that is another one that needs to be investigated to see how it could be done without ending up with a silly situation where you are actually building only to last five years, and that sort of thing. There are various ideas along those lines which might be taken in addition to the commercial, economic trade kind of lines.

686. The port examinations have to be fair, have to be equally applied and have to be effective, have they not? So the point is you have to have sanctions ultimately. I think that calls for inter-government action. Are you quite happy? Have you considered that? When I was on the Council of Europe we produced a report on pollution and unsafe ships as far as the North Sea and the Mediterranean were concerned. Our recommendations were accepted but never acted upon. There are 26 ministers co-operating on the Council of Europe, 26 countries involved; if those 26 countries tied up the ports which cover the Mediterranean and the Norwegian, Swedish and North Sea ports, there not many ships that could trade without having to go in and out of some of those trades at some stage. Is that a field that could be pursued? Perhaps we are wandering away from——
(Sir Frederic Bolton) It is all part of the same thing.
(Mr Packer) The port state control system is working. We ask for it to have more power, more surveyors and to have high standards.
(Commander Ranken) We say it has got to be strengthened. The whole organisation is there, it was set up under the control of a very good lady in Holland who in fact was the civil servant who co-ordinated it. It is all on a computer in France which deals with the survey reports as they come in. By this means there is co-ordination between all the countries of Western Europe and one or two others abroad. It means you are not always going for the same ship unless you need to go for that particular ship. That organisation is fine but the real problem is the surveys themselves are not yet sufficiently comprehensive to eliminate a good many things that are wrong but they will get better if we keep the pressure up.

Mr Bidwell

687. Would you agree that as a maritime nation, and continuing to need to be in economic terms and in terms of feeding our people, when you look at it, defencewise or any other wise, nuclear or non-nuclear warfare, this country has to be the prime mover in these matters?
(Commander Ranken) Absolutely.

688. Nobody else is going to regard it with the same measure of urgency and I am hoping we can draw this line out in our eventual report because it seems to me if you get a change of government you get a non-nuclear policy and these major questions would remain, whatever kind of defence future we may be involved in.
(Commander Ranken) Absolutely. The big point we find we need to emphasise is that it is no good ministers saying it is an international problem and, therefore, we cannot cope with it. They have to take the lead in the international fora and even if it is difficult, like the EEC, it does not mean they do not try.

689. There is no other nation which would be bereft of the ability to feed itself in the manner in which we are and even now agricultural trends seem to suggest we are going to use agricultural land for other purposes.
(Commander Ranken) We could not feed ourselves if we did not have certain imports throughout Europe. It is not only the UK but all the other countries are dependent on certain imports, particularly energy on the Continent, but people try to make out this country could survive without imports. We have never done it before in the last two world wars and there is no question we could do it in the future. But the whole question of imports is eight times greater than in 1945. It is much more important today than it was in the last war.

Chairman

690. Sir Frederic, is there anything else you would like to say to the Committee?
(Sir Frederic Bolton) No. Thank you very much indeed for listening to us.

Chairman: We are most grateful to you for the evidence and the forceful way you have put it. The content of it will be most useful to us in drawing our conclusions and we hope as a Committee not just to be drawing some facts together but making helpful proposals. Thank you.

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Supplementary Memoranda submitted by the British Maritime League

TABLE IX: UK-REGISTERED MERCHANT FLEET

TRADING VESSELS

Year	*Number*	*GRT*	*DWT*
1950	3,092	17.2	—
1955	3,041	18.2	—
1960	2,902	—	26.1
1965	2,401	—	26.7
1967	2,181	—	27.4
1970	1,977	—	36.1
1975	1,614	—	50.0
1980	1,143	—	35.7
1981	994	—	29.4
1982	868	—	24.7
1983	769	—	20.7
1984	689	—	18.4
1985	627	—	15.9
1986 (30 Aug.)	552	—	10.8
1986 (31 Dec.)	<500	—	7
1995	100*	—	3

* Excluding Royal Fleet Auxiliary and certain other specialised vessels.

(All above figures are for ships over 500 GRT and includes Isle of Man.)
Source: Department of Transport/G.C.B.S.

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TABLE X: MERCHANT SHIPS COMPLETED IN 1986

		Number	*GRT*	*% of Total*
F	Japan	648	8,177,953	48.55
F	Korea (South)	128	3,642,495	21.62
E	Germany (FDR)	79	515,394	3.06
	Brazil	19	429,855	2.55
F	Taiwan	10	382,995	2.27
C	Poland	43	375,305	2.23
C	Germany (GDR)	55	361,669	2.15
E	Denmark	46	361,492	2.15
F	China (PRC)	25	258,456	1.53
	Yugoslavia	16	232,996	1.38
E	Finland	21	230,788	1.37
	USA	36	223,396	1.33
E	Spain	71	167,429	0.99
E	France	23	158,451	0.94
E	Netherlands	76	150,915	0.90
C	Romania	10	142,000	0.84
C	USSR	30	138,101	0.82
C	Bulgaria	9	99,059	0.59
E	United Kingdom	36	98,895	0.59
E	Belgium	5	90,460	0.54
E	Norway	44	84,639	0.50
E	Sweden	12	81,073	0.48
	Argentina	6	70,452	0.42
E	Portugal	13	66,175	0.39
	Canada	10	48,085	0.29
	India	16	39,377	0.23
E	Turkey	25	35,496	0.21
	Peru	7	34,754	0.21
E	Italy	20	34,388	0.20
	Egypt	3	31,056	0.18
E	Greece	7	21,362	0.13
	Others (14 Countries)	193	59,948	0.36
WORLD		1,634	16,844,909	100.00
F	Far East	811	12,461,899	73.98
E	Europe	481	2,100,334	12.47
C	COMECON	147	1,116,134	6.63
	USA and Canada	46	271,481	1.62

Source: Lloyd's Register of Shipping: Annual Summary of Merchant Ships completed in the World during 1986.

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HOUSE OF COMMONS

TRANSPORT COMMITTEE

Session 1986–87

DECLINE IN THE UK REGISTERED MERCHANT FLEET

MINUTES OF EVIDENCE

Wednesday 25 March 1987

Department of Transport

Mr J W S Dempster, Mr J A Battersby, Dr J Cowley

Ordered by The House of Commons *to be printed 25 March 1987*

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WEDNESDAY 25 MARCH 1987

Members present:

Mr Terry Dicks
Mr Peter Fry
Mr Roger King
Mr David Marshall
Mr David Mudd
Mr Stephen Ross
Mr Neville Trotter

In the absence of the Chairman, Mr Peter Fry was called to the Chair.

Examination of Witnesses

MR J W S DEMPSTER, Under Secretary (Marine Directorate), and DR J COWLEY, CBE, Surveyor General, (Marine Directorate) Department of Transport, called in and examined. MR J A BATTERSBY, Head of Marine Division 1, Department of Transport, called in and further examined.

Mr Fry

691. Mr Dempster, can I first of all apologise for Mr Bagier's absence—I have been asked to deputise for him—and welcome you again to the Committee. For the record, would you be kind enough to introduce yourself and your colleagues.

(Mr Dempster) My name is Dempster, I am Head of the Marine Directorate in the Department of Transport. On my right is Dr Cowley, who is the Surveyor General and Head of the group of professional marine surveyors that we have within the Directorate who are responsible for safety of ships and related matters. On my left is Mr Battersby, who is the Head of Marine 1 Division, with responsibility for, among other things, policy on ship registration, which I believe is one of the things you want to discuss.

692. As you are probably aware, Mr Dempster, when the Department came before us on the 10th December last, you did not actually mention the document in relation to the consultative process for the revision of the laws governing the Registration of Ships in Dependent Territories. The Department made no mention of it either orally or in written evidence; and yet in the letter from the Secretary of State to Mr Prescott, dated December 1986, proposals appear to be fully formed and to be being implemented as a matter of urgency, and that is why we have asked you to come along, and we thank you for doing so. Could you first of all answer the point as to why the proposals have had to wait so long, as they appear to have been begun in 1981. If parliamentary time had allowed, how soon after the March 1984 Consultative Document could a Bill have been introduced?

(Mr Dempster) I am sorry if the existence of these proposals was not mentioned when my colleagues gave evidence before. Clearly, they had not imagined that your enquiries would take you down this road. The position, as you say, is that these proposals were produced in March 1984 in the form of a Consultative Document, containing proposals for legislation on ship registration, and one of the important components of these proposals was reforms in the areas of the Dependent Territories Registers. As to the reason why they have not been converted into legislation, the answer is, I think, simply the lack of Parliamentary time. As you know, there is always competition for places in the legislative programme, and so far it has not been possible to secure a place in the programme.

693. Are the proposals actually in a condition to be introduced to Parliament immediately or has further work got to be done on them?

(Mr Dempster) No, I think they could be introduced very quickly indeed if the opportunity arose.

694. Given the somewhat parlous state of British merchant shipping at the moment, and accepting that shortage of Parliamentary time is not your responsibility, do you feel that these proposals could make some meaningful assistance to the Industry, because it does seem that it is a pity, if they can be useful, that there has been this delay?

(Mr Dempster) I do not think that these proposals would constitute any direct assistance to the Industry, but what they would do is to assist us to deal with what we regard as quite a serious problem, which is ships which are registered in some of the Dependent Territories to which international safety conventions do not apply; and I can elaborate on the reasons if you wish.

695. Would you say that the delay has meant any continuing lack of safety among ships registered in the Dependent Territories?

(Mr Dempster) In so far as the proposals were designed to assist us to improve the safety of such ships and the proposals have not been carried forward, I think it must follow that the safety standards are not as high as they would otherwise have been.

696. What you are effectively saying, then, is that there is perhaps some degree of concern in relation to the standards of safety in some Dependent Territories?

(Mr Dempster) Yes indeed, Sir, there is.

697. Does that not make it all the more surprising, then, that no action has actually been taken so far?

(Mr Dempster) As I think you said, Sir, the question of availability of Parliamentary time is not my

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[*Mr Fry Contd.*]

responsibility but, of course, a Merchant Shipping Bill to reform the law on ship registration is not a subject that is likely to have any very wide popular appeal.

Mr Trotter

698. Surely, it would not be a very large Bill?

(Mr Dempster) No, I do not think so. I think we are talking about 20 clauses, something like that.

Mr Ross

699. I only wanted to comment that I thought this was a Bill that might have quite substantial appeal. Everybody seems to be flagging out to the Isle of Man at the moment.

(Mr Dempster) I think it is the case that the very dramatic growth in tonnage registered in certain of the Dependent Territories means that the problem is now very much greater in size than it was in 1984.

700. There is provision for some regulation of hydrofoils, which I see towards the back of this particular document, which operate in my part of the world, and of course across the Channel. We seem to have gone to a great deal of trouble to make sure that hovercraft are properly regulated, I would have thought there might be some need to bring that forward a bit. Do you want me to direct you to it?

(Mr Dempster) It is paragraph 38 of the document. Perhaps Mr Battersby could deal with that.

(Mr Battersby) Mr Chairman, I understand from colleagues that the provision which Mr Ross requires is no longer envisaged as an element in legislation because the practical powers for the Department are derived from the IMO code that is referred to in the text here, in the text of paragraph 38.

701. So it is covered adequately already?

(Mr Battersby) I am sure it is, yes.

Mr Fry

702. Whilst on that point, how far does your responsibility extend to Gibraltar, where there has been a degree of controversy over the use of certain hydrofoils between Gibraltar and North Africa, in comparison with the more traditional ferry service? It has even been claimed by some people that the hydrofoils that are being used are actually dangerous and therefore there should be some kind of extra regulations imposed upon them.

(Mr Dempster) As far as the Government's responsibility for vessels registered in Gibraltar is concerned—and I do not know myself anything about hydrofoils, perhaps Dr Cowley might be able to add something there—the British Register embraces the Dependent Territories and the off-shore islands of the Isle of Man and the Channel Islands, and the ships fly the British Flag; so in that sense we have a responsibility for them. However, it has long been the policy of the Government to delegate responsibility for domestic matters of this kind, and ship registration and administration of marine affairs is regarded in this context as a domestic matter, to the administration of the Territories in question; so in the first instance responsibility rests with the administration in the Territory in question.

Mr King

703. Looking at the safety role of the Classification Societies, Mr Dempster, it has been said by some witnesses that your surveys are more strict in the interpretation of International Conventions than other nations', and of course by implication that means that other nations are more favourably disposed towards that type of survey. What have you to say about that?

(Mr Dempster) If I may, I will invite Dr Cowley to answer that.

(Dr Cowley) The Department tries to interpret the Conventions in the spirit of the Conventions, and the intention behind the Convention Regulations, we try to put that into effect. There are particular instances where we have found that some countries have not done that. For example, if a fire pump was intended to be independent and to supply water to the machinery space in the event of a serious fire in the machinery space, which had been evacuated, we maintain that that pump should be entirely independent and outside the space. Any connections to that pump, for example, should be able to be isolated from the machinery space, otherwise in certain circumstances it could be useless. When we have taken ships from foreign registries we have often found that this has not been the case, and so that is one instance where we have been more severe than some other countries. We have discussed this with the General Council of British Shipping at some length, not that particular point but the general question, and this is one in which they accept that our interpretation is correct. These are the differences.

704. Yes, but does it obviously not give other countries the opportunity to reduce their construction and operational costs to the detriment of our own shipping?

(Dr Cowley) It may, of course, but then what is the intention of the Regulations? The intention of the Regulations is that the ship should be safe.

705. Is there any way that the Department could enforce certain standards for ships calling at this country?

(Dr Cowley) This particular measure is one that we could not impose on a foreign flag ship with a safety equipment certificate. These are differences in interpretation. But, of course, some countries have stiffer interpretations than we have in some of our Regulations.

706. Are they European countries?

(Dr Cowley) Yes.

707. We have heard criticism that the responsibility for enforcing International Safety of Life at Sea (SOLAS) Conventions and other International Conventions to do with maritime safety should not be delegated to Classification Societies but should be retained in the Department of Transport. What are your views on that?

(Mr Dempster) Perhaps I could start by making one or two comments about that and then perhaps Dr Cowley could elaborate. There is already extensive delegation to the Classification Societies in respect of cargo ships, where the most important certificates they are required to carry, the Load Line Certificate and the

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[*Mr King Contd.*]

Safe Construction Certificate, are issued by the Classification Society. We ourselves conduct the survey necessary for the issue of the Safety Equipment Certificate and the MARPOL Certificate, that is the certificate concerned with pollution prevention. This has all been re-examined in the past two or three years, as a result of which a number of additional types of survey work were offered to the Classification Societies, but it was a condition of the offer that they should be able to give us the assurance that they could undertake the work at no additional cost to the ship owner in comparison with what he pays us. In a number of cases they were unable to give that assurance. In the remaining cases, of which there are two, the delegation is proceeding; but our Ministers took the view that the surveys for the Safety Equipment Certificate and the MARPOL Certificate raised issues of safety and pollution prevention which were of sufficient importance that the surveys should be done by ourselves. I should add that there is no duplication here because the matters which are covered in those surveys are not covered in the Classification Societies' survey for class purposes. That is the position as far as cargo vessels are concerned. As far as passenger vessels are concerned, the main certificate is the Passenger Ship Safety Certificate, which is issued by us and embraces a number of safety features. We do make a certain amount of use of Classification Societies surveyors in connection with that process, but the certificate is issued by ourselves. There have been suggestions made by the General Council of British Shipping that we should make greater use of Classification Societies surveyors in this connection, but I have to say that Ministers have decided, following the disaster at Zeebrugge earlier this month, that no further consideration will be given to the arrangements for survey of passenger ships until after the Formal Inquiry has reported and we have studied its recommendations.

Mr Trotter

708. Have there been any cases, in fact, where there have been justifiable complaints against the Classification Societies, where they have been responsible for certificates?

(Dr Cowley) There have been cases where we have taken over passenger ships on to the British flag that had been surveyed by Classification Societies, and the condition of those ships has not been as good, certainly as it would have been if the ships had been under our registry and survey.

709. Am I right in thinking that any of the International Societies is acceptable to us, if a certificate can be given by Classification Societies; it does not have to be Lloyds?

(Dr Cowley) It can be Lloyds Register or any one of four other Classification Societies who have British Committees; that is, Bureau Veritas, Det Norska Veritas, American Bureau of Shipping and Germanische Lloyds.

710. Now, where there was a case of a passenger ship coming on to our registry that had not been adequately surveyed and classified, was that one of those Societies involved?

(Dr Cowley) Yes.

Mr Ross

711. Do you have a particular scale of charges per tonnage of the ship? Because if I might just quote one example, that is a passenger ferry which I was trying to persuade Sealink to keep in service, they quoted me a figure of £125,000 for the Renewal Certificate alone, and presumably whatever follows after that, whatever is found to be at fault? Is there a set scale?

(Mr Dempster) The fees are charged on an hourly basis, depending on the amount of time that our surveyor has to spend on the work. I think the figure that you quoted must have related to the initial survey in relation to the new build. I have some illustrative figures here and, for instance, the annual survey of the Pride of Free Enterprise, which is the sister ship to the one that was lost earlier this month, cost £4,200; for the annual survey for a large ferry. However, I have to say that the fees for the initial survey, in connection with the new build of a ferry, are higher; for instance, for the Norsea the vessel recently built on the Clyde, the survey fees were £255,000—that was for the initial survey.

Mr Fry

712. Can I turn to a few questions about the Directorate? We are aware that there have been staff cuts. In those circumstances, are you satisfied that this has not been at the expense of safety standards, and perhaps, more importantly, your ability to enforce them? Also, in view of the fact that a certain amount of the surveying has already been delegated does this not mean that it is going to be more difficult for the directorate to actually supervise the surveying themselves, and even as much as they have in the past?

(Mr Dempster) It is certainly correct that our staff numbers have reduced and it is planned to reduce them further, but we must bear in mind that the size of the UK registered fleet has also dropped dramatically, and indeed the number of marine surveyors that we employ has not dropped anything like proportionately to the reduction in the size of the UK fleet. To answer your main question, I am quite satisfied that staff reductions have not jeopardised safety standards.

713. Is it true to say that, as some have suggested, the Chairman and Deputy Chairmen of Lloyds Register have complete discretion over who may see the survey records of the Society? We understand that even the owners who pay for the surveys need permission from one of the Chairmen. Are you entitled as a Department, to inspect the records of Lloyds Register, especially with regard to those surveys to be delegated to the Society by the Department?

(Dr Cowley) Yes, we are entitled to see them, if it was a statutory survey, not for a class purpose. So, if they were conducting a survey on our behalf we would be entitled to get the information.

714. But not otherwise?

(Dr Cowley) Not for class purposes, no; that is a matter between the owner and the Society.

715. Are the surveyors liable, for example, for the consequences of their own decisions? What I am driving at is that, if for example a surveyor said that a ship was sub-standard and should not leave port, and in fact it

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[*Mr Fry Contd.*]

was then proved afterwards that it was not sub-standard, who would be responsible; and if it was a case that was done by, say, one of the Classification Societies, would they be liable? I can understand that the Department might be liable, but there might be a grey area if the survey had not been done by one of your Directorate.

(Dr Cowley) The Department is responsible for all statutory surveys done by the Societies under the Conventions. The Department has to be satisfied concerning the completeness of the survey; and to do that it must be sure that the Classification Societies are competent and they do that when delegating, for example, the Cargo Ship Safety Construction Certificate surveys and the Load Line Certificate surveys. If we detained a ship, for example because it was sub-standard or suspected of being unseaworthy then we would be liable if we had acted unreasonably. The Society surveyors do not have powers of detention of ships or withdrawal of certificates.

716. So, if a Society's surveyor felt that a certificate should be withdrawn the Directorate would have to be approached?

(Dr Cowley) The Department, yes.

717. To go back to the question of staff, can you tell us whether you think there are sufficient staff now to enforce Port State control in the UK, in accordance with the Paris agreement?

(Mr Dempster) Yes, you are probably aware that the Paris agreement provides that States should endeavour to inspect a minimum of 25 per cent of the foreign flag vessels visiting their ports. We have, in fact, in recent years got to a figure of around 30 per cent, so we are able to do better than the minimum requirements of the Paris Convention.

718. How does that compare with our European neighbours; are they on the same kind of figure, 30 per cent or are many of them down at the minimum?

(Dr Cowley) Some are not reaching those figures.

719. They are not reaching 25 per cent?

(Dr Cowley) Not reaching the 25 per cent; some individual countries are not. Some are reaching the 25 per cent.

720. Could you just give us the number of surveyors that are presently on the staff of the Directorate compared with five years ago?

(Mr Dempster) I have got the figures here. We have at present 235 marine surveyors on our staff; five years ago we had 294.

Mr King

721. How many ships would they be surveying in a year? We always talk about the gross tonnage of the British fleet, but how many ships does that represent; do you know off-hand?

(Mr Dempster) Yes. If you look at ships of over 500 grt, which is the normal figure that is used for what is called the British fleet, we have 544 at present and we had 985 in 1982.

Mr Trotter

722. Chairman, can I ask what happens when a bad survey is found, because I am disturbed at the suggestion that one of the leading international bodies, or Classification Societies, could have passed a ship that was found to be inadequate when it came on to the British Register. Does some action get taken; is there a note passed to the government of the country concerned to express our feelings on it?

(Dr Cowley) This matter was taken up by the owners who had bought the vessel, and it was settled in that manner in this particular case; it was taken up by the owners and they were compensated, I believe, for the extra cost that they had to put into that vessel to bring it up to standard.

723. So the national Government of the country where the Classification Society was based may not have been aware?

(Dr Cowley) I cannot answer for them.

724. Could I go on to ask, Chairman, about the effectiveness of the Port State control. There have been a commendable number of inspections, what have they actually found? How many ships have actually failed the test?

(Mr Dempster) A number are either delayed or detained as a result of our inspections. I have some figures if it would be of interest. These, for instance, relate to the Dependent Territories. In 1985 we inspected 59 ships registered in the Dependent Territories, of which four were delayed and 17 were detained; and, of those 21, 20 were registered in Gibraltar.

725. What is the significance of this delay and detention? Presumably, the delay ends when they are put right, and the detention ends when they are put right, is that correct?

(Dr Cowley) The detention is a formal procedure whereby a notice is served to the Customs stating: "This ship shall not be allowed to sail until . . ". This is only resorted to when it is considered essential, otherwise the ship is just told, "You cannot go until you have done this" and it has been delayed rather than formally detained; the effect is the same. If there was a suggestion that it was going to leave without being correctly improved and the defects rectified, it would be formally detained.

726. So, in every case they would be corrected before the ship sailed?

(Dr Cowley) Yes.

727. But you are presumably concerned that there is a particular registry where that degree of failure is taking place?

(Mr Dempster) Yes, indeed there is published what one might call a league table, or black-list, showing the proportion of ships detained from different registers, and it is quite striking that for certain registers a very worryingly high proportion of ships are detained.

728. Chairman, if we have not had a copy of that, could it be given to us?

(Mr Dempster) Certainly.*

* *See* Further memorandum at page 227.

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Mr Fry

729. Following on that, we do understand that 'M' notices only apply to British mainland registered vessels; for example, they do not apply to the Isle of Man. How can you try to ensure that the provisions of these notices are brought into effect in the British Dependent Territories?

(Mr Dempster) This, of course, takes us to the heart of the Dependent Territories problem. In the case of the Isle of Man, there is a small marine administration there which has legislation and 'M' notices which very closely mirror our own; indeed, they normally issue 'M' notices of their own which are very closely based on ours, and their legislation is very similar. That, of course, is not the case in some of the other Dependent Territories.

Mr Trotter

730. Chairman, an 'M' notice, I take it, is a sort of requirement, a stipulation, is that right?

(Mr Dempster) They are notes for guidance, issued by the Marine Directorate.

Mr Fry

731. The question that still seems to arise is that something does need to be done; you mentioned figures about Gibraltar during your earlier evidence, and I think there is also concern about ships registered in the Cayman Islands. What, in fact, is the Department doing, if it has this degree of concern of safety, if we are still awaiting legislation? Can anything be done in approaching those Dependent Territories; how far does the writ of the Department of Transport run there?

(Mr Dempster) We are certainly not sitting and awaiting legislation, because I would not suggest that legislation will provide the instant and total answer to the problem; but it would undoubtedly assist. I think the three Territories we would regard as having a problem, or a potential problem, are the Cayman Islands, Gibraltar and, possibly, Bermuda. In all three cases we have had considerable discussions with the administration; and in the case of Bermuda and Gibraltar we have sent them an outline of the kind of administration we would look to see before the International Conventions could be extended to them, and in all three cases we have further meetings planned in the hope of taking this forward.

732. Is not the problem, anyway, one of enforcement? The vessels may never go anywhere near the Cayman Islands or Bermuda, or even Gibraltar. You can have as many Conventions as you like, but is not enforcement a very major difficulty?

(Mr Dempster) Yes, but if the Conventions are extended to ships registered in these Territories then they will be required to have Conventions Certificates when they enter port, and if they do not have the Certificate they are liable to be detained. At present, of course, they are not Conventions ships so they are not required to have the Certificates.

733. That does bring us to another question, because as you are aware we are trying to see in what way British registered vessels may be at a disadvantage. Presumably, the 'M' notices are statutory, in relation to British registered vessels?

(Mr Dempster) No, they tend to be in the form of guidance.

734. Guidance?

(Mr Dempster) The statutory requirements are contained in regulations made under the Merchant Shipping Acts. The 'M' notices tend to be more advisory in nature, though often they elaborate on technical statutory requirements.

735. If a ship owner ignores an 'M' notice, what happens?

(Mr Dempster) That would not normally, in itself, be an offence; though, of course, 'M' notices may, for instance, draw attention to potential offences.

736. If a ship owner ignores an 'M' notice, is any reference made to the insurers of that vessel?

(Mr Dempster) Not normally, I think, no.

Mr Ross

737. What sort of arrangement do you have with the Republic of Ireland? We can all remember that, very recently, a tanker which was known not to be in total seaworthy order was taken to sea by the Captain, with disastrous results, in the South of Ireland. Have we any jurisdiction over, or any sort of links with the Republic of Ireland, any joint arrangements over the serving of notices or ships' safety requirements?

(Mr Dempster) Of course, the Republic of Ireland is a totally independent country, although we do have certain reciprocal arrangements as regards the certification of our officers, which broadly extend to certain Commonwealth countries and they also apply to the Republic of Ireland and citizens of the Republic of Ireland.

738. We could not, in effect, request the Republic to serve a notice on the captain of that particular ship to prevent him sailing?

(Mr Dempster) Not so long as it was in the Republic; that would be a matter for the administration in the Republic.

Mr Trotter

739. Chairman, you mentioned the question of insurance; I wonder sometimes why it is that people are able to obtain insurance for a vessel that has not been properly maintained and perhaps not properly surveyed either. How do they actually obtain that insurance?

(Mr Dempster) This is the main function of the Classification Societies, to assist them to obtain insurance. I do not know if Dr Cowley can add any more?

(Dr Cowley) I think that insurance is a matter of assessing the risk.

740. You mean the premiums are higher in some cases?

(Dr Cowley) That is the way insurance works, yes.

741. But if the ship is going to be lost, the premium would have to be 100 per cent, would it not?

(Dr Cowley) I think that you can spread the loss. Our losses at one stage of our history were very high, but the insurance companies still stayed in business.

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[*Mr Trotter Contd.*]

742. You have mentioned one particular Dependent Territory where the Port surveys had shown an unfortunate record. What Classification Society would have been involved there; was there any pattern to it to your knowledge?

(Mr Dempster) I do not think that we have records of the Classification Societies involved.

743. Am I wrong in suggesting that there might be a connection between classification and failure of the inspection in those circumstances? Would it be possible to have a perfectly correctly issued Certificate and still fail the Port State check?

(Dr Cowley) If the ship is a non-Convention ship and it goes into a port, if it came into the United Kingdom, our Customs would tell us that it was here, and we would then get a surveyor down to look at that ship and do an inspection on it. If it were found to be satisfactory then we would not detain it, even though it did not have a Convention Certificate. We would not detain purely for the sake of not . . .

744. But were there cases of detention where they did have a Certificate?

(Dr Cowley) Yes.

745. And should they have had a Certificate in those circumstances?

(Dr Cowley) It can happen that it might be for one particular item, that it is detained. Generally speaking, the ships that are detained are non-Convention ships, but you have got to be very careful when you are talking about Conventions, you have to say which Convention, because most countries are not, for example, party to the Marine Pollution Convention; most countries have not yet ratified that Convention.

746. I am not sure whether I am getting a wrong lead here, but if the ship does belong to a Convention country there seems to be an inference that it would be less likely to be subjected to inspection?

(Dr Cowley) If there were two vessels in a port and we had one surveyor, he would obviously go down to the ship which did not have a Convention Certificate. That would get the priority for inspection.

747. Those Certificates are effective are they? Because a ship has got a Certificate then you could expect it to pass if it was examined?

(Dr Cowley) You could expect it . . . I'm sorry . . .?

748. Just the possession of a Certificate does not seem to me to mean that necessarily it would pass its inspection if it were to be inspected.

(Mr Dempster) I think it is a bit like a car test. When your car passes its MoT test it may be fully up to standard on that day, but of course 11 months later it could have been allowed to deteriorate; and that sort of thing can happen with the ships as well.

Mr Fry

749. That makes a very interesting analogy. If I am driving a car and I am involved in an accident, and the car technically is not roadworthy, the insurance company is quite likely to evade any kind of responsibility. What is the situation in relation to a ship owner, if a ship has a calamity of any kind and it is quite clear that the ship has not observed the 'M' notice; what happens then?

Mr King: How do you find out if it is at the bottom of the sea?

(Dr Cowley) That would weigh against the ship in any court case or public inquiry that were to be conducted. It would be taken into account. That is one of the first things that is asked, "Did the ship comply with all the statutory requirements?"

Mr Trotter

750. Chairman, if a car has had some difficulty getting through its MoT test and it is 10 or 11 years old, then it is likely to fail the next one at the end of the year. Would there not be a case for saying that at least some of the ships ought still to be subjected to an inspection, bearing in mind the age, the registry, etc., even if they did get through their MoT test some months previously?

(Mr Dempster) Oh, indeed, and I think obviously it is well-known that the older ships are more likely to give problems than younger ones. As Dr Cowley says, in deciding to which ships to send our surveyors to carry out an inspection, we would tend to go for the older ones and those from non-Convention countries, also those where we know the record of the register is not as good as it might be.

So, it is both.

(Mr Dempster) Yes.

Mr Trotter: I rather got the impression that the priority was always being given to those that were not in the Convention.

Mr Fry

752. I wonder whether we might now turn to the Secretary of State's proposals of 10 December 1986, ie, the setting up of a Merchant Navy Reserve, help with training and help with repatriation expenses. How is the Department getting along with those proposals, and could you tell us whether the Marine Directorate would be responsible for implementing them?

(Mr Dempster) I think Mr Battersby has been more closely concerned with this than I. To answer your last question, my colleague, Mr Sunderland, whom you met on the previous occasion on which the Department gave evidence, will be in the lead in taking those proposals forward; but I think Mr Battersby can probably give you an up-date on how we are getting on.

(Mr Battersby) Mr Chairman, the Secretary of State made three proposals, which in outline took the form of direct financial assistance for British shipping, as defined. This assistance would take the form of help with the costs that are incurred by shipping companies in the normal course of routine operations in repatriating crews as a matter of routine turnover. The costs of this operation are probably of the order of £7 million a year. The precise details are not yet formulated, but in order to achieve the Secretary of State's objectives what we envisage is that the assistance would be directed to crew changes of people resident within the British Isles—the point there being that Irish residents are very important as a component of our total—and also, of course, we must not be at risk of breaching other law, such as, for

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[*Mr Fry Contd.*]

example, the Race Relations law. Also, these benefits would pertain to ships registered in the British Islands under the law of the UK and the Crown dependencies of the Isle of Man and the Channel Islands. As I say, the details are still being developed but we envisage that the crew changes which would benefit would be those that were effected outside the limited European Trading Area, which is a legally defined area, which roughly means outside the area stretching from Gibraltar to North Cape. The obvious point there being that the costs incurred in crew changes within that area are not so heavy a burden on ship owners. The costs that it is envisaged would be reimbursed would be twice yearly crew changes and would cover the cost of economy air travel, which is the normal means nowadays of bringing crews home and taking them out again, together with the subsistence that was associated with that journey. If I may then move on to the formation of a Merchant Navy Reserve, here we have yet to develop our ideas in close detail. The broad objective is to establish a body of Officers who would be prepared to serve in defined circumstances; we have yet to decide the period of service and the reward, the bounty, call it what you will, that would be an attraction. Obviously enough, it is important not to compete with public money for other categories of seafarers who are earmarked for Her Majesty's Service in Defence Auxiliary Services. We need to consider very importantly here the question of training, because the validity of a seafaring Officer's certificates expires after a period; so that if we were to have recourse to the body of certificated Officers who had left sea service because of the decline of the fleet, and are now engaged in other employments, but who have declared their willingness to be considered in time of emergency, then obviously enough a revalidation process would be necessary. There are a number of uncertainties to be resolved here. Another decision, of course, is the degree of compulsion that would be appropriate for a Reserve of this sort; would it be wholly voluntary, or would it be in exactly the same form as the obligation that is incurred by a member of, say, the Territorial Army, who has a legal requirement to report to his Unit in the event of the proclamation of an emergency? I then turn to training. Here, too, there are considerable uncertainties. The Secretary of State's objective is to train cadets in larger numbers than those that are now currently entering the Merchant Service. What those numbers should be is still a matter for consideration. Perhaps the problem can best be put in terms of the obvious difficulty of training young people in a vocational field where, for reasons that are well known to the Committee, the employment opportunities thereafter are at best uncertain, and perhaps non-existent. It is because the employment opportunities are what they are that the need to stimulate recruitment and to support it exists. This is not an easy problem to resolve, and we are still thinking our way through that.

753. We have been given evidence to indicate that certainly at Junior Officer level we are reaching almost a crisis situation, and that in fact the jobs are available but we are just not recruiting. I would invite you to comment on the point that there is a question of getting our act together, in relation even to providing some kind of central information to any young man, or indeed any young woman, who decides that they want to adopt this career; because we have been informed that this method of imparting information just now does not exist.

(Mr Battersby) Imparting information on career opportunities in the Merchant Navy?

754. Yes.

(Mr Battersby) Chairman, I must ask you to forgive me, I do not feel able to advise you on that point.

Mr Dicks

755. It has been three months now since the Secretary of State made his major statement, and with great respect to Mr Battersby all I have heard is, "We are still thinking about this, and we are still thinking about that; there is nothing final about this, there is nothing final about that." In the meantime, the Merchant fleet is declining rapidly. It is three months, and I would like to know, when you say, "We have talked about this" in whose in-tray are the proposals or recommendations, and how long have they been there, and when are they going to move from one in-tray to another in-tray and when are you going to come back and tell us that action has been taken and some proposals have at least been formalised, as against, "Well, we are thinking about it"? There are implications here. Twelve weeks is a substantial time in the circumstances of a declining Merchant fleet. I just begin to wonder where the priority is, if it has any priority at all, in your Department.

(Mr Dempster) I think I should explain that these proposals will all require legislation before they can be put into effect.

756. I do not dispute that.

(Mr Dempster) There is no provision in the present programme for a Merchant Shipping Bill, but I think we are optimistic that there may be a chance in the next.

757. Can I say, Chairman, to follow on from that, I accept exactly what you say, but I think it would be encouraging for the Industry itself, and maybe it would raise their morale, to know that action is being taken and that people in your Department are not just talking in generalities; because a great deal of what was said could, I think, have been gleaned from the speech made by the Secretary of State. With great respect, I do not think we got much further on in reply to the original question.

(Mr Dempster) We are in discussion with both sides of the Industry, both the General Council and the Seafarers' Unions, in developing these proposals; so I certainly would not want the Committee to get the impression that we are still just thinking about them within the Department.

Mr Mudd

758. I wonder if Mr Dempster could provide, for the convenience of the Committee, a list of the people with whom discussions have commenced and the dates on which those discussions got under way; because the Committee has been told by a whole range of witnesses, whom one would assume would have some interest in the matter, that they have heard not a single thing since the Secretary of State's statement on 10 December. So, may we please be precise, may we ask who has been

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[*Mr Mudd Contd.*]

consulted and the dates and degree of those consultations to date?

(Mr Dempster) I can certainly arrange for the Committee to have that information. I am not personally responsible for them so I cannot, I am afraid, offer an answer off the cuff.*

Mr Fry: Thank you, Mr Dempster, Mr Battersby and Dr Cowley. We are grateful to you for coming specially this afternoon, and on behalf of the Committee I would like to express our gratitude. Thank you.

* *See* Further Memorandum, below.

Further Memorandum submitted by the Department of Transport

There were two points on which the Department undertook to provide further information.

ASSISTANCE TO THE SHIPPING INDUSTRY

The Committee asked for a note on who had been consulted, and when, about the package of initiatives announced by the Secretary of State for Transport on 10 December.

We have had three useful meetings with the General Council of British Shipping. The latest, on 5 March, included representation by the British Motor Ship Owners Association, and considered a paper in which the Council set out its views on how Government assistance on training could most effectively be directed.

A meeting was held on 12 February with the National Union of Marine, Aviation and Shipping Transport Officers. The National Union of Seamen had to cancel a separate meeting arranged for the same day. We subsequently wrote to the Union offering to reschedule the meeting or take their written views. The Union have now responded in writing. We have also recently sought the views of the Transport and General Workers Union.

Following the Nautical Institute's submission to the Select Committee, we have invited them to develop for us their ideas on training. On 25 February we met, separately, two other interested parties—Clyde Marine Training and Recruitment Ltd, and Curnow Shipping Co Ltd—who had made interesting submissions to us. There has been subsequent correspondence.

We shall continue with these consultations, and remain happy to consider views from any other interested parties. As the Secretary of State made clear when announcing consultations on these initiatives, legislation will be required to put each of them into effect, but on timing I do not think we can add anything to the comments made by Mr Dempster on 25 March (Q 756).

PORT STATE CONTROL

Mr Dempster offered to send the Committee a table showing those flags with a worse than average record for delay or detention of their ships. A copy of the table is attached*.

It is extracted from a report for the period mid-1984 to mid-1985 published by the Port State Committee which was set up under the Memorandum of Understanding on Port State Control (the Paris Memorandum of July 1982). Belgium, Denmark, Finland, France, Federal Republic of Germany, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden and the UK are parties to the Memorandum.

Foreign ships are inspected by Government Surveyors using the standards set by International Conventions. Each Administration undertakes to inspect 25 per cent of ships calling into its ports. The French Administration provide, on a shared cost basis, a centralised record of information.

* *See* p 228.

15 *April* 1987

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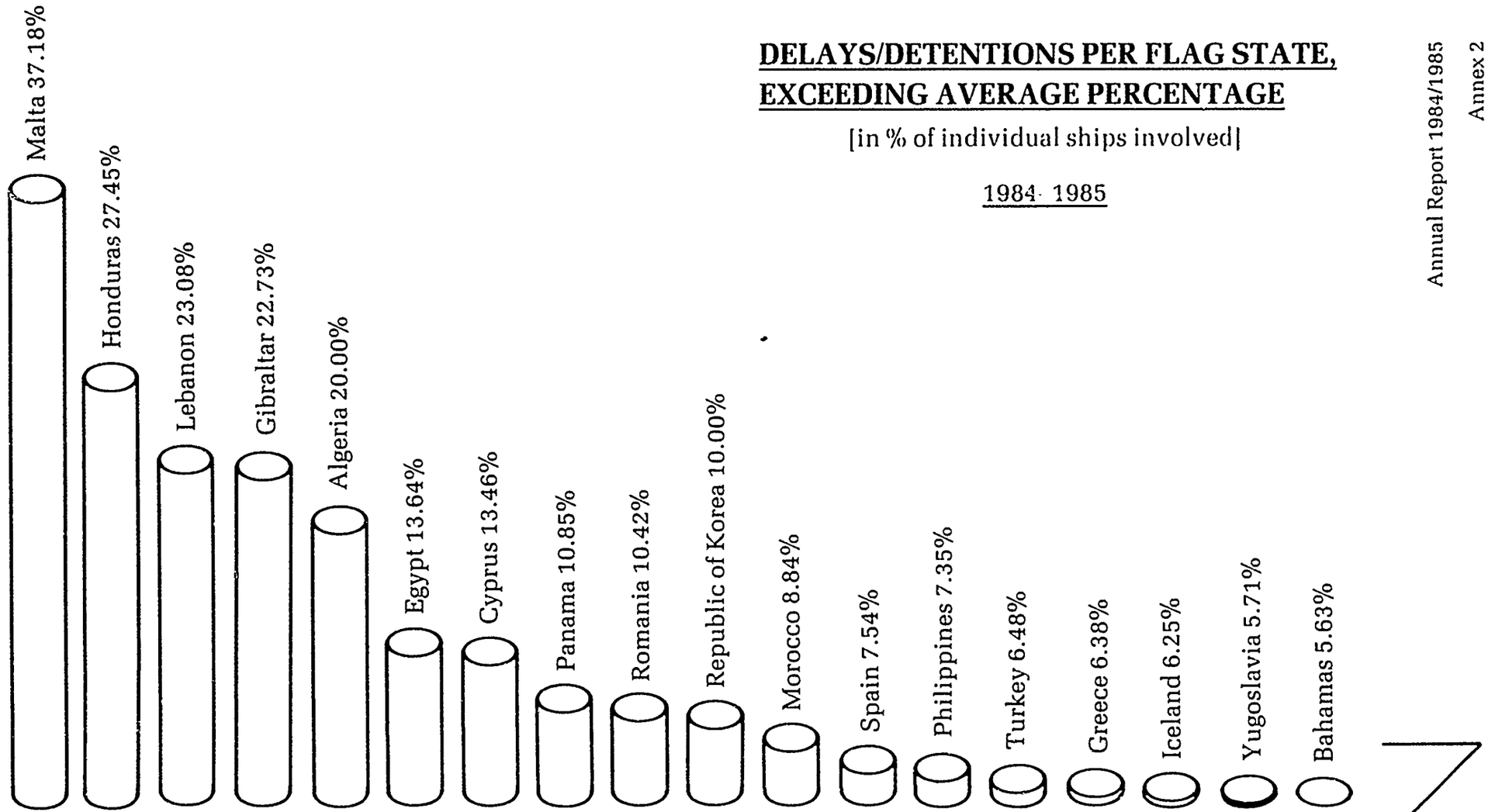
DELAYS/DETENTIONS PER FLAG STATE, EXCEEDING AVERAGE PERCENTAGE

[in % of individual ships involved]

1984-1985



NOTE: In this diagram only those flags have been inserted of which 20 individual ships were involved.
This diagram does not reflect the total number of calls by individual ships in the region.

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HOUSE OF COMMONS

TRANSPORT COMMITTEE

Session 1986–87

DECLINE IN THE UK REGISTERED MERCHANT FLEET

MINUTES OF EVIDENCE

Tuesday 31 March 1987

British Offshore Support Vessels Association

Mr P J Wordie, Mr H L Tottenham, Mr H G Davy, and Mr R D Kenward

BP Shipping

Mr M R Pattinson, Mr W J Thomas, Mr N Hartley and Mr K Horsman

Shell Tankers UK Ltd

Mr J D Rendle

Ordered by The House of Commons *to be printed*
31 March 1987

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TUESDAY 31 MARCH 1987

Members present:

Mr Gordon S. T. Bagier, in the Chair

Mr David Gilroy Bevan
Mr Sydney Bidwell
Mr Den Dover
Mr Peter Fry
Mr Roger King
Mr David Marshall
Mr David Mudd
Mr Stephen Ross
Mr Neville Trotter

Memorandum submitted by the British Offshore Support Vessels Association (BOSVA)

EXECUTIVE SUMMARY

The Importance of the North Sea to the UK

The UK Continental Shelf is *by far the largest offshore oil and gas market in the North Sea.*

In 1985 the UK sector provided *25 per cent of all new industry investment in the UK* and produced *just over 5 per cent of our GNP.* UK Sector business also represents *over two thirds of total offshore activity within the European Economic Community.*

Why do Offshore Supply Vessels Matter?

Without offshore supply vessels (OSVs) offshore exploration and production *would be impossible.* They represent a *new industry,* which despite present problems, has an *exciting and valuable future.*

British investors in the UK OSV business included much *new blood* and *doubled* the anchor-handling and platform supply vessel fleet between 1975 and 1985.

The *diversity of conditions* in the UK sector, coupled with the increasing demands of the oil companies, has presented *unique challenges* to OSV owners. British owners have met these challenges with *high quality personnel, equipment and service.*

OSVs are *increasingly* vital to the *maritime* and *national* interests of the UK:—

- they are the *umbilical cord* on which the offshore fields bringing in the UK's major national strategic resource *depend* for their *supplies, maintenance* and *marine support.*
- British owners are leaders in *offshore marine technology,* an *export* as well as a *national* commodity.
- OSVs have provided, and should provide in future, valuable work for the UK's *shipbuilding* and *shiprepair* industries: such vessels are small in size but *sophisticated* and *technologically advanced.*
- They employ highly *trained and skilled seafarers,* bred on the demand for efficiency in a hostile working environment.
- their role in the UK's *defence planning* is increasingly important. The acknowledged shortage of Mine Counter-Measures vessels *can no longer be met by the fishing fleet.* This need therefore must be met largely by OSVs, which would have many other defence tasks to perform.

The Problems British Owners Face

The UK Sector should provide scope for *continuing expansion* in the OSV industry and a *springboard for the export of technology and services* to other markets.

The opposite is true. The offshore *success story* is at the point of a *dramatic reverse.*

Even *prior* to the disastrous impact (on the entire offshore sector) of the 1986 oil price collapse, *the restrictive policies and practices of others and the UK's own "open market" philosophy* had taken their toll. Several factors combined in this *attritional attack* on the position of British OSV owners:—

PROTECTIONISM

- Protectionism is exercised in *every other offshore market of any significance.*
- By contrast, there has been a *total absence of restrictions on participation by foreign vessels in the UK sector.* Only recently has the Department of Energy's Offshore Supplies Office taken the very welcome step of declaring the British OSV industry an area of "special interest".

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FINANCIAL PACKAGES

- our major competitors have access to *fiscal* and *financial* assistance *far superior* to any currently available to British owners. In 1984, by contrast, the last significant fiscal support to British shipowners was *abolished* and has since been only *partially* restored.

OVERTONNAGING

- There has been *unrestrained over-building* of OSVs abroad, particularly in Norway, Germany and the USA prompted by *domestic tax and subsidy incentives.* Norwegian owners, faced with more than 100 per cent over-capacity for their home markets, *dumped* large numbers of vessels in the UK Sector.

OIL PRICE FALL

- More recently the contraction of the market for OSVs, caused by the oil price collapse, has largely *negated* the benefits of the Offshore Supplies Office's initiative.

Solutions

Eventually there will be a *recovery* in offshore activity.

If the British OSV industry is to share in that long-term recovery, the *short term necessity* is a *survival package.*

The *financial state* of the industry *demands* this solution, which can only be achieved with *active Government support.*

THE MINIMUM OF SUCH SUPPORT COMPRISES:—

- RESTRICTION ON ENTRY to the UK market by *foreign flag* OSVs, combined with
- Tight CONTROLS over the INWARD REGISTRATION of *foreign-owned* OSVs to the UK.
- FINANCIAL PACKAGES TO MATCH those available to foreign competition, especially in the form of LOAN MORATORIA or RESCHEDULING OF DEBT REPAYMENTS.
- Assistance with the cost of REDUNDANCY in the present crisis.
- Assistance with the cost of TRAINING and REPATRIATION EXPENSES with a view to the future.
- Possibly, financial assistance in company RESTRUCTURING.

These involve both SHORT TERM ACTIONS AND LONGER TERM POLICIES.

FLAGGING-OUT

Owners are actively examining the advantages and disadvantages of *flagging-out* to *reduce costs.* This option is *not* a cure-all for British Operators (although in the last resort it may provide some contribution).

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Part I—INTRODUCTION

Background—BOSVA and the Offshore Fleet

1.1 This submission is made by the British Offshore Support Vessels Association (BOSVA) which is an independent Association representative of the Offshore Supply/Support Vessel (OSV) Sector of the British Shipping Industry. Further details of the Association and its members are at *Annex A.*

1.2 The total fleet serving the UK's offshore industry covers a fascinating array of operations:—

anchor handling and towage
platform supply
stand-by safety
seismic survey
fire fighting
saturation and air diving support
mobile rigs
heavy lift/construction
floating hotels
well stimulation and floating production

Currently the total size of the *United Kingdom registered* element of this fleet exceeds 300 vessels, already a notable proportion of the UK fleet, and *that proportion will grow.* The relative importance of the offshore sector to the UK is described in more detail at *Annex B.*

1.3 BOSVA's members are primarily concerned with platform supply and anchor handling vessels (generally classed together as "offshore supply vessels (OSVs)") which form the basis of BOSVA membership. The *Anchor Handling Tug/Supply Vessel* performs a vital function in towing and manoeuvering rigs and in securing them in their drilling position. For this purpose they have great towing power ranging from 4,000–14,000 BHP, but they also commonly act as normal supply vessels. Then there are the more straightforward *Platform Supply Vessels*—multi-role cargo carriers, transporting casing and other hardware, containerised supplies and bulk shipments of water, fuel oil, brine, chemicals, liquid (drilling) mud and cement. These do not require the same power as the anchor handlers, ranging from 2,000–5,000 BHP, but the requirement for good sea-keeping and manoeuvrability is just as high. An examination of the roles performed by these vessels will show that the conventional measurement of deadweight tonnage is not relevant to the Offshore function. Anchor handlers and supply vessels are small in size but they are *sophisticated and hence comparatively expensive vessels.* British owners are *technological leaders* in the offshore world and were first to meet the latest specifications for carrying *brine, chemicals* and *liquid mud.*

1.4 The importance of these ships to the offshore industry is paramount. *Without them offshore exploration and production would not be just difficult—it would be impossible.* The British sector demands the ability to operate over the full spectrum of the offshore working environment: rough weather in the Northern Sector and milder conditions in the South; deep water—shallow water; smaller fields—larger fields; long swell down to vicious tides. This extraordinary diversity of conditions in our home waters produces for OSV operators both the problems and the challenge to provide the right equipment and service to meet the needs of the oil companies.

1.5 The OSV industry is *both a direct and indirect investment in jobs and expertise*—seafarers and shore personnel in the companies and those in ancillary activities, notably *shipbuilding* and *repairing.*

1.6 It is notable that the current *worldwide* newbuilding order book for merchant vessels to be owned and registered in the UK amounts to only 11 vessels. Contrast with this the fact that in the past 12 months seven OSV newbuildings have been delivered to BOSVA members by *UK shipyards,* which have also carried out a similar number of major conversions.

Future Prospects

1.7 *Presently, the offshore world is in crisis.* Recovery will come eventually, though to what extent and over what timescale it is hard to judge as of now. *But there is a future for United Kingdom OSV owners.*

1.8 *Currently* we have 32 oil fields and 16 gas fields in production. 153 major discoveries are *as yet undeveloped,* including the largest of all "the Clair Field". All of this in only a quarter of the British sedimentary basin. Large areas west of Scotland (the Rockall Trough) have not yet been touched. They await the 21st century and further advances in technology. All this activity will require the services of OSVs. *Preferably they should be British.*

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Part II — ANALYSIS OF THE PROBLEMS

The Present State of the OSV Industry

2.1 The OSV industry worldwide is currently suffering from the disastrous fall in the oil price which has led to *dramatic cutbacks in oil company exploration activity and hence in OSV employment prospects.* This shows itself in *unprofitable rates* of charter hire and *low utilisation.* These two factors were already evident before the collapse in the oil price. That has compounded the problems.

2.2 One of the worst hit areas is the North Sea: several companies in that market are in serious financial difficulty and on current forecasts there is no prospect of any significant improvement over the next three years, if not longer. The primary cause is massive over-building in the early 1980s, led by Norwegian, German and American owners. There is ample evidence that decisions to build by *non-UK owners* were largely driven by *fiscal and subsidy advantages* rather than market demand and responsible business enterprise.

2.3 The UK Continental Shelf is *by far the largest offshore area in the North Sea.* It could still provide scope for continuing growth and the export of technology and services to other offshore markets. While the merchant fleet in general has declined since 1975 the OSV industry has seen quiet but spectacular growth. *Now the offshore success story is at the point of dramatic reverse,* because of the *surplus of tonnage over oil company demand* for offshore support services and because of *the legacy created by the protected home markets of our competitors and our own open trade policy.*

2.4 The oil price fall has reduced mobile (semi-submersible and jack-up) rig activity in the North Sea by more than 40 per cent since 1985. The transformation in the offshore scene as a whole is sufficiently well known to require little elaboration in this submission. The following figures illustrate the impact this has had on *OSV operations:—*

OSVs (UK and other flags) Stationed in the UK Sector of the North Sea

In October 1985, out of a total of 173 vessels, 167 were working and six (3.5 per cent) laid up.

In October 1986, out of a total of 137 vessels, 105 were working and 32 (23.4 per cent) laid up — a reduction in the number of vessels employed of 37 per cent.

OSVs (UK and other flags) Stationed in North Sea as a Whole

In October 1985, 302 vessels were stationed in the North Sea, of which 283 were working and 19 (6.3 per cent) laid up.

In October 1986, 292 vessels were stationed in the North Sea, of which 191 were working and 101 (34.6 per cent) laid up.

2.5 *The situation of the British OSV industry is now desperate.* Of the 102 vessels currently operated by BOSVA members only 46 per cent are in regular employment (ie, on term charter). Almost one third are laid up and 24 per cent are gaining only irregular employment on the spot market, where average vessel utilisation is now less than 50 per cent. British owners will tend to leave vessels in the spot market rather than lay-up because of the costs (in redundancy payments) of taking that further step. They cannot move into and out of lay-up as they wish — a facility which is available to some others. The pattern of BOSVA members' vessels current employment is shown at *Annex C.*

2.6 The oil price fall has, of course, been disastrous for all offshore service industries. *The root of the problem for the OSV industry, however, goes back well before the recent cuts in exploration activity.*

The Competition we face

2.7 In a perfect world British owners would be content to leave the problems for resolution by so-called market forces — on equal commercial terms the British industry is not afraid of competition. The plain truth is that several non-commercial factors have operated *to place British owners at a serious disadvantage:—*

(a) *Trading Restrictions*

2.8 Until 1986 there was a total absence of restrictions on participation by foreign vessels in the UK offshore supply market. Now, possibly as a temporary measure, the UK Offshore Supply Vessel sector has been declared an area of special interest by the Department of Energy, under the Full & Fair Trading Opportunity policy. This has enabled the Offshore Supplies Office (OSO) to monitor term charters with the result that British ships have been able to win a larger share of a currently fast diminishing market. But much damage had already been done for, by contrast, *protectionism has been exercised either overtly or covertly in every other offshore market of any significance abroad and for many years.* The extent of protective measures in the offshore world outside the UK is demonstrated in the summary at *Annex D.*

2.9 These measures are driven by the *political will* to ensure, by whatever means necessary, that a *strong indigenous presence* is maintained. *Until recently, this political will has been totally lacking in the UK.* For the sake of the UK's shipping industry in general, and in particular the OSV industry, a permanent stand must be taken, at least until others show evidence of a permanent change of policy to unqualified free access. For example, it is intolerable that Norwegian-owned vessels should have benefited from up to 30

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per cent of the UK sector market over a period when non-Norwegian vessels have enjoyed at most 3 per cent of the Norwegian market. Over the same period Norwegian owners have been encouraged to build vessels to *more than double* their domestic market requirements.

(b) *Finance*

2.10 *The supply side of the industry has been disastrously over-tonnaged by foreign investors,* principally but not wholly in Norway, who have built ships for personal tax shelter purposes or driven by incentives offered by subsidised domestic shipbuilding, not commercial purposes. Tax driven investors need not seek a commercial return, and worse still, the need for reinvestment creates a continuing requirement for yet more tonnage to invest in when commercial prudence, even among the most "adventurous", would warn otherwise. At the same time, these investors are protected from the worst of the ravages which they have caused in the market by being able to defer capital repayments for up to three years. British owners on the other hand can only stay in business by making a sufficient profit to encourage their shareholders to continue to support that business and to reinvest in the future.

2.11 *The UK OSV industry's major competitors enjoy fiscal and financial assistance far superior to any currently available to British owners.* Again, the effect is to lower the required rate of return on investment and the level of cashflow required to stay in business. All BOSVA's member companies are incurring a trading loss on their OSV business. Most companies involved in this sector are only managing to stay in business by subsidising their OSV operations from other areas of income or the sale of assets. The impact on the OSV industry generally is described briefly at *Annex E.*

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Part III — THE WAY AHEAD

(a) *Trading Restrictions*

3.1 The single most important objective in the situation described above must be to temper the UK's free market approach to shipping with a *healthy dose of perfectly reasonable pragmatism.* While in BOSVA's view this is equally true of other sectors of shipping, notably coastal trade, it is surely unthinkable that the provision by British companies of *an essential marine logistics link to the UK's offshore oil fields* should be sacrificed on the altar of free trade.

3.2 In the highly specialised offshore sector of shipping there are virtually no large free markets left other than the UK sector of the North Sea. "Protectionism" in this context is much misunderstood and *any* restrictions are generally denounced by somebody as protectionism. But *there can be nothing inherently wrong with a Government acting to protect the livelihood of its citizens and trade in its coastal waters, where these are at risk.*

3.3 If shipping is to be considered as a *strategic industry* (and given the UK's geographical position and the extent of our offshore resources, it can hardly be otherwise), then it *needs Government protection.* The offshore sector, furthermore, is comparatively still a young industry — like many industries in their youth, there may be some need for parental protection. This is not necessarily the same thing as "protectionism". If a free market policy is to work it must be widely accepted: since *free trade is honoured more in the breach than the observance,* BOSVA would argue that a policy of protection is not only irreproachable but essential. In the OSV sector, the realistic building policies of British owners have been totally negated by *lack of protection,* which has allowed foreign tonnage built for domestic tax reasons to be dumped in the UK sector, trading at non-compensatory rates which *destroy the market and with it the incentive for UK companies to invest.*

3.4 It is BOSVA's view that in recent years the Foreign & Commonwealth Office could have exercised a more beneficial influence on British shipping policy by playing down exaggerated fears of "retaliation" if any so-called "protectionist" measures were to be introduced by the UK. These are totally illogical fears, as evidenced by the impression that the UK never retaliates against similar measures imposed by other states.

3.5 It is BOSVA's firm belief that such measures as advocated below would help British shipping generally, not only the offshore sector. All the serious conceivable "counter measures" already seem to be in operation against us. There may be no need for primary legislation to achieve the desired ends. They might be implemented, for example, by a form of *licensing system* for OSV operators in the UK sector, following the many precedents set elsewhere in the world.

3.6 *A pragmatic dose of protection would not be a counsel of despair:* rather it would show the world that the UK means to fight for its rightful share of maritime trade, and for the employment and balance of payment advantages this can bring. British shipowners can still be Merchant Adventurers, *given a fair chance.*

3.7 In BOSVA's view the present situation demands that the Government addresses urgent attention to the following areas, the first two in respect of both UK coastal and offshore trades and the other two in respect of the offshore sector alone:—

(i) *Cabotage*

3.8 It is patently inequitable that UK coastal waters should remain open to all-comers while cabotage restrictions exclude British owners from coastal and offshore work in the vast majority of other EEC countries. BOSVA believes that *retaliatory cabotage* (to include the offshore sector) *should be introduced immediately by the UK* and should remain in force until *all* our EEC partners open their coastal trade fully to UK ships. At that time, cabotage on a EEC basis should be enforced. This scenario would allow healthy competition, but it is unlikely ever to come to pass unless the UK acts unilaterally in the first place. Shipping policy discussions within the EEC have consistently failed to find an answer satisfactory to the interests of British shipping on the basis of unanimous agreement. They envisage overlong timescales for dismantling of current cabotage restrictions and seem to allow derogations for certain countries in areas where what they regard as the national interest is concerned. If derogations are acceptable for others then BOSVA considers that the offshore sector should be retained as a strictly British preserve on *strategic grounds.* EEC cabotage need not produce inefficiency — trading on equal basic terms an efficient company will always beat an inefficient one.

3.9 Cabotage and restricted entry to the UK offshore sector would bring real benefit to British owners. Such real benefit was *totally lacking* in, for instance, the recent *UK/Federal Republic of Germany Agreement* supposedly ensuring equal access by British and German owners to each other's coastal and offshore sectors. The effect of this was to open the UK sector totally to German owners *with nothing in return.* The German offshore sector is practically moribund; as for coastal trade, a recent study demonstrated that local subsidies enable German ships to operate at 30 per cent below British costs, which renders any significant penetration of the German market by British owners highly unlikely.

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(ii) *Cargo Reservation*

3.10 It is a common practice worldwide by Governments that *certain specific cargoes are reserved for carriage by national flag vessels.* Strategic, overseas aid and other types of shipment regarded as important to the national interest are common examples. The UK does not do this to any significant extent and the introduction of such a policy would bring tangible benefits to British owners. *Offshore supply operations* could, quite naturally, be brought under the umbrella of *"strategic"* shipments.

(iii) *Safety Zones*

3.11 Most offshore sectors outside the UK are subject either to *overt national flag requirements* or to *licensing* or similar systems which make participation by foreign owners difficult and expensive, if not impossible. Part of the mechanism for implementing a similar system in the UK is *already in place* in the shape of the Department of Energy's *Offshore Supplies Office.* The OSO should, in BOSVA's view, be given more executive power to restrict access to the UK offshore market to UK ships by means of a strict licensing system *operated according to the requirements of the market.*

3.12 In conjunction with this, the strategic nature of the oil industry should be reflected in the enforcement of *"safety zones"* around all UK offshore installations and rigs. Access to these zones should, in the first instance, be restricted to genuine British ships.

(iv) *Registration of Ships in the UK*

3.13 Virtually every traditional maritime register requires a degree—and in many cases a very significant degree—of *genuine* inward investment when ships are entered on the register of that country. Requirements for *joint venture arrangements* or the *establishment of a company* in the country of registration with a proportion of national equity (50 per cent or more), are commonplace. Furthermore, *change of a vessel's registry* is now more often than not a pre-condition for obtaining contracts in offshore markets outside the North Sea.

3.14 The conditions for registering a ship in the UK, by contrast, are hardly onerous. They are justified as a means of encouraging inward investment, but in practice allow a foreign operator to establish a token presence to plunder the British market with a minimum of genuine investment. It is BOSVA's contention that UK registration conditions should be tightened to prevent abuse of the system by foreign owners seeking short-term advantage in the UK sector. Furthermore, such action would be *essential* in the event that any restrictions were imposed in future on the activities of foreign-*flag* OSVs in the UK sector.

3.15 The registration laws also permit foreign owners to flag-in to the UK without any tangible economic commitment to the UK. A distinction needs to be sought as between the long-term investor and the temporary opportunist. The industry and the country have benefited from long-term investors—their continued partnership is to be encouraged.

(b) *Finance*

3.16 With regard to *fiscal policy,* BOSVA supports the policies of the General Council of British Shipping (GCBS) in seeking *improved capital allowances* and *reducing the effect of balancing charges.* British OSV owners are disadvantaged fiscally and would like to see an improvement. Support is also needed to secure a *moratorium* on loans for ships built in the UK—to match those available to foreign competitors—and in the *re-scheduling of debts.* The application of all such facilities to *secondhand ships* is a vital ingredient for longer-term investment. *Subsidies are not the answer:* since OSV owners are effectively subsidising multi-national oil companies in the UK sector (by operating ships at below operating cost in order to achieve any degree of cashflow) they know only too well how disastrously subsidies can distort market forces.

3.17 However, on the application of the *Business Expansion Scheme* to shipping *BOSVA must disagree with the views of GCBS.* The current state of the offshore market is unlikely to attract BES investment. On the other hand, BES would almost certainly encourage new entrants to the industry should there be indications of a future market recovery. Existing operators would then be faced not only with new "assisted" competition, but also with an exaggerated increase in supply over any increase in demand. *The USA, Germany and Norway have exactly demonstrated the consequences of this scenario.* Their case-histories are a salutary precedent *which the UK should shun.* BOSVA therefore urges that the application of BES to ship chartering should *specifically exclude OSVs.*

3.18 A further possibility would be for Government to assist if owners felt that restructuring—whether through formal mergers or less formal co-operative arrangements—could alleviate the situation. *This is not the panacea to solve all problems,* but companies will be considering various methods of restructing as a contribution to survival. It is hoped that Government will adopt a helpful attitude towards any co-operative measures owners may devise. If it proves necessary to embark on more formal company restructing by merger, etc. there are certainly many precedents for Government to assist with money as well as words.

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ENVOI

BOSVA commends these proposals to the Select Committee on Transport as the minimum required to safeguard a vital British capability. The initiatives announced by the Secretary of State for Transport on 10 December are scarcely relevant to the problems confronting the offshore sector.

The companies represented by BOSVA are led by competent owners and managers but are being crippled by a disastrous market and by non-commercial factors to which there is no commercial answer.

If the Government is not prepared to foster British ownership and involvement, most of our companies will only survive as managers of foreign-flagged or controlled tonnage—the impetus to invest and expand will have been lost. Our members would still be in business, but the UK would come to regret its refusal to intervene.

The UK should remember what Britannia's trident is for: it is to *increase and encourage* our maritime industries, and it urgently needs to be *sharpened* for the purpose.

December 1986

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ANNEX A

BOSVA—FORMATION AND OBJECTIVES

The British Offshore Support Vessels Association (BOSVA) was formed in January 1985 as the trade association for 12 companies (now increased to 13) operating offshore supply/support vessels (OSVs). A list of the Association's current members is at foot. These companies operate more than 100 OSVs—more than 80 per cent of the UK-registered OSV fleet. The remaining 20 per cent is largely Norwegian flagged-in tonnage.

The Association is affiliated to the General Council of British Shipping (GCBS) and its members had previously comprised the Offshore Section of the GCBS. However, by 1984 conditions in the offshore business had demonstrated a need for independent representation of the views and problems of this sector. There were at that time some differences of philosophy on, for example, traditional attitudes on "free trade"—though nowadays the shipping industry generally appears to favour a more pragmatic approach. The OSV companies therefore formed BOSVA so as to have an unequivocally independent voice for this important sector of British shipping.

BOSVA's members represent new blood in the shipping industry. Few of them have any connection with "traditional" shipping activities.

BOSVA Members—December 1986

Alexandra Marine Ltd.
BUE Offshore Vessels Limited
Lowline Limited
The Maersk Co. Ltd.
Northern Marine Management Ltd.
OIL Ltd.
Seaforth Maritime Ltd.
Star Offshore Services Marine Ltd.
Stirling Shipping Co. Ltd.
Suffolk Marine Ltd.
TNT Sealion Ltd.
Wimpey Marine Ltd.
Zapata Gulf Marine Ltd.

BOSVA Officers—December 1986

Chairman: P. J. Wordie, CBE. (Stirling Shipping Co. Ltd.)
Vice-Chairman: H. L. Tottenham (Wimpey Marine Ltd.)

Director: H. G. Davy, MBE.
Secretary: R. D. Kenward

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ANNEX B

THE RELATIVE IMPORTANCE OF THE OFFSHORE SECTOR

For reasons which we do not know, offshore supply vessels are not included in the statistics of UK trading ships. They should be: these ships "trade" just as tankers, for instance, do on time or consecutive voyage charters.

In relation to the oil industry, the essential role of OSVs has already been described. BOSVA therefore considers the maintenance and protection of an indigenous OSV fleet adequate to the industry's needs to be vital to the national interest.

In relation to the merchant fleet in general, the offshore sector as a whole represents about one third by number of the UK flag fleet (vessels of over 100 grt). If the decline of the cargo ships continues, it is conceivable that offshore-related vessels will soon form 50 per cent of the fleet. In these circumstances BOSVA feels that British offshore vessels should be incorporated into the statistics and that the views of the offshore sector should be given proportionate attention. This is a sector of the British shipping industry which has flourished independently of the traditional trades and which in any corporate sense is largely unconnected with them. It has been innovative, independent and with only minimal help or encouragement from Government, has become a major industry. Given the right support and a positive attitude by Government, this sector could be a leader in a resurgent UK merchant fleet.

While the offshore sector deserves more attention in its own right, it is also true to say that a greater emphasis should be placed on the interests on the "home based" element of the fleet generally. *Policy should take account of the fact that the majority of UK-registered ships—offshore related vessels, coastal shipping, tugs and fishing vessels—are now working in UK coastal waters.*

As previously stated, the OSV industry is a direct and indirect investment in jobs. OSV operators employ over 3,000 afloat and provide employment for many others ashore in their own companies and in ancillary activities, including shipbuilding and repairing.

The seafaring personnel employed by the industry are necessarily of the highest quality, because the nature of the job is far more demanding than for equivalent officers and seamen on deep sea and foreign-going vessels. The specialised skills developed over the past twenty years can provide the basis for further expansion and provide a reserve of ships and seafarers in time of emergency. But if they are allowed to decline they could not be replaced at short notice and would be difficult to replace at all.

British owners have built extensively in UK shipyards, and could provide those yards that are left with valuable employment in the future—provided that the climate for investment in the industry is improved and that the credit schemes which our yards are able to offer are brought into line with those offered by their competitors.

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ANNEX C

SUMMARY

BOSVA NORTH SEA VESSELS EMPLOYMENT INFORMATION

BOSVA's member companies currently operate just over 100 vessels in the North Sea. Table 1 below shows the distribution of these vessels as between those on long-term charter, those on the spot market (ie, seeking short-term charters of eg, 1–60 days), and those laid up for lack of employment. Statistics collected by BOSVA since May 1986 reflect, first, the decline of the long-term charter market and, second, the dramatic increase in the number of vessels laid up. The increase in the total number of "BOSVA vessels" is due partly to the commissioning of new buildings (ordered in better times) and partly to vessels returning from other markets.

TABLE 1

As at	*Term*		*Spot*		*Laid-up*		*Total*
(date)	*No.*	*(%)*	*No.*	*(%)*	*No.*	*(%)*	*No.*
23 May	56	(60.9)	24	(26.1)	12	(13.0)	92
18 July	57	(59.4)	25	(26.0)	14	(14.6)	96
29 August	55	(56.7)	25	(25.8)	17	(17.5)	97
26 September	54	(56.3)	22	(22.9)	20	(20.8)	96
10 October	50	(52.1)	25	(26.0)	21	(21.9)	96
24 October	47	(46.1)	24	(23.5)	31	(30.4)	102

For vessels on the spot-market, the impact of poor charter hire rates on cash-flow is compounded by low utilization. During the summer months utilization would normally be expected to improve. The consequences of the oil price fall have, on the contrary, ensured that average spot utilization over the middle of 1986 barely scraped above 50 per cent and now is disastrously low. This process is graphically illustrated by Table 2 below.

TABLE 2

Average Spot Utilization (BOSVA vessels) May-October 1986

Period—Fortnight up to:	*Utilization (%)*
23 May	48.7
18 July	55.9
29 August	51.2
26 September	38.5
10 October	41.5
24 October	38.1

In summary, the salient point is that currently *less than half the vessels operated by BOSVA members in the North Sea are in regular employment.*

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TABLE 7.2 ANNEX D

Restrictions on Non-national Supply Vessel Operators

	Italy	Spain	Greece	Egypt	Tunisia	Nigeria	Saudi Arabia	UAE	Qatar	India
Nationality Restrictions										
% of company to be nationally owned	Yes	—	50%	50%	50% (a)	40%	51%	51%	100%	75%
Local representation required	Yes	Yes	No	Yes	No	Yes	Yes	Yes	Yes	Yes
Use of national vessels when available	Compulsory	Compulsory	Compulsory	Compulsory	Preferred	Optional	Preferred	Preferred	Compulsory	Compulsory
Time restriction on foreign-owned vessels	90 days	6 months	—	Yes	3 months	—	—	—	—	—
Re-registration of foreign-owned vessels	Preferred	—	Preferred	Preferred	Preferred	Optional	Optional	Optional	Optional	Compulsory
National master/officers	Yes	—	No	No	No	No	No	No	No	Yes
National ratings	100%	—	100%	100%	No	100%	No	No	No	100%
Discrimination in Tendering										
Tender list limited to Nationals	When possible	—	Sometimes	Often	Sometimes	Never	Never	Sometimes	Always	Usually
Nationals allowed to rebid	Yes	—	Sometimes	Sometimes	Often	Never	Never	Yes	—	—
Compulsory purchase option	No	—	Sometimes	Sometimes	No	—	No	No	—	—
% of market covered by nationals	Over 75%	—	25–50%	50–75%	25–50%	Under 25%	—	Over 75%	Over 75%	Over 75%
State-owned OSV operator	—	—	*No*	*Yes*	*Yes*	*No*	*No*	*Yes*	*No*	—
Financial Assistance to Nationals										
Charter rate premium	—	—	—	—	—	—	—	5.10%	—	Yes
Subsidies	—	—	—	—	None	Crew training	None	None	—	—
Differential earnings tax	10% surcharge (c)	—	—	Yes	Yes	Yes	—	—	No	—
Differential profits tax	—	—	—	—	—	—	Yes	No	—	—
Withholding tax on overseas remittances	—	—	—	—	—	—	—	—	—	—
Foreign vessels liable for import duty	—	—	—	—	—	—	—	—	—	—
Fiscal relief on new buildings	—	—	—	No	Yes	—	Yes	No	Yes	—
Other tax benefits	—	—	—	—	—	Negative (b)	Tax holiday	—	—	Yes
Exchange controls	—	—	—	—	—	Yes	—	—	—	Yes
Other Forms of Discrimination										
Access to port facilities	—	—	Yes	Yes	No	No	No	No	—	—
Pilotage	No	—	Yes	No	No	No	No	No	—	—

[Continued

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	Malaysia	Thailand	Indonesia	China	Australia	United States	Canada	Mexico	Brazil	Argentina
Nationality Restrictions										
% of company to be nationally owned	85% (a)	—	0	51%	51%	—	51%	0	60%	50%
Local representation required	Yes	—	No	No	Yes	Yes	Yes	No	Yes	Yes
Use of national vessels when available	Compulsory	—	Compulsory	Preferred	Compulsory	Compulsory	Preferred	Compulsory	Compulsory	Compulsory
Time restriction on foreign-owned vessels	Yes	Yes	—	—	24 months	n/a	—	—	—	12 months
Re-registration of foreign-owned vessels	Compulsory	Preferred	Preferred	Compulsory	n/a	Preferred	Preferred	Preferred	Preferred	Preferred
National Master/officers	Yes	—	No	No	Yes	Yes	Yes	Preferred	Yes	No
National ratings	100%	—	100%	—	100%	100%	100%	Preferred	100%	100%
Discrimination in Tendering										
Tender list limited to nationals	Often	—	Often	Sometimes	Always	Always	Usually	Often	Never	Never
Nationals allowed to rebid	Yes	—	Yes	—	Never	—	Sometimes	Often	Never	Sometimes
Compulsory purchase option	Sometimes	—	Sometimes	—	No	—	No	Yes	No	Sometimes
% of market covered by nationals	50–75%	—	Over 75%	Over 75%	100%	100%	Over 75%	Under 25%	50–75%	Under 25%
State owned OSV operator	*No*	—	*Yes*	*Yes*	*No*	*No*	*No*	*No*	*No*	*Yes*
Charter rate premium	—	—	—	—	—	—	—	10%	—	—
Subsidies	—	—	—	Const.	Const.	Const. and crew	—	—	Const.	—
Differential earnings tax	—	—	—	Yes	—	—	—	Yes	No	Yes
Differential profits tax	—	—	—	—	—	—	—	Yes	—	—
Withholding tax on overseas remittances	—	—	—	—	—	—	—	Yes	Yes	—
Foreign vessels liable for import duty	—	—	—	—	—	—	—	Yes	—	—
Fiscal relief on new buildings	—	—	—	—	Until recently	—	Yes	Yes	Yes	—
Other tax benefits	Payroll tax	—	Payroll tax	—	Bareboats	—	—	VAT	—	—
Exchange controls	—	—	—	—	—	—	—	Yes	—	—
Other Forms of Discrimination										
Access to port facilities	Yes	—	Yes	—	n/a	n/a	No	No	No	No
Pilotage	No	—	No	—	n/a	n/a	No	No	No	Yes

Note: (a) not yet implemented.
(b) tax liability may be reduced in the case of an offshore company.
(c) refundable under some double taxation agreements.

Source: BOSVA.

[Continued

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ANNEX E

THE IMPACT OF DECLINE ON THE INDUSTRY

The British OSV industry faces an unprecedented crisis, which has yet to have much impact on the *number* of UK owned and registered supply vessels. The *financial* impact is already crippling.

In the absence of protection, the industry will decline as the fleet generally has done. There are no prospects of any sufficient improvement in the market in the short term, and in the longer term the effect of the oil price fall will delay any possible recovery. In the end the squeeze on cashflow will ensure that British owners can no longer afford to stay in business. A remarkable British capability is therefore in the process of being destroyed.

BOSVA can perceive no realistic alternative. The option of "flagging out" as many British shipowners have done, is not particularly relevant. Since British OSVs are working mainly in UK coastal waters, the advantages of flagging out are questionable—even to the Isle of Man. Flagging out would make sense if there was a large UK fleet working in other countries, but as has already been made clear, this is almost entirely impracticable owing to protectionism overseas.

As for those who work in the industry, generally speaking morale is low, though for seafarers offshore the issue of flagging out has paled into insignificance in the face of the unprecedented scale of layups following the massive decline in North Sea activity. There is a general feeling amongst seafarers that no Government or Party cares much for them—their votes are too few and too scattered.

As far as BOSVA members are concerned, the actual job losses in the current year have been approximately 750 seamen, of whom half (375) are top quality officers, mainly holding Masters' and Chief Engineers' certificates. It is one of the major tragedies of the current situation that hardwon specialist skills are being wasted—and the cost of training any future replacements makes it hard to justify investment in this area, which will be essential if there is to be a long-term future.

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Examination of Witnesses

MR P J WORDIE, Chairman, MR H L TOTTENHAM, Vice-Chairman, MR H G DAVY, Director, and MR R D KENWARD, Secretary, British Offshore Support Vessels Association, called in and examined.

Chairman

759. Good afternoon, gentlemen. welcome to our Committee. Mr Wordie, would you like to make an opening statement?

(Mr Wordie) I would just like to say two or three things very quickly. First of all, I welcome this opportunity of discussing our affairs with this Select Committee. We stand by all that we said in our submission but I have to say since this was put to you in December the situation has further deteriorated in our industry. For example, out of 110 British flag offshore support vessels available for work in the North Sea only 46 have full-time employment, ie, 41 per cent. The rates which we are being paid by the oil companies and other operators have sunk further over the last three months. We do not speak for the rig operators but in January and February their utilisation has also dropped dramatically with only 36 per cent of semi-submersibles now working and 29 per cent of jack-ups. In our case the impact on our manpower has been dramatic and we have lost over 750 top quality seafarers made redundant. Of this figure over half are masters, chief engineers, mates and second engineers, ie, the cream of the industry. Besides that, it has cost us as an industry over £2 million in redundancy payments. These and other updated figures have been summarised in a note and passed round to you today*. I would like to start off this session by making it clear that as an association we are not looking for subsidies. Because of free trade philosophies we do have serious problems and we are looking for support. It may be now necessary to draw more of a distinction in our opinion between domestic and international activity, like all other nations do. Thank you.

760. You say you are not looking for subsidies, you are looking for support. What sort of support?

(Mr Wordie) Either support by giving us protection or support by licensing systems of employment. Basically there are two ways of going about it, in our opinion. You either have free trade, in which case we must have the same financial package as is available to other operators or, if you do not want to provide those financial packages, you must have a closed system.

761. So if I understand you correctly you are saying, if there are financial packages available to your competitors in the free market, you want the same packages?

(Mr Wordie) In order to compete, yes.

762. Which would amount to subsidy?

(Mr Wordie) No, free competition then, and fair competition in our opinion — otherwise we cannot compete. We are dealing with dumped tonnage.

763. This is the difficulty in following your argument. If your competitors are subsidised you are unable to compete fairly because of that; we can either stop there, which is not within the remit of this Committee or even this Government, or how else could we put you on a competitive basis?

(Mr Wordie) You have a choice of either doing the financial package or going into protection. That does not necessarily require financial packages.

764. Could I clarify some figures you put in your original statement? You said the UK registered element of the offshore support vessel fleet exceeds 300 vessels. Then you refer in Annex A to those companies which are members of BOSVA who "operate more than 100 OSVs — more than 80 per cent of the UK-registered OSV fleet". There seems to be an apparent discrepancy.

(Mr Wordie) The offshore fleet covers more than just supply vessels. It covers standby vessels, diving vessels, seismic vessels, which are not members of our Association. Our Association is representing 104 out of that number. The standby operators have a further 120 ships and they have similar problems to those which we have.

765. They are contained in the list you gave us in your original paper, the list of all the various things like floating hotels and so on?

(Mr Wordie) That is correct, sir.

766. That would explain the discrepancy?

(Mr Wordie) Yes.

767. In the Budget Speech of the Chancellor he did not, as far as we can see, accede to any of the requests of the General Council of British Shipping, but he did offer two further petroleum revenue tax reliefs designed to encourage the development of new fields in your particular area. Do you anticipate any increase in business as a result of that proposal in the near future?

(Mr Wordie) I think we are not in a position to make the judgments which oil companies make on those proposals but, if they are of a helpful nature, we would hope that it would in time create extra work, yes. Given the nature of oil company budgeting procedures, it will take, in our opinion, at least a year and a half for those proposals to have any impact whatsoever on our industry. Furthermore, such is the weight of surplus tonnage, it would take even longer to make an impact in the present situation.

768. If the Government decided to accede to what you are saying by bringing in some measure of protectionism, there are always worries whenever that is talked about. The present problem being talked about has regard to Japanese trade, for example. But in this particular field you are obviously looking at it from the point of view of your members: have you discussed this with the rig-owners and people who operate that as to whether they believe there should be a measure of protectionism or do they not feel it is for their benefit to have the open market and complete freedom of competition?

(Mr Wordie) We discussed it with certain standby safety operators. They take the same line as we take. The

* *See* Evidence p. 249.

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[*Chairman Contd.*]

rig owners have been in a slightly different position, I believe, though they are inclining towards our point of view.

769. That is my impression too. You feel they would be perfectly happy if the Government brought in some measure of protectionism. I find that a little difficult to appreciate if they have a cheaper means of doing it now.

(Mr Wordie) The owners of rigs or the oil companies who hire them?

770. The owners of the rigs and the oil companies.

(Mr Wordie) The people who own the rigs clearly would like some form of protection and those who hire them, I suspect, would not be involved with the rigs.

Mr Fry

771. If there were this kind of protection, are you satisfied that there are enough UK registered vessels to meet the anticipated demand over the next few years?

(Mr Wordie) Yes, and if there was a shortage growing up, given the world ability to build ships fairly quickly in six to nine months, I do not see any problem in meeting the demands of the oil industry.

772. But would you accept that to do that would mean that vessels which were not registered in the United Kingdom and were presumably excluded from this work would be just as unhappy about not having any work as you are now? Is there any danger in that? Is there anything that could affect the British economy if there were retaliation for our being protectionist?

(Mr Wordie) I personally do not see any worry at all. Virtually every European country at present has a protected shore: Greece does by legislation, Spain does by legislation; France does it by its own methods; Norway does it by practice if not by law; Ireland has a certain amount of protection also, and I do not see any impact at all in the form of retaliation if we did this. We would just be coming into line with what all other countries are doing in that respect.

773. Why do we not do it, in your opinion?

(Mr Wordie) I do not know why not.

774. We are here to learn about the industry. If you cannot tell us, who can?

(Mr Wordie) I have no idea, except that I think the Department of Transport has had this philosophy of free trade and it is very difficult to change a 19th Century policy to meet the demands of today.

775. Yes, but the Department of Transport in its memorandum to us said that making the North Sea sector an area of special interest "has restored to the UK industry the opportunity to compete for business and to a considerable extent shielded them from the effects of Norwegian over-tonnaging." I feel in view of what you have just said you ought to comment on the Department's claim.

(Mr Wordie) Yes, I am grateful for that. I had not seen that but I think the position is that the OSO initiative, which came in, I suppose, about a year ago, has helped to the extent of stopping the crisis from becoming a complete catastrophe, but it has not kept out the Norwegian ships because we have this open registry policy. Any ship in the world can register into the UK for a very nominal sum of money, £100 probably, and once they are British flagged the OSO can do nothing legally to stop that ship operating inside their guidelines.

776. Are you saying then that not only would it be a question of a system of licensing or excluding vessels that are registered outside this country but there has also to be a tightening-up and alteration in the opportunity for a foreign-owned vessel to register? Is it temporarily that they register?

(Mr Wordie) No, the system is that they can apply to register a ship in this country. They have to form a small company—a £100 company will do—and then they would go through the registration procedure and they can use it here as long as they want under a British flag and then take it away if it suits them back to Norway, for example, and there have been various cases of ships that were in the UK sector flying the British flag and then they went back to Norway.

777. How would you stop that?

(Mr Wordie) You cannot do this in Norway. If you register a ship in Norway you have to have, first of all, all the ownership in Norwegian hands, owned by locals, and they also have a minimum equity requirement and it would be quite possible, in our opinion, to bring in regulations to stop what we call dumping tonnage under the British registry, which we can see to be of no benefit in inward investment terms at all to this country but which damages the local owners.

778. Would that not damage the flexibility, for example, in the case of chartering of vessels? Is that arrangement rather a rigid arrangement, the one you have just described? You insist that the vessel ought to be actually half-owned by British nationals?

(Mr Wordie) If they are British flagged, yes.

779. That is a fairly rigid system which does not allow much flexibility in the case of, say, an upturn in demand?

(Mr Wordie) No, because you can still charter them but they will not be under the British flag. It is the use of British ships.

780. You have just said you do not want anything other than British ships to operate.

(Mr Wordie) That is right, but, to answer your question, you can charter in to fill that need temporarily. You can go to Japan or Australia, where they have the same rules, and take a six-month charter until there is a domestically-owned ship that can take that charter on.

781. How would you answer the point that that presents other difficulties, ie, who is going to decide when you can charter in and for how long? Does it not tend to keep domestic rates higher than they might otherwise be because you are deliberately excluding vessels that could be chartered in from another flag?

(Mr Wordie) You have two questions there.

782. Please answer both of them.

(Mr Wordie) The second one is, would it increase rates? I think there is a risk that this might and can happen, yes, I accept that, but it would mean the overall

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[*Mr Fry Contd.*]

benefit to the country is much greater. Take for a moment the Norwegian ships registered under the British flag; not one had been built in the UK; take the German ships registered or the Danish; not one is built in the UK or has brought real investment here. Again in terms of money staying in the country, if it is registered here and the earnings are here, it stays in this country.

783. You did not answer the first question I invited you to answer. Would you not accept that we are dealing with an area where there has been a downturn in activity and where, by and large, one has to encourage not just British oil companies but international oil companies to come back and perhaps go for greater exploration? If you are saying again it is going to drive up costs at a time when oil prices are still comparatively depressed, then it seems to me you have the Government moving in opposite directions at the same time, at one time putting up costs and the other time having to bring in new legislation to encourage a higher level of activity. Do you accept that?

(Mr Wordie) As I said earlier, I do not see any increase in rates taking place for at least two years, simply because there is such a weight of tonnage available and there is not a single ship operating at the moment which is even covering its daily running costs, let alone finance charges. At the moment we are subsidising the oil companies too heavily.

Mr Trotter

784. You have shown us some figures that indicate that the profit rate has fallen by something like a half, indeed more than a half in some cases. Can one take it from that, that all the vessels that are at sea, still operating, are operating at a loss?

(Mr Wordie) Virtually without exception, yes.

785. How long can that go on?

(Mr Wordie) We are worried, That is where we are concerned.

786. What sort of companies are the owners? Are they part of large groups or firms that are dependent upon this activity for their existence?

(Mr Wordie) It varies from case to case and I think Mr Tottenham would like to mention his own case, which is a major construction company.

(Mr Tottenham) The company that I work for is owned by Wimpey, which is a major construction company. Wimpey and Taylor-Woodrow have initiated a joint effort recently to see if we can get some of the other companies together to form some kind of merger or consortium or whatever in order to try and stop this haemorrhage of cash and get some sort of control over the price and tonnage of ships on the market.

787. We seem to have a different picture here from the one we have seen in the shipping industry in general. The main competition is coming from the non-European groups with very low wage rates. That is not the case here because these Norwegian, etc, ships are presumably manned by Norwegian sailors who are being paid Norwegian rates?

(Mr Wordie) No. In Norway they are allowed to build ships under domestic credit which is very generous, they then change their flag to the British flag under this face company system and take on British seamen and then work in the UK sector. This is condoned. They know the profits go back to Norway when the profit is made.

788. Would the master be British?

(Mr Wordie) The whole crew, yes.

789. Do we know how many ships are flagged into Britain in that way?

(Mr Wordie) I am afraid somewhere around 20.

790. And no ships from Britain are flagged into Norway?

(Mr Wordie) None at all.

791. Are any of your members operating under the Red Ensign in Norwegian waters?

(Mr Wordie) No, the Norwegians have roughly 97 per cent of their offshore exploration and development covered by their own tonnage.

792. Is that done by some act of the Norwegian Parliament or nationalism or pressure?

(Mr Wordie) It is a combination. It is nationalism and immense national pride, there is no question of that. There is clear pressure, I think, covert pressure, on the oil companies to use Norwegian ships. The brokers in Norway often have a stake in each ship, therefore they are involved and therefore they want to see their own pockets lined first.

Chairman

793. What sort of pressure would you like to see applied here?

(Mr Wordie) Recently BP has tendered for work in Norwegian waters and quite specific preference was to be shown to Norwegian tonnage. That was in the tender document.

Mr Fry

794. If we adopt the policy you advocated just now, would we not run into all kinds of other difficulties? For example, some of the companies that have been operating in the North Sea like Esso and Texaco are not 50 per cent British owned; they have chosen to work here and brought a lot of work. Would it work here if they had to put a lot of capital in the country? If we started to impose a rigid system, is there not a danger that those kinds of operation would become impossible?

(Mr Wordie) I do not see that it would make any difference at all. They operate those companies all over the world where there are similar systems. They work in Indonesia and India. In their own country, America, of course, no foreign flag can work inside their coastal waters, so there is absolutely no reason why they should object at all. They are just getting what they are used to.

Mr Dover

795. You seem to want as an Association a clearer link between the ownership of a vessel and the point of registration. What proposals have you in mind for that? For instance, you say that you want to show a distinction between the long term investor and the short term opportunist. Are there particular recommendations that you have in mind?

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[*Mr Dover Contd.*]

(Mr Tottenham) I think probably the best way would be to license operators so that those who have a permanent stake in this business should have the first share of it and that could be dor . either by licensing them as operators of offshore vessels or alternatively by declaring zones around offshore structures into which only licensed vessels could go.

Chairman

796. How would you work that?

(Mr Tottenham) Quite well by the Offshore Supplies Office or the Department of Energy or even the Department of Transport.

797. What criteria would be required for a licence, for example?

(Mr Tottenham) I would suggest that it would have to be a combination of things, Chairman. My company has operated in Canada, which is really in a very similar state to what I have suggested. We had to have Canadian crews, we had to have a Canadian company, we had to pay duty on a ship to bring it in, we had to conform to a number of Canadian regulations. That could be made the same here. I think it should also be linked to beneficial ownership in some way.

Mr Dover

798. Do you consider those same steps should be made whether they are offshore vessels or any sort of ship?

(Mr Tottenham) I think it should certainly be made for offshore vessels. I think there is a very strong case also for making it for other ships, yes.

799. I understand some of your Association members have flagged out to the Isle of Man. Is that so? If so, what are the benefits to them of doing so?

(Mr Wordie) I think to date nobody has actually flagged out to the Isle of Man. Discussions have been taking place with the unions. I think all of us feel the benefits are not as great as if you were an international shipping company working overseas, because you are working in domestic waters and, therefore, you believe it is only realistic that you have to have a British crew and work obviously with the unions and by moving to, say, the Isle of Man there are some advantages but not many. It is possible that those advantages could be gained by not flagging out even, by discussions with the unions. All of us are trying to find methods of reducing our labour cost element and there are a variety of ways being pursued—flagging out is only one of those. As yet I do not think it has been done by a single operator in the offshore sector.

800. Are the people employed on your vessels mainly directly employed or are they employed through agencies?

(Mr Wordie) To the best of my knowledge I would say 90 per cent are directly employed—even 95 per cent.

Mr Ross

801. I think I am right in saying, Mr Wordie, that you did a presentation in this House six months ago of the problems now facing you and you are really telling us today things are no better, in fact they have got worse. At that time you made it clear that there were a number of Norwegian owned ships operating in British waters but only one British ship operating in Norway. That is very much the case today, despite the evidence given by the Department of Transport when I quoted some statistics and was corrected? Is that right?

(Mr Wordie) That is correct. We have figures here. At today's date in the Norwegian sector there are 36 vessels on charter and not one is foreign flag, not one—not even German, Danish or Dutch. They have five working the spot market in the Norwegian sector, all Norwegian. So there is not a single foreign flag vessel there of any description.

802. Before we move to the licensing point, which is one way in which matters might be saved, are there any discussions going on at international level? Are your operators not talking to similar operators in Norway or Europe about reaching some sort of agreement before it becomes an all-out war where everyone protects themselves? Are there any international discussions taking place?

(Mr Wordie) There are three levels here. There is the European Community level where we have talks with the Danish, the German and the Dutch operators. That is one level. Another level is the other European owners in areas of operation like Norway, and we have not had discussions recently with them simply because we did have discussions and in no way were we going to achieve any penetration of the Norwegian market, it was a waste of time. Going on to the international field, worldwide, again the world has put forward the barriers. India is a perfect case where there was an area where internationally you could operate fairly freely but now out of, I think, roughly 48 vessels working in the Indian offshore industry the whole lot are Indian, and you cannot get a job in India unless you are Indian flag and Indian owned a hundred per cent. So that market, which was an international market, has gone. The same is true of Indonesia, Malaysia and you can go on and on and on. I think when considering the European scene and the European market it must be remembered that the British sector is the biggest sector by miles. There is no work in Germany, so when you do a bilateral deal with Germany, we give everything away and get nothing in return at all as a country.

Mr Bevan

803. Can we concentrate on this line of questioning because it is terribly interesting. Bilateral agreements are concluded between governments when necessary by the ministers concerned, we presume?

(Mr Wordie) Yes.

804. Will you give us instances of the points which in the last round of bilateral agreements between this country and other countries our own ministers have failed to negotiate which would be to the favour of Great Britain, and what points they have given away, by miles, I think you said, to West Germany, for instance?

(Mr Wordie) No, in the German case we were not, as far as I am aware, giving any information in these discussions on the offshore industry and that was considered a great victory.

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[*Mr Bevan Contd.*]

805. Who negotiated them?

(Mr Wordie) I gather the Department of Transport.

806. When?

(Mr Davy) This was just over a year ago when there were discussions, and I believe that the Department felt that to negotiate a bilateral arrangement with Germany would, shall we say, give them an ally in trying to persuade other members of the Community to act in a similar way. Unfortunately, they are negotiating in a country where, so far as this sector is concerned, there is nothing for us in the German sector but there is a good deal for them in our sector, and then these negotiations became enmeshed in the discussions about a common shipping policy for the EEC, in the course of which the issue of cabotage—and to us the offshore sector is part of the cabotage problem—became too difficult and was put aside from the rest of the EEC shipping policy package. But ministers have said they are going to return to it and we are hoping to hear literally any day that the Government is taking a case to the European Court of Justice. The Government appear to have taken the view that the way to break down the cabotage problem is to use the European Court and we are waiting to hear about that any time now, otherwise when the Government does negotiate bilateral deals it is not their custom to talk in any detail with our sector of the industry.

Chairman

807. How would the Court be used? They are taking it to the European Court to do what?

(Mr Davy) I have to say we, too, are learning on this, but we understand that within the Community the way in which to resolve problems of this kind is to go to the European Court and governments can be taken there and can be required to change their policy. I am afraid I do not have the details.

808. On the ground of fairness or unfairness of competition?

(Mr Davy) Our Government has taken others to the European Court in relation to aviation matters.

Mr Bevan

809. I want to follow up a few of these points, if I may. I wonder if you could perhaps let us have a few of your further thoughts because it is very difficult to pinpoint negotiations in retrospect when I suddenly ask a question without the reference in front of you. Could you follow up that point and let us know what are the points which you feel militate against the United Kingdom in such negotiations and we will examine them further, but I want to pick up one or two other points that have arisen from our answers. You have said we are always seeking reductions on labour costs. I have knowledge of the Norwegian merchant naval fleet. Do I assume that they have lesser requirements on manning costs because they will totally employ Norwegian seamen, I assume—they have always had a tradition of doing this—and not foreign seamen?

(Mr Davy) Yes.

810. So how could they have benefit of labour costs, or could they not?

(Mr Wordie) I think I have missed the point of your question.

811. My point was that I agree that you have instanced what others have said, that the attempt is to reduce labour costs?

(Mr Wordie) Yes.

812. How do the Norwegians do it?.

(Mr Davy) One way in which they do it is that the incidence of redundancy on a Norwegian ship owner is not as great as it is with us. The system appears to be more flexible. People can be not exactly made redundant but they can leave the ship for a period of time without a large financial burden on the ship owner. There is a sort of alternating system that goes on. Furthermore, there is some assistance from the government with travel costs of crews.

813. In transit?

(Mr Davy) Yes.

814. Norway, of course, is not in the European Community but in the countries in the European Community is there any differential in redundancy payments?

(Mr Wordie) On redundancy, no. In Germany perhaps, I am not sure. The Dutch get a straight subsidy for Dutch seamen, yes. They get paid a grant of 2½ per cent of the capital cost of the ship for Dutch crewing, so they get a crew subsidy direct in Holland. They also have lower manning levels than we do.

815. How does that crew subsidy work?

(Mr Wordie) The subsidy in Holland is two subsidies. When they buy ships either new or secondhand, provided it is under 6 years old, they get a capital grant of 12½ per cent, which is covered by loan facilities and other things which they may negotiate, and they also get a grant of 11 per cent for using a Dutch crew, which is payable at 2.2 per cent roughly over five years, so they get a grant each year for the first five years they have that ship towards their Dutch crew costs.

816. So they have a *pro patria* grant, we will call it, whereas the Norwegians have the in-built patriotism within their bosoms to employ their vernacular crew, as Mr Tottenham said, and other geographical entities such as Canada and India are operating geographical preferential systems?

(Mr Wordie) Yes.

817. Would I be right in saying that in the residual balance where we normally could have expected to play a part we are still warring in our negotiations and giving all the points away and giving no preference in terms of fewer controls, in terms of safety, to encourage either the *pro patria* attitude or to encourage the empathetic feeling of employing and utilising British crews? This is the impression I get.

(Mr Wordie) We raised this as an Association during the negotiations on the entry of Spain into the Common Market, because Spain has legislation preventing any non-Spanish flag operator working in Spanish waters for offshore oil, and we asked, was this not the time to raise the question of their cabotage system during the negotiations, and got the curt reply that it was inappropriate at that time.

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[*Mr Bevan Contd.*]

818. Surely, then, you do not believe or practise the practice of federation?

(Mr Wordie) I am sorry, I am not quite with you on that one.

819. The practice of federation of pricing?

(Mr Wordie) I do apologise, I do not quite get that question.

820. We understand there is a system of federation in pricing which ensures that certain companies, some of whom are British, price at the same levels; in other words, it is a form of cartel bidding in terms of carrying of shipping cargoes.

(Mr Wordie) No, we do not.

Mr Fry

821. I wonder whether we could turn to the fiscal policy. You have asked in your brief for financial packages to match those available to foreign competition, but you also then go on to tell us there has been unrestrained overbuilding of OSVs abroad, prompted by domestic tax and subsidy incentives. If we go for similar packages are we not going to lead to even greater overtonnaging and thus even lower rates and less profitability?

(Mr Wordie) Yes. That is exactly why, as an Association we have been violently opposed to bringing in the Business Expansion Scheme for shipping. We have persistently opposed that because it has brought overtonnaging in every country where it has been practised—Norway, Denmark, Germany and the States.

822. Then would it not be more accurate not to have said you wanted financial packages to match those available to foreign competition but to suggest that we take alternative action such as you mentioned earlier?

(Mr Wordie) I think it is absolutely strictly true. As you probably read in our submission, we did say we were against the business expansion scheme specifically. We only supported the package of the GCBS where it did not include business expansion scheme which we regard as detrimental. It creates tonnage built for tax reasons, not for commercial reasons.

823. That does, of course, present problems in relation to other areas of shipping. For example, you undoubtedly read the GCBS submission on BES and the GCBS submission generally on taxation which are aimed to give tax incentives to people to build ships. Would you not agree the situation is such that overcapacity is the great danger, and if you multiply financial packages all you are going to do is to increase overcapacity?

(Mr Tottenham) Absolutely.

824. Then are financial packages in terms of a solution irrelevant to our country's situation because we only exacerbate the situation and another country, if we produce one financial package, will undoubtedly produce an even more beneficial financial package for their own citizens?

(Mr Davy) That is a risk, Chairman, but the GCBS policy is not so much aimed at building as investment in shipping and some of these tax or fiscal arrangements could be used for the purchase of very good secondhand tonnage which is available. So we are not suggesting that this should be the start of a shipbuilding competition. One of the other important points to us in a financial package is the question of a moratorium. Virtually all our competitors are able to make use of a moratorium on their shipbuilding loans—indeed, British companies who have built abroad can probably seek that sort of facility—but it is being denied to those who have built in this country. When we talk of matching of financial packages we are not talking necessarily of matching specifically like with like; we are talking of creating, shall we say, an environment which our members can utilise.

825. May I put it to you bluntly, if you had to choose between the Government taking action to help with investments or the Government taking action in relation to licensing or protectionism, call it what you like, which do you think would be to the better interests of British shipping?

(Mr Wordie) The licensing direction.

Chairman

826. You do ask for help in the case of redundancies. Does this mean you want to lay up more ships?

(Mr Tottenham) I think it means we are going to have to.

Mr Trotter

827. I have two very short questions on crew costs. Is the Dutch subsidy just for North Sea ships or in general?

(Mr Wordie) In general. All Dutch ships.

828. What is the advantage and attraction to the Norwegians of British crews on their ships in our sector?

(Mr Wordie) Simply that the ships would not get work. What happens is that a company puts out tenders and says to the Norwegians "We'll take your ship provided you change to the British flag and a British crew". They get employment and the banks are happy.

829. They are using a capital asset?

(Mr Wordie) They are using a capital asset, and in that sector they can use the moratorium mechanism which we have not got.

830. Are the crew costs similar?

(Mr Wordie) The crew costs are similar, you get nowhere on that one, but on the capital where they have a moratorium and other help, they can undercut us by dumping their tonnage.

Chairman

831. We have two more groups of witnesses to see so could I ask you finally if you could quickly say something about a report in Lloyd's List on 5 March that the supply vessels belonging to your Association have been asked to back a study into possible rationalisation of the UK fleet. What is your reaction to that?

(Mr Wordie) We have had a lot of discussion over the last year about rationalisation, restructuring and all those nice words.

832. Most of them mean redundancies?

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[*Chairman Contd.*]

(Mr Wordie) Most of them mean more problems, but it is a nice phrase to have. We have been looking at it. It was felt correctly that there should be a further look at this problem and whether sufficient savings or benefits could accrue from having a look at further methods of combining companies. In this Henry Tottenham's company Wimpey, which I think I have already mentioned, and Taylor Woodrow are taking a lead.

(Mr Tottenham) I think one of the objectives of this, Chairman, is that the immediate cost savings might really not be very great but it could give an opportunity to get some sort of level of control over the rather chaotic state in the market at the moment so that a number of ships could, to put it bluntly, be retired to bring the numbers of supply and demand more back into kilter. If you look down the line to say what might be happening in three years time if we do not do something like this, we will be in a hell of a lot more trouble than we are now, and that is saying something.

(Mr Wordie) The only point I would add, is that no rationalisation or restructuring would help one bit while we have an open registry. Anybody can duck in under the fence and bring in as many ships as they want to.

(Mr Tottenham) Absolutely correct.

(Mr Wordie) Without Government help of some sort there is no way it will work.

(Mr Tottenham) It will only work if we can put to the Government, and get, a measure of co-operation to try and bring some sort of stability into this industry.

833. Government support of some sort. Am I summing up unfairly if I say you want some measure of protectionism and, if there is something to come through that protectionist path, it has to be on a licensed basis?

(Mr Wordie) That is the most favoured way of going about it. Every system has its defects but we do believe that we are the only open coastal water in the world. It is time we took a different view on domestic water from international trade.

Chairman: Thank you very much for your assistance.

Supplementary Memorandum submitted by BOSVA

Update of Statistical Information in BOSVA's Submission (December 1986) to the Select Committee on Transport

1. *Paragraph 2*

   UK sector gross capital investment in 1986 is estimated at £2.5 billion, about 17 per cent of total UK industrial investment.

2. *Paragraph 1.6*

   The original paragraph related to trading ships for UK ownership and registration. The figure was 11, it is now 9.

   But even looking at ships of all types (excluding fishing) at end 1986, the world-wide order book for UK owners stood at 20 ships. 16 were under construction in the UK, three of them being Diving Support Vessels. 4 were under construction abroad, but none of these for offshore purposes.

3. *Paragraph 2.4—Tables*

   In January and February 1987 Semi-Submersible activity dropped from 41 per cent to 36.7 per cent and Jack-ups from 52.1 per cent to 29 per cent.

   OSVs (UK and other flags) Stationed in the UK Sector of the North Sea

   In March 1987 our of a total of *129* vessels, *91* were working and *38 (29.5 per cent)* laid up.

   OSVs (UK and other flags) Stationed in North Sea as a whole

   In March 1987, *283* vessels were stationed in the North Sea, of which *174* were working and *109 (38 per cent)* laid up

4. *Paragraph 2.5—Text*

   Currently (mid-March 1987) BOSVA members operate *94* vessels in the North Sea, of which *42* (45 per cent) are on term charter. *28* vessels (30 per cent) are laid up and *24* (25 per cent) working on the spot market, where their average utilization remains well below 50 per cent.

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5. *Annex C—Tables*

Tables 1 and 2 of Annex C are reproduced below, with the addition of data collated from BOSVA statistics covering the period from November 1986 to date.

TABLE 1

As at	*Term*		*Spot*		*Laid up*		*Total*
(date)	*No.*	*(%)*	*No.*	*(%)*	*No.*	*(%)*	*No.*
23 May	56	(60.9)	24	(26.1)	12	(13.0)	92
18 July	57	(59.4)	25	(26.0)	14	(14.6)	96
29 August	55	(56.7)	25	(25.8)	17	(17.5)	97
26 September	54	(56.3)	22	(22.9)	20	(20.8)	96
10 October	50	(52.1)	25	(26.0)	21	(21.9)	96
24 October	47	(46.1)	24	(23.5)	31	(30.4)	102
21 November	47	(47.5)	23	(23.2)	29	(29.3)	99
19 December	47	(48.5)	21	(21.6)	29	(29.9)	97
16 January	42	(43.8)	23	(23.9)	31	(32.3)	96
27 February	41	(43.6)	24	(25.5)	29	(30.9)	94
13 March	42	(44.7)	24	(25.5)	28	(29.8)	94

TABLE 2

Average Spot Utilization (BOSVA vessels) May—October 1986

Period—Fortnight up to:	*Utilization (%)*
23 May	48.7
18 July	55.9
29 August	51.2
26 September	38.5
10 October	41.5
24 October	38.1
21 November	62.3
19 December	62.0
16 January	39.6
27 February	36.1
13 March	40.2

Since October 1986 there has been a net loss of 8 vessels from the total operated by BOSVA members in the North Sea: 6 vessels have sought work outside the North Sea; 2 vessels have been sold into non-offshore work; 2 (managed) vessels have been returned to their foreign owners; 2 vessels have returned to the North Sea from Canada, where at present no OSVs are employed at all.

TERM CHARTER RATE TRENDS—1982-87

The table below has been compiled using period rates obtained by representative vessels in the years in question.

	DAY-RATE (£)					
VESSEL TYPE	*1982*	*1983*	*1984*	*1985*	*1986*	*JAN 1987*
Anchor-handling tug/supply						
over 10,000 bhp	4,750	3,750	3,500	4,000	3,000	2,000
7 – 10,000 bhp	3,900	2,800	3,000	3,100	2,000	—
4 – 7,000 bhp	2,550	2,650	2,800	1,900	1,400	—
Supply vessel						
2,000 d.w.t. and over	2,950	3,500	2,600	2,900	2,350	under 2,000
1 – 2,000 d.w.t.	2,600	2,100	1,900	1,900	1,500	1,200
under 1,000 d.w.t.	2,200	1,800	1,600	1,600	1,500	—

NB For 1986 and after "term charter" is defined as 3 months or more.

Source: BOSVA

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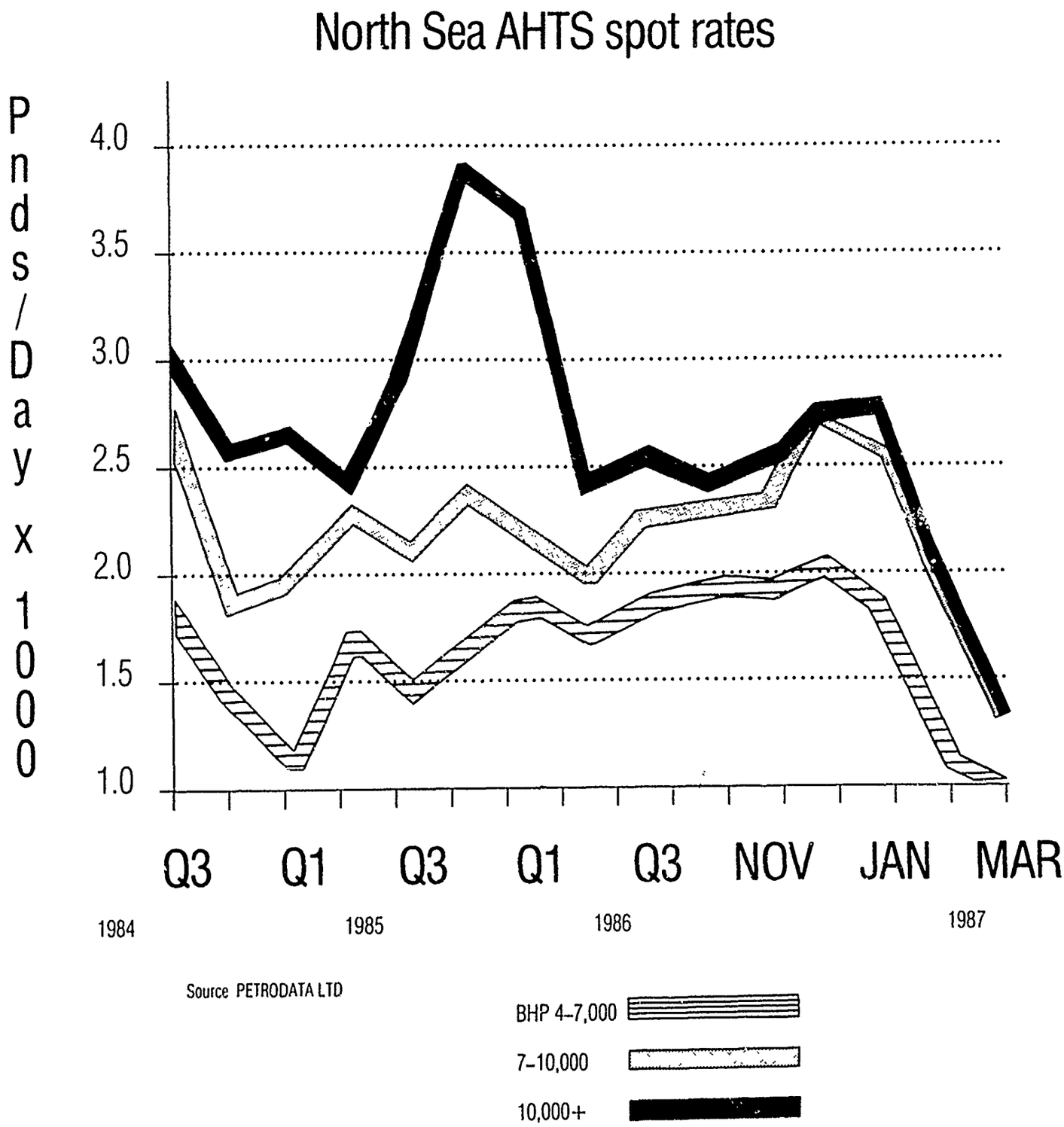

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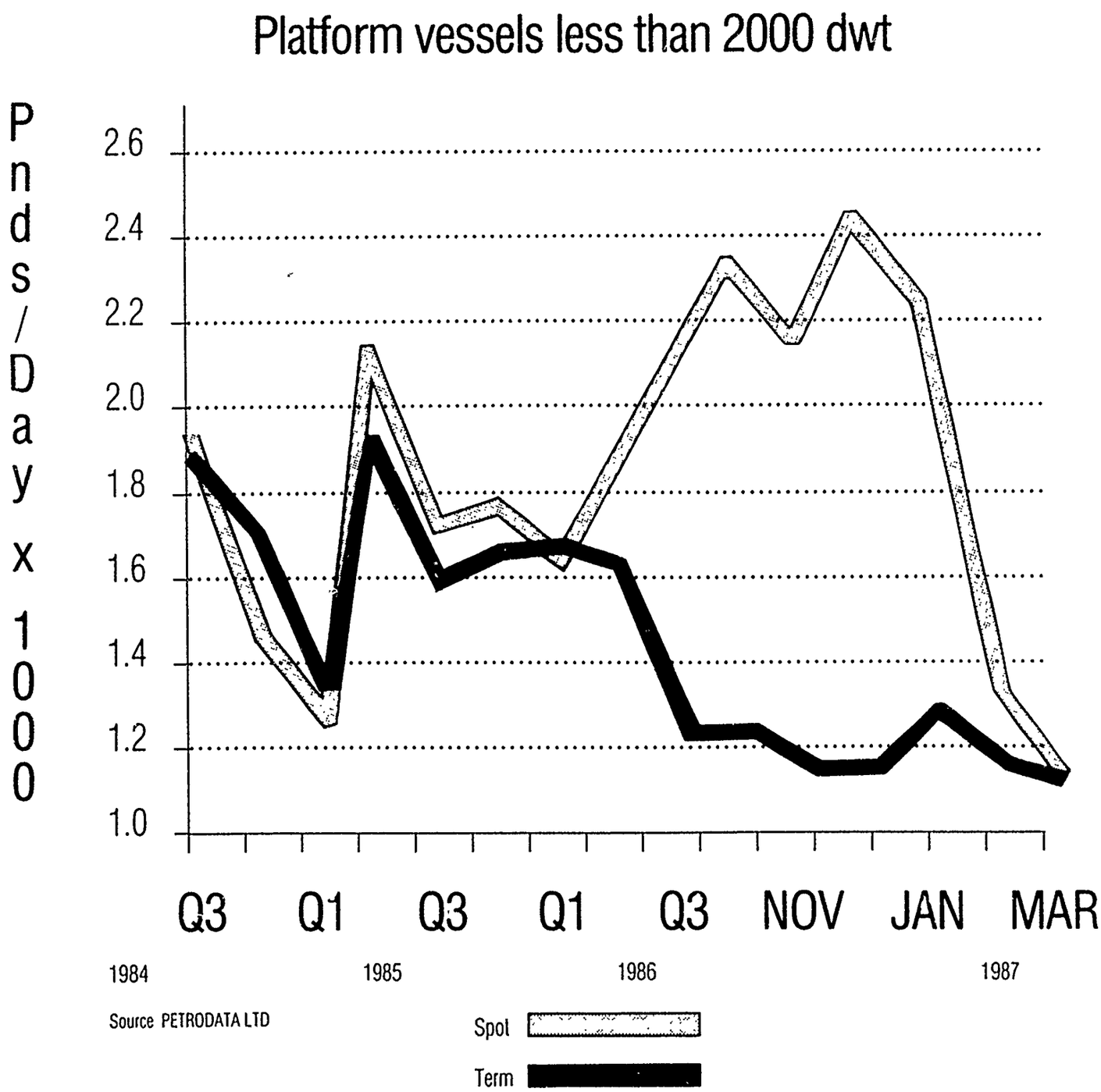

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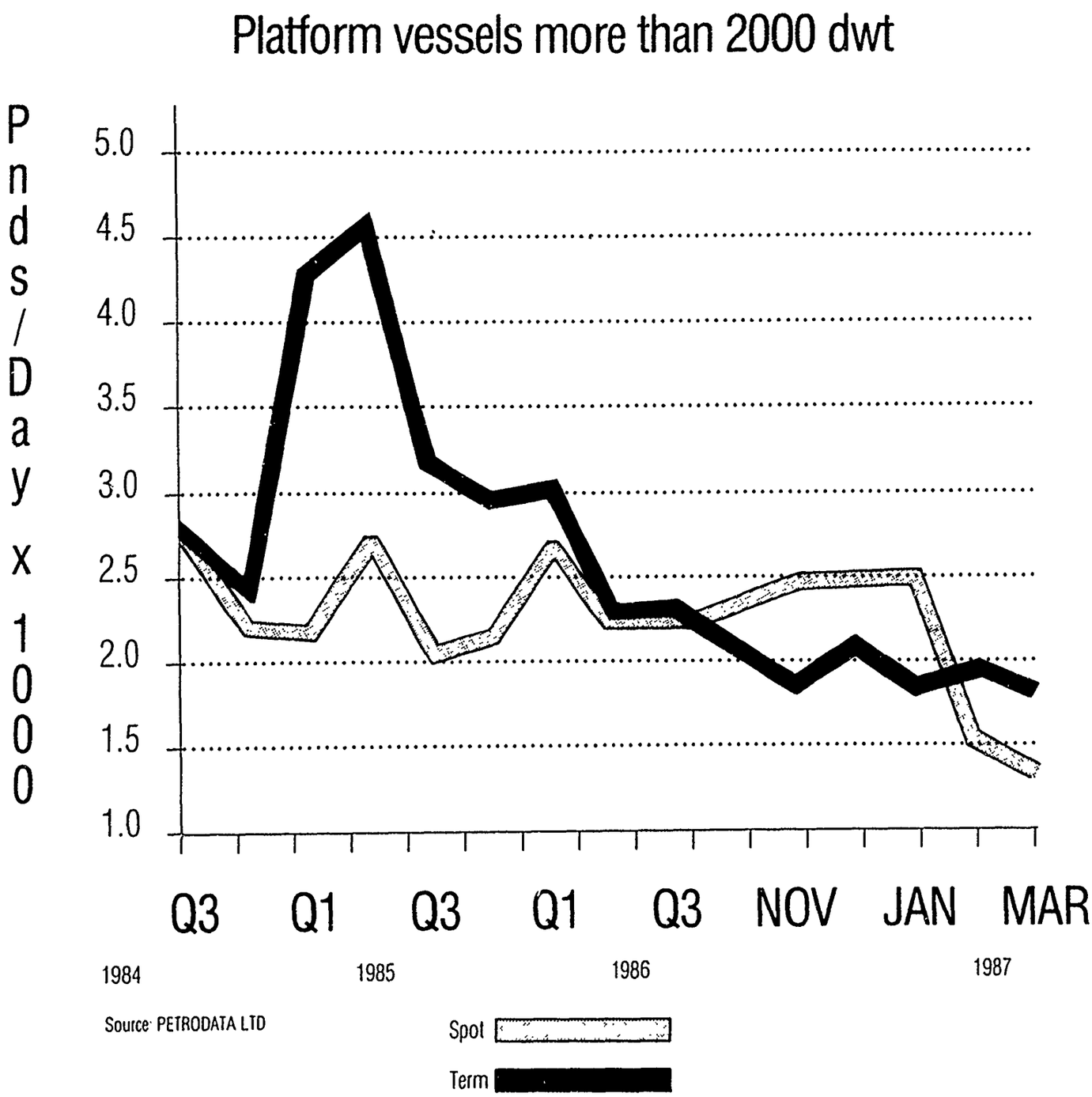

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Memorandum submitted by BP Shipping

ROLE OF BP SHIPPING

BP Shipping (BPS) is one of eleven Businesses in the BP Group of companies. The functions of BPS are:—

- To operate BP's owned fleet which currently comprises 25 tankers and 4 offshore vessels (8 VLCCs, 5 medium crude carriers, 11 product carriers and 1 LPG carrier totalling some 3.0 million dwt).
- To undertake responsibility for the chartering needs of BP.
- To provide the core of marine expertise for the BP Group.

BPS employs 210 staff in its Harlow, London and Aberdeen offices and is responsible for a further 50 who are employed elsewhere in the UK and abroad by or through the Group. Up until January 1986, BPS was also the direct employer of 1,700 UK seafarers. An historical perspective of BPS is attached at Annex A.

Prior to 1984, BPS existed as a service to the Group—without a discrete business identity and dedicated solely to BP's need for the movement of oil. Since that time, BPS has operated as an independent Business and has had to compete for both Group and non-Group cargoes. In many respects, BPS may be regarded as an 'independent'. As with all other Businesses within the Group, BPS must also compete for access to capital and satisfy the same financial criteria as the other Businesses for investment and replacement of its assets.

MAIN ACTIVITIES

BPS operates as an international cross-trader with its Bulk Fleet and has no immediate cargo preference from the Group. Any Group cargo carried will be at the local competitive market rate. In 1986 for example, Group cargoes only accounted for 20% of BPS voyages and only 15% of net revenues. BPS is in the position, therefore, of having to compete with all available carriers for each and every cargo. For example, BPS may be offered a Group cargo at the rate proposed by a "cheaper" operator but where BPS is regarded as being a preferred carrier—from the point of view of the original shipper, underwriters, receivers and intermediate cargo traders. However, it is rare that this preference would enable BPS to secure an improved rate. All sectors of the oil market are acutely cost-conscious and, almost invariably, the operator with the lowest price wins.

Thus BPS must be competitive in terms of operating costs and must endeavour to gain competitive advantage by utilising its market skills, intelligence, financial resource and track record.

BPS also manages and operates 4 North Sea support vessels which are UK registered and fully UK manned through a UK agency. These will be added to by the new building at Harland and Wolff when the SWOPS vessel is completed in 1988. Of these vessels only one was developed for spot trading, the others were built for specific exploration or production tasks.

While the foregoing describes the principle role of BPS within BP's operations it has also diversified into other marine related activities since 1985 but as yet, in terms of turnover and profitability, these remain peripheral.

BUSINESS CONSIDERATIONS

As a BP Group Business BPS is required to be profitable and to provide a pool of marine expertise. Ownership of a shipping fleet is no longer a strategic necessity for the Group and must be justified in economic terms. Appraisal of Group shipping requirements will review all options—ownership or charter, and will take into account all considerations from a Group perspective including the currency and tax consequences of different flags, registries and residences. If profitable employment cannot be projected, BPS will be unable to justify investment in replacement tonnage.

It was the realisation that without change BPS could not operate competitively which led to the radical restructuring of its asset base, head office organisation and seagoing manning arrangements in January 1986. Several years of sustained losses totalling £160 million and projections which showed a continuing substantial surplus of world tanker tonnage with no prospect of improved freight rates, resulted in a fundamental review of BPS leading to a decision to restructure the operation. In addition to the replacement of direct employment of seafarers by offshore manning, it also involved the revaluation of assets and the loss of one-in-four head office jobs. It was appreciated at the outset that these new employment arrangements would probably require both the use of the international manning agencies and a move away from the UK register. The alternative was withdrawal from shipping. These changes are summarised in the press release of the period attached at Annex B.

The fundamental reason underlying the restructuring of BPS was the need to turn the business into profit and a large part of the turnaround in BPS results arose from the changes made in 1986 when BPS made a profit of £28 million.

The BPS restructuring provided an opportunity to compete realistically and effectively on the same basis as the independent operator. Restructuring meant that BPS was "reborn" with assets at market rather than unrealistically high book values, and with shipboard operating costs cut dramatically—comparable with good quality independent operators.

Thus for BPS, restructuring provided a life-line for its own existence and the means for maintaining maritime excellence and employment by ensuring a competitive trading fleet. Flexibility and the freedom to choose in terms of flag, registry and crew nationality are crucial to BPS's competitive position, now and in the future.

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FLAGGING OUT

BPS, like the independents, regards flagging-out as a consequence of the need for cost competitiveness, essential for survival in the international tanker trades in which BPS operates. As a member of a prominent British based corporation BPS would prefer UK registry but in economic terms this cannot be justified.

SAFETY AND STANDARDS

Standards remain a paramount consideration in the operation of BPS ships. BPS is the custodian of shipping safety and standards vetting for BP. These standards are extended to chartered vessels and to all contractors, including the offshore manning agencies and the crews they provide. BPS will continue to maintain its vessels to its own high standards, irrespective of the flag or registry requirements where they apparently afford less stringent conditions.

PROTECTIONISM

BPS offshore and foreign registered vessels do not suffer any restrictions when trading to UK or other major worldwide ports. The UK ports have to be competitive to maintain their share of trade—particularly where any trade could also be performed competitively on the near continent. As an international cross-trader in bulk oils, BPS goes where the trade requires and in 1986 the UK represented only 10% of BPS's European calls.

As cross-traders BPS are opposed to cabotage. It hurts all sectors of UK shipping including British flag vessels registered overseas. The GCBS submission shows the effects. As well as cargo reservation, there are also established exemptions from the international rules which favour some countries and directly penalise others. An example is that France has not ratified Marpol Rule 10 (relating to discharge of dirty ballast water in a Special Area) as applicable for the Mediterranean for their vessels. This means that BPS vessels (whether UK or foreign flag) cannot compete with the French on cross Mediterranean voyages to France from North Africa.

Ideally there should be equal opportunity for the Maritime aspirations of all EEC members as regards trade and employment. Any move away from protectionism towards a genuinely free competitive EEC shipping market will take time owing to its wide range and diverse nature of national interests in existing shipyards, ports and terminals. The prospect of extending the removal of protectionism beyond the EEC seems unlikely since its constraining national interests in the allocation of carriers for EEC exports and imports, and cross-trades in the Baltic and Mediterranean/Black Sea become even more diverse. Were the UK to adopt protectionist measures, the likelihood of an improvement would be even more remote.

CONCLUSION

BPS continues to support where necessary the maritime infrastructure in the UK. Whereas previously UK shipyards, engineers, designers, training colleges, surveyors etc. might have had first call for services to our fleet, they would today have to be internationally competitive and of comparable standard.

On more general matters, BPS supports the GCBS aims for:—

- more equitable taxation for seamen working mainly overseas;
- better and more flexible allowances for ship acquisition;
- rolling-over of balancing charges into new investment;
- limiting extra navigation costs in UK ports;
- BES rules to permit international traders and chartering;
- more flexible UK requirements for ship registration/certification.

BPS wholly endorses the sentiments expressed in the recently published British Shipping Review that "flagging out" is nothing other than a strategy for survival which has nothing whatever to do with avoidance or evasion of maintenance or safety requirements, and whatever the flag, the ship is as good as its owners, managers and seafarers make it.

March 1987

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ANNEX A

BP SHIPPING LIMITED

Historical Perspective 1975–86

Year	*BPS Tankers No.*	*BPS Tankers DWT*	*Seastaff*	*Head Office Staff*
1975	88	6.4	5,820	532
1976	68	5.7		
1977	62	5.5		
1978	60	5.5		
1979	58	5.3		
1980	58	5.3	4,975	468
1981	46	4.2		
1982	36	3.3		
1983	32	3.4		
1984	33	3.5	2,020	257
1985	30	3.3		
1986	25	3.0	NIL	210

ANNEX B

BP SHIPPING MOVES TO AGENCY MANNING

In a drive to ensure its survival after losses of £160 million in the past five years, BP Shipping is to hand over the crewing of its vessels to independent manning agencies and slim its head office staff.

It will also write down the book value of its shipping assets to current market levels, at a cost of some £80 million.

The company's 1,690 seagoing staff will be given early retirement and redundancy terms but offered first choice of jobs by the manning agencies aboard BP Shipping vessels. Apart from those who choose to leave the sea, it is expected that most seafarers will continue to serve in the fleet.

In line with the move to agency manning, head office administrative staff will be reduced by some 25 per cent from 265 during the first half of 1986. This will include the closure of the marine warehouse at Harlow, in Essex.

The total cost of the redundancy programme will be some £50 million.

The bulk fleet of 30 tankers will remain under the management and operational control of BP Shipping. Manning will be handled by three international agencies. It is also expected that some vessels currently UK-registered will be transferred to Bermudian registry but will continue to fly the British flag.

BP's specialist fleet of offshore support vessels in the North Sea will remain under UK registration, with manning in the hands of a UK agent.

The use of agency manning alone will save BP Shipping an estimated £10–12 million a year and, along with a similar level of savings resulting from the write-downs and administrative cutbacks, will help the fleet, especially in the bulk-carrying area, to face increasingly fierce competition from independent shipping companies.

Despite reductions of more than 50 per cent in ships and staff since 1980, BP Shipping has remained consistently unprofitable. The company lost £17 million in the first nine months of 1985 while operating losses in 1984 totalled £19 million.

Commenting on the current moves, BP Shipping's managing director, Mr Ian Hartigan, said: "The international shipping market has presented a dismal picture for the past six or seven years. We have taken drastic steps to reduce costs and streamline our operations, but the fact is that in the bulk areas in particular we are still uncompetitive.

"By opting for agency manning and taking these other actions, we will be able to match the competition of independent operators more closely and also ensure continued employment for seagoing staff. The alternative would have been the disposal or wholesale lay-up of the BP fleet."

BP Shipping has stipulated in the agreements reached with the manning agencies that existing staff should be offered first choice of jobs aboard its ships.

BP Shipping's plans for the growth of its offshore support operations will not be curtailed by the move to agency manning. The continued existence of a pool of BP marine expertise will also allow the expansion of the management and maintenance services which BP Shipping offers other shipowners and shore-based industries.

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Background Notes for Editors

BP Shipping comprises four business units—Bulk Trading, which operates the tanker fleet, the Offshore group, managing and manning specialist supply and support vessels in the North Sea, the SWOPS Systems group which is pursuing floating production opportunities, and the Services division which provides marine services to shipowners and shore-based industry.

Bulk Trading currently operates eight very large crude carriers (VLCCs), five medium crude carriers, 16 product carriers and an LPG carrier, totalling some three million deadweight tonnes. Five of the vessels sail under the Bahamian flag, two of which are already agency-manned by non-BP staff.

The offshore group operates three specialist vessels in the North Sea for BP Petroleum Development—the £67 million ESV, Iolair, which provides emergency support along with diving and other services, and the Sulair, a diving and supply vessel, both operating in the Forties field, and the safety and support ship Seagair in the Magnus field. It also owns and operates a supply and *in-situ* drilling mud processing boat, the Balblair, in the North Sea, and will run the SWOPS system vessel currently being built by Harland & Wolff in Belfast.

BP Shipping employs 1,690 seafarers—970 officers and 720 ratings—and 265 staff work for BP Shipping ashore, mainly in London and Harlow, with an Offshore group operating office in Aberdeen.

8 *January* 1987

Examination of Witnesses

MR M R PATTINSON, Managing Director, MR W J THOMAS, Manager, Bulk Trading and Technical Group, MR N HARTLEY, Manager, Corporate and Services Group, and MR K HORSMAN, Personnel Manager, BP Shipping, called in and examined.

Chairman

834. Good afternoon, gentlemen. Mr Pattinson, I wonder if you would for a start describe the type and number of ships you have in your fleet and the flags under which they are registered.

(Mr Pattinson) Yes, certainly. This information is given in the submission that we made. We own 25 ships and four offshore vessels. The 25 ships comprise eight very large crude carriers, that is, vessels of about 250,000 tonnes capacity, eight medium crude carriers, that is, around the 100,000 tonne mark, 11 product carriers, which are smaller, simpler ships of about 25,000 tonnes capacity, and one LPG (liquefied petroleum gas) carrier of about 25,000 tonnes. Of the four offshore vessels I mentioned, one we own, which is a supply vessel, and three we operate on behalf of our sister company, BP Exploration. Two of these are standby vessels and one is a supply boat.

Mr Bevan

835. Could I ask, Chairman, if they were bought new and when they were built?

(Mr Thomas) No. The VLCCs were built in the mid-1970s and were all built in Japan and the medium crude carriers were built through the period 1975 to 1983, half built in the UK and half built overseas. Two of these were secondhand. The product carriers were all built in the UK or Scandinavia during the late 1960s/early 1970s.

836. For BP?

(Mr Thomas) Absolutely.

837. Which stands for Bermudan Petroleum?

(Mr Pattinson) No! But perhaps it is worth adding that of the offshore vessels the one which we own we acquired secondhand and the others were purpose-built for our use.

Chairman

838. Last summer, as we understand it, there was a bit of a flurry of better rates and so forth but what is the position now? Have they dropped back into the mire?

(Mr Pattinson) Sadly, the rates we had last summer have not been maintained and they are now very low again, in certain cases below operating costs.

839. Do you have a policy about owning and chartering?

(Mr Pattinson) Do you mean chartering in rather than chartering out?

840. Yes.

(Mr Pattinson) We own the bulk of the fleet and we do have some chartered vessels which we take on when we see the opportunity being appropriate for us to charter them, whether it be long-term or short-term.

841. Do you feel that is a good balance?

(Mr Pattinson) It is a balance that varies. We have to keep an eye very much on the movement of the market and the rates that are available to see whether we think that we are going to be able to do this properly or not.

842. You have now, as I understand it, flagged out the bulk of your fleet to the Bermudan flag, is that correct?

(Mr Pattinson) We have flagged out all our ships. Of the 25 ships we have, five are Bahamian, 13 are Bermudan and eight are Gibraltar flagged.

843. Why?

(Mr Pattinson) Because that gave us the flexibility we needed to be able to operate in a competitive international market.

844. Can you say why rather than just a statement that you want to compete? Would you say why you are

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[*Chairman Contd.*]

better off under those flags as against under the British flag?

(Mr Pattinson) Our costs under the British flag were extremely high and we had to do something to try and render ourselves competitive. The measure we took was one which enabled us to operate agreements that gave us the flexibility we needed with an agency. All our crews who previously were directly employed are now no longer employed by BP but are employed by the agencies, and in order to achieve the flexibility of the agreements that were required with those agencies we were obliged to flag out.

Mr Bevan

845. Could I ask what percentage do the agencies take for their services from wage payments?

(Mr Pattinson) That is a question I do not know. We have a lump sum arrangement with the agencies for provision of the service. I do not think we have that breakdown, unless my colleagues can tell you. We merely pay them to provide their services.

Mr King

846. Where do the crews come from? Presumably they are not British seamen?

(Mr Pattinson) Very many of them are British seamen. We gave our men an undertaking when we made them redundant and no longer employed them that if they wished employment on our ships we would give them that employment through the agencies, so very many of them are employed by the agencies on our vessels.

847. But you were talking about salary or wage reductions and longer working hours in order to get the sort of flexibility you wanted in a competitive market?

(Mr Pattinson) We are not aware of the salaries they receive; we simply know what we pay to the agencies.

Mr Bevan

848. What is the flexibility you got?

(Mr Pattinson) The flexibility to employ crews of whatever nationality to suit our needs.

Mr Trotter

849. Do you have any say in what their nationality is? Do you make any restrictions?

(Mr Pattinson) As I said, we have given undertakings to our own men that we will employ them.

(Mr Thomas) We do not have any restrictions as such. The agency arrangements are that they basically give the people we used to employ preference with regard to posts on our ships and otherwise it is up to the agents to provide people who are suitably qualified and satisfactory.

850. BP provided quite a number of tankers for the Falklands war to fuel the fleet. Supposing those ships were manned by Eastern Europeans, would that not be a cause for concern? Are there any Eastern Europeans on those ships?

(Mr Thomas) We have at the moment nine Poles sailing on the total fleet of ships, which is a relatively small percentage. It has been as low as nil and as high as about ten. Whether that is an embarrassment when it comes to something like the Falklands—we are a competitive company and compete in the outside world. We have to trade against everybody else.

851. Would not those agents make even more money if they employed Filipino crews rather than British ones?

(Mr Thomas) We have to go for the cheapest option, by definition. We would be happy for our ex-seafarers to return to our ships.

Mr Bevan: Can they not offer wages that would be attractive to a Filipino crew but which would not attract the British crew back? You have not given them very much in that circumstance.

Mr Dover

852. What was the difficulty? It seems to me to make sense if you directly employed them; you could have economies of scale or whatever with your workforce. What is it that has fundamentally changed? Was there a very tough union situation? Was that the problem? Was it rates of pay, working conditions, hours of leave? What was the problem?

(Mr Pattinson) It was a variety of factors. A very major factor was that for every job on the ship we had to have two men because there was a leave cycle which required that some were working the ship when some were on leave. We now have a situation where men are employed as necessary, so the complement on the ships has reduced dramatically. Also, by no longer having men directly employed we avoid the various overheads which a company like BP encounters with direct employees, and the result of that was a very significant saving.

Chairman

853. Such as what—pensions?

(Mr Pattinson) Pensions is one of them.

Chairman: Sick pay?

Mr Trotter

854. National Insurance?

(Mr Pattinson) Various factors of that sort.

Mr Bevan

855. I suppose you do not deal with tax situations either?

(Mr Pattinson) We do not. Of course, we deal with tax situations with our own office employees but not for these other men because they are not employed by us.

Chairman

856. Given the vital competitive element that there is in world shipping—and we all accept that—would you not feel that by taking the action that your company has you are taking out the employment backup that most people in this country would expect, such as national insurance, such as coverage, as you call it, the overheads which you have as a company? You have neatly stepped our of that, some would say, and left yourself open to the open market of the agencies?

(Mr Pattinson) I do not think so. I think we have taken steps that were necessary, as we have said, for survival. If we had not survived then there would have been no employment.

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[*Chairman Contd.*]

857. Do you believe it is desirable that you should have taken the steps, apart from your balance sheet?

(Mr Pattinson) I believe for survival it is desirable.

858. How do you see the future for up-and-coming seamen? We visited South Shields a fortnight ago and we found that the intake of cadets, for example, is down to a hundred or two from something like 2,000 four or five years ago. Where are these seamen for the agencies going to come from eventually if companies such as your own are opting out of these training facilities?

(Mr Pattinson) I think opting out is a hard way of putting it, sir, with respect.

859. Not being part of it because you are no longer worried, you ask the agency to provide your crew?

(Mr Pattinson) We did have on our books upward of 100 cadets at the beginning of last year and we could have terminated them at that time. We did not do so. We chose to say, no, we started with you, we will fulfil our comitment to you. Those cadets will complete their training.

860. And then?

(Mr Pattinson) It is very early days to say. We have only been in our present operating mode for a year, and I think we will be able to judge better how we stand as time goes by.

Mr Trotter

861. Is it possible that you could take more cadets?

(Mr Pattinson) It is not excluded but I do not think we are in a position to say because we need to see how things work out in the way we are.

Chairman

862. We have just talked about the South Shields situation. How do you view that as practical shippers in the long run? It has been put to us that unless there is a continuance of adequate training for British seamen and officers, which are generally looked on as some of the best in the world, there is going to be a drying up of that type of seaman. How do you view that as practical shippers if there is an upturn in shipping which everybody hopes is going to take place in the not too far distant future?

(Mr Pattinson) I think we recognise that is something that is likely to happen, but on the other hand we have to accept it as a reality of the world. My colleagues may have more to say but I believe we feel ships can be adequately crewed from other sources.

Mr Dover

863. Is it right that you use three agencies? If so, why? Secondly, on your ships do you have one man in charge, the captain, even though these others are all agency employed, or nobody at all in charge?

(Mr Pattinson) Firstly, yes, we do use three agencies. The competition is regarded as healthy. That was one of the reasons for going to three agencies. The answer to your second question is that everybody, the master included, is an agency employee.

Mr King

864. These are British agencies, agencies run in this country?

(Mr Pattinson) No, foreign agencies.

(Mr Horsman) Foreign agencies most certainly, based respectively in Geneva, Bermuda and Hong Kong.

Mr Fry

865. Is not, therefore, the phrase in your memorandum "BP continues to support where necessary the maritime infrastructure in the UK" somewhat high sounding but meaningless?

(Mr Pattinson) Well, that is one aspect of running a ship. There are many other aspects: ship maintenance, ship repair, ship victualling.

(Mr Thomas) It depends how you interpret that particular question. Our view of supporting British infrastructure would be we have built ships here, repair ships here, a lot of provisioning is here, spare gear here, so it puts a lot of money into the British maritime system.

866. Would you accept, following the Chairman's question about recruitment, that this is not just in terms of crews, we need trained ships' officers. There are a host of jobs that are filled within what could be called the marine infrastructure from people who were previously ships' officers. If we do not train any ships' officers we are going to be lacking in very many capacities in the future. What do you think about that?

(Mr Thomas) Living in the hyper-commercial competitive world where we have to compete with everybody else, therefore we have to live within the competitive world. It is nice to talk about the benefits of doing all sorts for British infrastructure but, as a competitive company, we have to compete with companies' cost structures, so do we go out of business if we spend all our time supporting some form of infrastructure?

Chairman

867. While we are discussing the competitive element, an article in Lloyd's Shipping Economist of September 1986 quotes figures from BP Shipping which show that under a union negotiated offshore contract the annual crewing cost of a sample 25,000 dwt vessel could be reduced to £447,957 from £826,000 under the UK flag. This figure is only marginally more expensive than the cheapest manning agency quote, using Indian officers and ratings, of £404,000. Why did BPS not accept the union-negotiated figure which was for British officers and ratings?

(Mr Pattinson) All these figures I am afraid I do not know. I know we reduced our costs from about £900,000 a year, which I believe is not too far from the figure, per ship by about £350,000 per ship, so that would be to £550,000 to £600,000.

868. The article did say this could have been a union-negotiated reduction. Between £447,957 and £404,000 there is not a huge difference bearing in mind the size and scale of running.

(Mr Pattinson) I am not sure but I do not think our discussions with the unions led us to that sort of figure, but there were other factors than the question of cost. I mentioned flexibility earlier. As we have said, we are in a very competitive world and we have to be sufficiently flexible to meet what the competition is able to do.

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[*Chairman Contd.*]

869. Were you satisfied that flexibility was impinging on cost?

(Mr Pattinson) Yes.

Mr Bevan

870. We are in a very flexible world. If I should have declared this, I will do so: I have not got any but my family certainly have a lot of shares in British Petroleum because they were under the impression that they were backing a British company. The share market is very competitive and return and yield on shares invested equally so. I wonder if you would claim still that the name of the company is accurate in view of the fact that half your ships are built abroad, your registries are in Bermuda, Hong Kong and Geneva, and therefore not many of your crew are likely to be British and that it might well be — unless you correct me — that those people are employed in any event on the lump system?

(Mr Pattinson) I think I have to correct you in some ways, sir, with respect. Let me just tell you the shipbuilding we have indulged in since 1980: 4 deep sea crude carriers, 2 coastal product carriers, 1 rig, 1 large and 2 smaller supply vessels, all built in the UK. These ships are owned by a British company. They are crewed to I think about 80 per cent by British crews.

871. So the British crews then register in these foreign areas?

(Mr Pattinson) They are employed by agencies. The crews are not registered, the ships are registered.

872. And the agencies employ people registered in foreign areas, in these three foreign places?

(Mr Pattinson) They are employing British nationals. I think perhaps if I may ——

873. Do they operate the lump system then? What is the advantage to them of operating for or being registered with an employment agency in Bermuda, Hong Kong and Geneva? Do they deduct tax?

(Mr Pattinson) I think the British shareholders you mentioned earlier are benefiting by BP Shipping making a profit rather than BP Shipping making a loss, which is reflected in the dividend paid to the shareholders. That is our prime consideration.

Mr Bidwell: What about the wages?

874. On my question about the employment agencies which operate from Hong Kong, Geneva and Bermuda, do these employment agencies deduct national unitary tax or do they deduct tax at all from their employees that they supply to you?

(Mr Horsman) They do not.

875. Why?

(Mr Horsman) The tax position of the British seafarers on board ships is a matter for the individual.

876. So I am quite right in saying they operate the lump system—what those in the building industry would have called the lump system—which employs and pays extraordinarily high wages in the main because it does not deduct tax and leaves the man accountable for the tax himself. I would be right in saying that?

(Mr Horsman) Yes, the man is accountable.

Mr Bevan: I should think that is one global advantage which would make the man want to register with such a company in such a place his facilities for seamanship, if that is part of the elasticity to which you referred earlier. I have no doubt it is very elastic indeed. I thank you very much that there is still some British contingent in the Company.

Mr Dover

877. Could I ask if the current rates that you are able to obtain would ever allow any further ships to be built for you, or do you need to see a real increase in rates and how do you see the medium and long term markets?

(Mr Pattinson) I think the Chairman mentioned earlier that in the middle of last year the rates were much healthier than they are now. The current rates would not enable us to build. We would hope that the world will improve and that we may look forward to building ships at some stage, but at the moment it is very difficult to foresee. We maintain the position under review.

Mr Bidwell

878. In the assessment of the abilities of the crews and the officers you rely on the agency entirely, do you? You have faith in their ability to supply you with trained seamen?

(Mr Pattinson) First of all, we have confidence in their ability or we would not have employed them in the first place. Secondly, we manage the ships ourselves; we have not given the ship management over to the agencies. That means we maintain a very close contact with the ships. Our Marine Superintendents visit the ships regularly and we carry out safety audits on the ships. A question was asked earlier about safety standards on ships. We believe they are very high. We believe that that sort of contact enables us to assure ourselves that the crews are of adequate quality. If not, we make our views known very rapidly to the agencies because we believe they have not lived up to their contractual obligations.

879. You do not have agency seamen exclusively on the ships, do you?

(Mr Pattinson) Yes, we employ no seafarers.

880. How would you know they are up to scratch if you have no direct representative or employee of BP on board?

(Mr Pattinson) By the regular visits that are made to the ships and the audits which we carry out.

881. What about the rates of pay of such people? Are they up to scratch? Are they up to the normal level of other officers and crews comparably, do you know?

(Mr Pattinson) Our relationship is with the agency rather than with the men. They have the relationship with the men.

882. How does the agency recruit? By advertising?

(Mr Thomas) We have an arrangement with the agencies whereby we pay them a lump sum per month per ship to provide an adequate crew for the ship. There are statutory requirements under the registers we use with regard to the qualifications that people have to have whom the agency try to put forward, so we have effectively a veto right if the agency tries to put forward

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[*Mr Bidwell Contd.*]

on board our ships people who do not meet the statutory training requirements or have not the adequate experience that we expect.

883. You have had no reason to doubt the agencies at any time?

(Mr Thomas) We have had several cases where we have said someone the agency wishes to put forward has been unacceptable and he has not joined the ship.

Mr Fry

884. That brings up the question of safety. I am sure you are aware that there is concern—indeed, there was concern expressed by the Marine Directorate, who were before us last week—about certain territories, one of which you use, ie, Bermuda. If the Department implemented its current proposals so that Bermuda would fall into Category B and no ships over 500 gross tonnage would be registered there, where do you go, because it seems to me that the only safeguard that there is on safety is presumably the regulations of the country to which you have flagged out because that obviously is what your agencies use in terms of the number of crew and the quality of crew that they supply? Where will your flag go next, sir?

(Mr Pattinson) I think I would rather face that question when it arises. The question of safety is one where we do not rely solely upon the stipulations of the country of registry. We have our own very high safety standards. These are imposed by us as part of our contractual arrangement with the agency.

(Mr Hartley) That is absolutely right. We have a safety unit in our Head Office and it is their responsibility to visit and inspect the ships from time to time to make sure that these standards are maintained. They also have issued the standards that the ships have to follow.

Chairman

885. I do not think anybody has implied that BP are not a safety conscious company but that these particular contractors in Bermuda do not have a good record and there is a worry about that and it is important that this line of questioning should be pursued. You must be aware in recent months that the dramatic drop in the flag fleet of the UK has caused concern for all sorts of reasons, not least defence and all the various things that go with that. What measures do you feel the Government could or should take to make it economic, or for whatever reason, for you to retain your own flag fleet or do you stand by your apparent approach that the economic and the competitive argument is paramount to all things and, therefore, Britain could end up without a fleet?

(Mr Pattinson) I mentioned earlier that survival was our main concern and it remains that. The shipping business is not a business that makes large fat profits. We are perfectly happy with the arrangement we have at present with the agencies, with the registries that we have. In order that we should return to the British registry we would still feel that we needed to have flexibility to maintain the competitiveness that we have now. Especially with our competitors who are not obliged to use the British registry. Therefore, we would need to have similar terms and conditions applied within the UK to those which apply elsewhere.

886. So what are the main restrictions under the UK flag which you feel could and should be altered?

(Mr Pattinson) I think principally the flexibility to employ the crews we need to employ in the numbers we need to employ and the standards we impose upon our contractors.

887. What is the main obstacle in your way for that? Is it a question of the home-grown union rules attached to this or has there been no flexibility from the NUS and NUMAST and people like that?

(Mr Pattinson) I think I am right in saying that the flexibility we now have was not available under the previous arrangements.

(Mr Horsman) That would be true.

Mr Bevan

888. Do dock labour schemes affect you? Would they if you employed directly locally?

(Mr Thomas) It would not make the slighest difference. The vast majority of our income and trade is earned overseas. Very little comes to the UK.

889. There is no loading or unloading factor?

(Mr Thomas) No.

Mr Trotter

890. Has there been any reduction in the crews following the change to employment by agencies?

(Mr Horsman) In numbers on board?

891. At any one time?

(Mr Horsman) No.

892. The Isle of Man seems to be more a part of Britain than Bermuda. Is it possible one can get advantages from the registry there, which probably was not available at the time you made this decision to move to Bermuda?

(Mr Pattinson) That was the decision at the time. We are happy with the arrangements we have now. We are not really in a position to do anything else, to make any changes.

893. Are you in a position to expand the size of your fleet—BP a short while ago had double the present size—if you can produce the right rates compared with the world market?

(Mr Pattinson) The world market is in such a state it would only be possible if we were to go beyond the sort of reductions in costs that we have already achieved.

894. So to the extent that BP felt there was an advantage in expanding presumably you could have done so?

(Mr Pattinson) Very easily.

Mr Bevan

895. But you have an extra factor over and above the normal shipping requirements in that you are dependent on petroleum prices internationally, which is a vastly fluctuating factor?

(Mr Pattinson) That is right.

896. That puts you almost as a petroleum company in a class over and beyond the normal dependency on shipping?

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[*Mr Bevan Contd.*]

(Mr Pattinson) Even more of a hostage to fortune.

897. Why was Marpol 10 not ratified by the French?

(Mr Pattinson) We have merely cited that as an example. It is a question of ballast water. Ballast may be put into either segregated tanks which have never contained oil or tanks that have contained oil, in which latter case it is contaminated with oil, and there are very strict limitations as to what you are able to do in order to discharge that ballast. That is what Marpol 10 is about.

Mr King

898. On the question of the obtaining of the crew, how often does the captain of the ship change round? Is there an arrangement with the agencies whereby the captain would be there for the odd trip or does he stay there on a regular basis to get to know the vessel and its peculiarities perhaps?

(Mr Pattinson) We know the captains and the captains know our ships. The tour of duty is about six months and the vast majority of the senior staff are largely dedicated to the ship, so they will go back.

Mr Trotter

899. Do they wear a BP uniform still?

(Mr Pattinson) No.

Mr King

900. Why are you still in shipping? Why not dispose of the ships and go out into the market and obtain a price for the supply of your products?

(Mr Pattinson) We do a bit of both. We do not by any means carry all the BP oil, neither, for that matter, do our ships carry exclusively BP oil. Why are we still in ships? Because we believe and hope that we can continue to make a profit by doing so.

901. You make a profit now.

(Mr Pattinson) We made a profit last year for the first time for a long time.

902. Do you really see there is any future in it for a company like yours? Are you going to replace the vessels you have got or is it your policy to run them down until you scrap them and not replace them?

(Mr Pattinson) At some stage, if we are to remain in the business, clearly vessels need replacements.

903. You are optimistic that will happen?

(Mr Pattinson) In trying to look ahead our crystal ball unfortunately is as hazy as anyone else's when trying to see under what circumstances we would be able to rejuvenate and replace the fleet.

904. Are you optimistic?

(Mr Pattinson) I have to be.

Chairman

905. There is another witness to come before us. Could I finally ask whether, in view of the importance of your company, in view of the concern about the British flag fleet, you feel the Government should initiate talks with you? Would you welcome talks with whatever government in order to discuss what is looked upon as a serious implication of a flag fleet which is reducing to such an alarming extent now and has distinct defence problems attached to it?

(Mr Pattinson) I think we are always ready to talk with government on any subject at all. That is an easy statement to make. We did discuss very closely with them the steps we took last year and we do maintain pretty close contact with them on the way things are going. So I think that we are always happy to talk.

906. Is there any initiative you would welcome from them?

(Mr Thomas) I think specifically the initiative we would take to remain a British company. The United Kingdom just has to have the ability to be very flexible about the way in which you crew your ships. They may have to be non-English people purely to be competitive. At least, if we can operate in a sort of regime or mechanism dreamed up where British seafarers could become cheap, then effectively we could compete with the outside world and the money would come back to the United Kingdom. It is very difficult to envisage a world, I believe, in international shipping whereby you are going to be totally British in a British sort of way with regard to that area where you are competitive. You would just drive yourself out of business I think. That is our view of international shipping.

Chairman: On that note, may I thank you very much, gentlemen, for assisting the Committee who are having to look at this very complex and important subject.

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Memorandum submitted by Shell Tankers UK Ltd

Shell Tankers (UK) Ltd is responding to the Committee's request for a memorandum describing Shell's reasons for transferring the registry of ships from mainland Britain to the Isle of Man.

Much of the background to this submission is contained in a paper which the GCBS has prepared for the Committee. This explains the circumstances currently affecting British shipping.

For many years Shell has met most of its ocean transport needs from a mix of owned, time and voyage chartered ships; the owned ships being mainly either, British flag, managed by STUK or, Dutch flag, by STBV.

During the last decade a number of things occurred which affected such operations. Amongst these are:

The prolonged recession in bulk trades;
Changes in Shell's shipping needs;
The increasing disparity between the operating costs of the Shell managed vessels and those of virtually all of Shell's competitors (mainly due to their employment of cheaper labour).

In spite of many economies, neither STUK nor STBV have been able to compete using their traditional organisations and conditions of employment.

In Britain this problem has been met by a radical restructuring of STUK.

This includes; the formation of a Shell ship management company in the Isle of Man; the re-registration of ships in the I.O.M., where they will continue to fly the Red Ensign, and the cessation by STUK of the employment of seafarers. After the payment of redundancy, those seafarers wishing to continue sea service are directed to a third party I.O.M. manning agency which has entered into agreements with the British maritime unions and mans STUK's ships. A prime objective is to retain a pool of experienced British seafarers and to maintain links with the recruiting and training facilities in the UK and the M.N. Establishment.

Personnel savings arise from the removal of the substantial part of the leave and other shore side payments inherent under mainland conditions of employment and in the reduction of social security costs.

The whole package of measures is aimed to achieve savings in operating costs of 25 per cent.

Even with these measures STUK's costs are still higher than many other tanker operators. However they bring costs to a level at which the Company hopefully can compete.

STUK is committed to the new offshore arrangements which are in no way a planned step towards withdrawal from owned and demise chartered shipping. However, one can envisage circumstances under which Shell would no longer be prepared to invest money in British based shipping or where, in the face of organised competition from the Far East, the employment of British seafarers, even on offshore conditions, could no longer be sustained.

30 *December,* 1986

Further memorandum submitted by Shell Tankers UK Ltd

Shell Tankers (UK) Ltd., transfer of ships to the Brunei registry

Following the achievement of full political independence the Government of Negara Brunei Darussalem sought to increase its direct interests in all aspects of its local oil and gas industry, of which the liquification of natural gas (and its shipment to Japan) forms a significant part. The LNG is shipped to Japan wholly by a fleet of seven LNG tankers, previously owned by Shell Tankers (UK) Ltd and operated by them under the British flag.

As a result of long negotiations agreement was reached in late 1986 for the Brunei Government to achieve its shipping aspirations through the formation of a new company, Brunei Shell Tankers Sendirian Berhad in which the Government and Shell each hold a 50 per cent interest. This Company has become the sole owner of the fleet of LNG tankers.

The seven tankers purchased from Shell Tankers (UK) Ltd are each of the 75,000m^3 capacity and are dedicated to the transport of LNG from Brunei to Japan. The ships are registered in Brunei, renamed and fly the Brunei flag. They continue to be operated by Shell Tankers (UK) Ltd under a management agreement employing the same personnel and procedures as prior to the sale.

23 *February,* 1987

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Examination of witness

MR J D RENDLE, Managing Director, Shell Tankers UK Ltd, called in and examined.

Chairman

907. Good afternoon, Mr Rendle. First of all, I must apologise for your having to wait to come before the Committee. You have been listening with some interest at the back, I notice, and you do appreciate that we can find ourselves going in depth into a particular problem. Could you state your position?

(Mr Rendle) Chairman, I am Managing Director of Shell Tankers UK which is one of the companies in the Shell Group concerned with international shipping.

908. You have gone all the way, I believe, to registering in the Isle of Man. Could you say if the ships are all now registered in the Isle of Man?

(Mr Rendle) No. Shall I give you a rundown on the fleet?

Mr Bevan

909. With dates of manufacture and where they are registered?

(Mr Rendle) I will do my best. My company is responsible for 40 ships at the present time. Some of these are owned by Shell Companies. There are 18 owned by Shell companies, 9 that are demised—which in effect means they are hired from others—and 13 that are owned by completely separate companies. We have 10 product tankers—30,000 tonners built in the 1970s period. 1977 through till 1980, with the exception of two which were purchased secondhand in 1984. These are now mostly registered in the Isle of Man, but we have not completely transferred yet. We have 2 LPG tankers which were constructed in 1981 in Harland & Wolff; they were constructed originally for moving LPG that originated from the North Sea but are now used in worldwide trade and they will be transferring to the Isle of Man flag, the surveys have been done. We have 5 VLCCs which are leased ships built in the latter 1970s, 1975–77, 300,000 tonners, some Isle of Man flag, some not, certainly the remainder British. We have 2 ore-oilers which are combination carriers which we bought secondhand in about 1979, seeing at the time an opportunity in that sort of vessel. They are traded partly as ore carriers and partly as oil tankers. There are 3 dry bulkers which are ships used primarily in support of Shell Coal in carrying coal or iron ore. Two of those were built new in 1981, the other one bought secondhand and constructed in about 1974. Then we have a variety of ships of around 80,000 to 100,000 tonnes, some of which are used for offtake of crude oil from the oilfields in the North Sea and they are used pretty well exclusively for that work, either North Sea liftings or local trading. There are two ships in that category used in worldwide trading, one incidentally a ship we demised from the Tung(?) Group in Hong Kong and it is Hong Kong flag. Then we have LNG carriers, project ships. Seven were built between 1972 and 1975, 75,000 cubic meter ships built to transport LNG from Brunei to Japan. They have recently been reflagged to the Brunei flag because of a change in status between the Shell Companies and the Government of Brunei, and a new set of arrangements was established which included the transfer of these ships from Shell Tankers UK to a joint company, half Brunei Government, half Shell, reflagging in Brunei, retaining their previous manning arrangements which are British officers, Hong Kong Chinese crew. Finally there are 5 gas tankers which we man partly, only partly, officer manning, for the Malaysian International Shipping Corporation, Malaysian flag and used to transport LNG from Sarawak to Japan.

Chairman

910. Roughly how many officers and ratings do you employ, of what nationalities, and do you use agencies?

(Mr Rendle) Yes. The number is about 1,300 and that comprises mainly British, 800 or so British and 500 Asiatics who are either Hong Kong Chinese or Philippinos, and they are ratings. We do not employ any officers from those countries. Those, in fact are longstanding arrangements. Shell has employed Chinese either from Singapore or Hong Kong since well before the war. The Philippino employment came about in about the mid-1970s largely due to shortage of good Chinese ratings. On your second question about agencies, we made a move to an agency during the course of last year and the transfer is not entirely completed. Because of the poor state of the market—the overtonnaging, the change in the pattern of oil trading, particularly Shell's pattern of oil trading, the fact that oil company employment from a national base, which is where we are, or where we were, carried high costs—we decided that we had to go open, to make a move to another form of employment. We looked at a number of possibilities and eventually decided to go to a set of arrangements in the Isle of Man, which in brief comprised a Shell company that administers personnel and a non-Shell third-party company that is the employing company. These arrangements have recently come about and our aim has been to offer employment to all those seafarers previously serving in our ships through the Isle of Man agency if they so wished; some have taken up the option and some have not. The transfer involved severance payments which, in effect, were a recognition of the change in employment and the termination of pensions and other benefits which the individuals had previously enjoyed. The new arrangements involve, as I mentioned, Isle of Man employment under contracts which have been agreed with the maritime unions concerned and which provided an individual, if he wishes, with the option of joining one or other of the industrial pension schemes, that is, the Merchant Navy Ratings Pension and the Merchant Navy Officers Pension, and that process of change is now about 80 per cent completed.

911. So did you have the agreement of the NUS and NUMAST or did you discuss it with them before you changed the flag fleet? Was it an amicable change or something they had to negotiate as this was what you were going to do anyway?

(Mr Rendle) It depends how you look at it but we certainly discussed it. This is a thing none of us wished to happen. I have been in shipping and have served at sea and, as I say, it is a thing none of us wished to happen but we could see no alternative. As a consequence, we sat

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[Chairman Contd.]

down and discussed it and reached a form of agreement which is based on a fairly standard type of international employment on offshore contracts. In other words, I think one could say that the old order of direct employment by shipping companies in this country is changing. The new order is international contract employment by offshore agencies. That was the mould we followed; that is what we went for; that is what we discussed with the unions or the new employing company discussed with the unions, and that is what has been put into effect.

Mr Dover

912. So I read between the lines that you want to go more and more towards agencies than you have been able to do at the moment because of market conditions?

(Mr Rendle) No, we have made a complete transfer. Shell Tankers have now—or perhaps we could advance one month when we have completed the transfer—no longer direct employment of seafarers. Seafarers serving on Shell Tankers ships will be employed by an agency now under the arrangements I have described, with the exception that the Hong Kong ratings are engaged by Shell Hong Kong and the Filipino ratings engaged through an agency in Manila. We have no plans to make any alternative arrangements and our plan is to make this system work and to be competitive within it.

913. Will the captain and officers be in your own direct employment?

(Mr Rendle) No, none at all; they are all on offshore contracts.

914. Contracts with Shell based in the Isle of Man?

(Mr Rendle) Yes, the individual's contract.

915. From what you were saying I had gathered the captain plus a few officers were your own employees?

(Mr Rendle) No, I must have misled you, I beg your pardon.

916. Who employs them?

(Mr Rendle) They are employed by the agency with whom we deal in the Isle of Man, so they are all employed by one agency in the Isle of Man. They have their contracts of employment with that agency and there is a service agreement between that agency and a Shell company in the Isle of Man.

Mr Trotter

917. You said the officers were still all UK. Is there any intention that they continue to be all UK?

(Mr Rendle) If we can get a suitable supply of people and this is a worry, as I am sure you are aware. We do, in fact, recruit cadets and we have never totally stopped, although it went down to a very low level. We are recruiting cadets in conjunction with the college at Plymouth. We have asked them to start a scheme for dual discipline training—navigator and engineer combined—with a view to trying to maintain a supply of people. The problem is that competition overseas is very severe. We are competing not only with the outside market from which Shell companies draw their tonnage but also with the other shipping companies within our group—Shell Tankers Rotterdam, Shell Tankers in Germany, and there is a company in France which is not a competitor but the other two are.

918. Are the cadets employees of Shell?

(Mr Rendle) The ones who are still serving are still employees during the currency of their indentures. The new recruits will be, and are being, recruited by the agency in the Isle of Man.

919. And they wear the agency's uniform, presumably?

(Mr Rendle) They wear Merchant Navy standard uniform.

920. But there is no Shell badge?

(Mr Rendle) No, there never has been.

921. Would it be possible to rejoin the UK registry if there were some relaxation of the rules about UK manning of British-registered ships?

(Mr Rendle) No, I do not really think so because what we were looking for was a 25 per cent reduction in our operating costs to bring us from a high cost company into what you might call a medium cost company. We have made a lot of economies and a lot of savings over the course of the last five years but this was the sort of target we had to meet. We looked into this in a great deal of detail as to whether it would be possible without making this drastic move to achieve that target and we concluded that we could not. It was not just a matter of manning scales; it was a matter of the cost of company employment plus the negotiated package of employment which exists in this country.

922. You do not see any chance of that being changed?

(Mr Rendle) I am afraid not, no.

923. What about Dutch Shell? Have they done the same thing?

(Mr Rendle) They are in the process of doing some rather different things. They have substantially reduced their number of directly employed Dutch staff. I cannot tell you about employment legislation in Holland because I do not know but they have made a very drastic reduction in the number of Dutch staff and are manning to some degree with Indonesian officers and crew and have Polish officers and Polish crews.

924. We heard earlier from the Offshore people that there are subsidies paid to Dutch seafarers. Do you have knowledge of that?

(Mr Rendle) There is a subsidy that goes with the ship. The most recent new building in the Shell Group has been a class of five 85,000 tonners, which have all gone to the Dutch flag because the financial arrangements were more attractive under the Dutch flag than elsewhere. Part and parcel of that is a requirement over a period of time that the ships are Dutch manned, so to that extent there is a subsidy but to my knowledge there is no direct operating subsidy.

Mr Bevan

925. Could I ask, is Shell not a Dutch company overall? There is no distinction in the previous question,

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[*Mr Bevan Contd.*]

is there, between Dutch Shell and British Shell? It is all a Dutch company, is it not?

(Mr Rendle) No, that is a simplification of the facts. It is a 60 per cent Dutch company and 40 per cent British, but it is a group of companies which in themselves are national companies. Shell Tankers UK is a British company. If you traced back to the ultimate shareholdings in Royal Dutch and Shell Transport and Trading, you would find that 60/40 division, but we are a British company. There is Shell UK and a lot of other companies in this country.

926. So when you were describing the fleet earlier you were describing the Shell fleet and it is the British fleet?

(Mr Rendle) It is British, that is correct.

927. Where was that fleet built?

(Mr Rendle) The seven gas tankers which are used for the Brunei project were built in France. The Malaysia ships were also built in France, but were not built for Shell. The seven gas tankers were built for Shell, although they are now Brunei flagged. Of the remainder, we have two bulk carriers that were built in Korea, the two ore-oilers which were built in Sweden, the VLCCs, which were built four in Harland & Woolf and one in Japan, the two LPG carriers were built in Harland & Woolf, and of the product carriers, four were built in Japan, four in St. John, Canada, no less, and two in Italy. Then we have a variety of other vessels which were built in Hamburg, Denmark, Sweden, Japan and, yes, one still from Swan Hunter on the Tyne.

928. That one was British?

(Mr Rendle) Sixty-one.

929. Thank you. Could I ask you then what was the change of status you referred to between your company and the Government of Brunei which made it more favourable to make the three ships, I think you said——

(Mr Rendle) Seven.

930. I beg your pardon—"Brunese", if that be the word, in registration. Could you tell us about it?

(Mr Rendle) Yes. In 1983, I think it was, Brunei obtained full independence from the British Crown and became a sovereign state. Following that, a series of negotiations took place between the Government of Brunei and Shell which, in effect, were aimed at increasing the Government of Brunei's participation in oil, gas and related activities. These negotiations were finally completed last year and the consequence really was a 50–50 partnership in a number of these activities which included shipping and, as part of that, the ships were reflagged from Britain to Brunei.

931. Finally, could you tell me, if you would be so kind, if the holding companies that employ your employees under the new arrangements, deduct taxes from the employees?

(Mr Rendle) Well, it is not actually a holding company; it is in effect an agency. I think, if we call it an employing company, it deducts national health insurance because there are reciprocal arrangements between the Isle of Man Government and the British Government.

932. The Isle of Man and Britain are in the same Customs Union at the moment.

(Mr Rendle) So national insurance is deducted, pay as you earn is not deducted, as is commonplace with offshore contracts. The matter of the individual's tax depends on his residency and the period of time he spends in the country. There are arrangements of which you may well be aware under which a resident serving at sea can obtain exemption, legal exemption, from a liability for PAYE if he is not in the country for a certain period of time in the year. Some seafarers do, in fact, achieve that. That is their own affair as to whether they do that.

933. Finally, if your company registers at all in the Island, does it therefore get the across-the-board 20 per cent tax without corporation tax?

(Mr Rendle) My company is not registered in the Isle of Man. Shell Tankers UK is registered in London. There is another Shell company, a separate company, Shell Ship Management Ltd. a small administrative organisation which is an Isle of Man company and therefore would benefit from the Isle of Man tax arrangements.

934. Twenty per cent across the board, no corporation tax?

(Mr Rendle) Whatever they are, yes.

Mr Bidwell

935. I am curious about the agencies and how they are staffed. Do they have big staff?

(Mr Rendle) An administrative staff you mean?

936. Yes. Are they former employees of yours?

(Mr Rendle) No. There are two functions we are talking about really on the personnel side, and we have no personnel department for fleet staff left in London. All the personnel operation is now conducted from the Isle of Man. To do that the Shell company that I mentioned, Shell Ship Management Ltd, has a staff of 11 people who are concerned with personnel administration in terms of appointments of people to ships, welfare, recruitment, training—these sorts of things. The direct employment is done by an agency which has two functions. One is the contract of employment and all the bits that go with that, the union negotiations and so on. The other function is the payroll.

937. The agency does not operate as a subsidiary of your company?

(Mr Rendle) No, it is a separate entity.

938. You have a great deal of faith in your agency presumably. How did they get together, are they local people or what?

(Mr Rendle) We were very careful in the way that we selected an agency in order to do this job. We did not go and put an advertisement in the paper. We looked around at what was available and who was interested in doing this sort of job in the Isle of Man.

939. You initiated the agency?

(Mr Rendle) No, we did not. No, no. There was an interest that existed there already and, on the basis of

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[*Mr Bidwell Contd.*]

that interest, we encouraged the agency to enter into a contract with the Shell company in the Isle of Man.

940. It is not the case, is it, that it is on the whole a union dodging activity?

(Mr Rendle) No, because the unions are party to the agreement.

941. There are various unions catering for seafarers.

(Mr Rendle) Yes. There are two really, NUMAST and NUS.

942. On the question of cadets, this Committee is interested in the on-going provision of naval seamen and the continuation of a merchant fleet. As to the cadets we have had various evidence here. Is some of the training actually on board?

(Mr Rendle) Yes.

943. It is both theoretical and on the ships themselves?

(Mr Rendle) In effect, it is a sandwich course with a certain amount in college and a certain amount on board, practical and theoretical on board and theoretical in college.

944. Is that discussed and negotiated with the trades unions in any shape or form?

(Mr Rendle) Yes, the machinery for that is, of course, the existing industry arrangement in this country, which I guess must be the Merchant Navy Training Board, to which we are still a party. We have not removed ourselves from this sort of infra-structure because we wish to try and build something new without destroying all of the old, to put it simply. The supply of people is extremely important; the supply of trained people is vital. It may be that it will dry up in the course of time in this country, that is possible.

945. Does the net result of the agency use shed administrative costs? Is that the whole objective? Why does it exist?

(Mr Rendle) It is for two things. It does reduce administrative costs because it is a simpler contract to discharge. The arrangements are simpler. Employment and offices in the Isle of Man are cheaper than in London certainly where we are located over here. But the main objective is to move from the expensive form of direct employment, which we previously had—oil company employment on British maritime conditions, negotiated conditions—to something more akin to the sort of employment conditions that exist in the international shipping market which is really where we are competing.

Mr King

946. Could we have a quick look at the safety aspects of your operation? It costs £210 to register a ship of 50,000 gross registered tonnes in the Isle of Man, excluding survey charges etc. There is no annual registration fee or taxation. Is it much cheaper than, for example, a traditional flag of convenience country like Liberia, where obviously there are annual taxation charges?

(Mr Rendle) Yes.

947. It costs more than $20,000 to register VLCCs there. Would you agree the Isle of Man is an exceptionally cheap register?

(Mr Rendle) I think one should be a bit guarded as to how one uses the word "cheap" because there are various connotations one can attach to that. Certainly in terms of what you have to pay to do the job, you do not have to pay very much. For what you get in return I would not class it as cheap though, because it is supported by the Department of Transport here; it is based on the same set of regulations. It has been supported in creating these regulations and setting up a structure by the Department of Transport and one of our reasons for going to the Isle of Man was that we felt comfortable with that sort of administration and that sort of framework of regulations.

948. But are you satisfied that with such a small income from shipping and ports which are too small to take large tankers the Isle of Man can provide a marine administration capable of undertaking the sort of surveys and inspections to the standards required by law and international conventions?

(Mr Rendle) Yes, we are quite satisfied but you might like to direct your question, if you get the opportunity, to the appropriate authority in the Isle of Man. Certainly the assurance we have got is that the Isle of Man is trying to create a shipping entity, if you like, in the Island, recognising that it brings a lot more with it. For example, a lot of money goes through the Isle of Man which did not go through before because of the fact that these changes in employment have been made, but other things go with it and follow on, so I think you could regard it as a means of bringing business to the Island.

949. You have a fine safety record on your ships. Do you see your competitors as they are trying to cut corners, perhaps in order to get a commercial advantage, causing hazards on the open sea and what can be done about it?

(Mr Rendle) Yes, I think you can say this risk exists—it would be foolish to say otherwise—that under the market trading conditions that have been going on for some time people have been very pressed on their revenue. Revenues have been reduced and the danger in such circumstances is that things like maintenance and training go by the board. There is a fairly sophisticated international system now through the International Maritime Organisation to set standards and to encourage signatory governments to enforce them, both in terms of the flag and in terms of the port at which the ships call, so it is not a free-for-all in that sense.

950. Do you make money in the shipping business?

(Mr Rendle) We have made money on our project ships, yes. Things like gas have been a very profitable venture. Some of the things are in support. The North Sea ships are in support of the production of North Sea oil, an important part of that overall activity. If you take the rest of it we have lost a lot of money, many hundreds of millions of pounds, not just Shell Tankers UK but the whole organisation, and, of course, this led eventually to the sort of drastic restructuring or significant restructuring we are talking about. Of course, looking to the future this raised the problem of further investment and we have to get the present situation right before we are in a position to start thinking about putting much more money into the fleet. This, of course, is a worry because the fleet is approaching 11 or 12 years

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[Mr King Contd.]

average age and we generally have thought in terms of a 20-year lifetime, although ships have gone beyond that, and having got ourselves back into the competitive situation which is our current objective, the next one is to look at rejuvenation and re-investment.

951. What size was your fleet a few years ago? You have these 40 ships now but ten years ago it might have been what?

(Mr Rendle) It would have been about 80. In the early 1970s it was pushed up to 100 and our problem was where on earth were we going to find the people to man the ships that were constructed in the early 1970s. Then after the 1973 oil shock it started to fall and it has dropped pretty much year by year to 65 in 1981, when I took over, and now 40. It is stabilising a bit there but there is no certainty that it will stay at that figure.

952. But the decline in your fleet in no way reflects the problems that the United Kingdom might have with shipping, it is just maritime world trade?

(Mr Rendle) Yes.

953. So you could not say, for instance, that any government, of whatever persuasion, has been at fault or directly contributed to the decline in the total tonnage of your fleet? It is a question of world forces acting upon it more than individual government action?

(Mr Rendle) Yes, I think that is pretty fair. I think one should add that we now see a certain uncertainty as to the future amongst a lot of people in shipping—I am talking about people serving in the ships—and this is one of the most serious things. I think in most cases people just do not see a career ahead of them in British shipping in its traditional form. They hope something else will emerge which will provide them with a career structure, but one of the most serious matters in today's situation is this uncertainty as to the future, whether the country really sees itself as a maritime nation or not—I feel it should—and how we are going to step from this rather low point up to a point where we can see where we are going. This is one of the challenges for the future.

954. We have had a procession of people as witnesses who all posed the questions and none came up with the answers. The purpose of this inquiry is to find out what recommendations we may make about resuscitating the British shipping industry, but from what you have said just now the problem is not a British one but an international one and really there is no national solution to the shipping problems that you face as an international operation, which no one government could resolve?

(Mr Rendle) Certainly. On the cost side it is certainly a West European problem. All of these countries are pretty much in the same situation. In fact, I think we are a little better placed than the Dutch and the Germans because against the dollar our currency has not been so strong and they have always had this problem of slightly higher costs. But there are a number of things. There is the overtonnaging that persists in the tanker and bulk trade, the rush to build ships that people indulged in when they saw a slight upturn in the market, encouraged in some instances by building policies in the Far East, and in Korea in particular, and this leads to instability, which is a part of the problem. I think you are right, it is an international problem but it is worse in this part of the world.

955. But in the next generation of ships which you are thinking about now, would you be looking at more advances in technology to eliminate manning costs and operating costs to make West European-built and manned vessels more competitive than the present ships you are operating? Do you see that as a way out for your particular business or a way forward?

(Mr Rendle) I do not see it totally as a way out because shipping is a very international undertaking. Shipbuilding is worldwide. It has a very fine edge on it and if somebody devises a means of reducing costs, be it fuel through the development of an engine, be it manning through automation or something of that sort, most people follow on pretty quickly: "If he builds a ship then I can go and order one if I have the money somewhere else six months later." But you are quite right, because I am quite sure that is the way the thing will go, that the whole industry will move probably towards a more capital intensive ship that will result in lower manning costs, but that is not necessarily, in my view, going to get this country out of the current problem.

Chairman

956. If we can go to manpower, which is a very important factor at the moment, as you heard us say before, the number of cadets has dramatically fallen in the training colleges and schools. Where are the future seafarers going to come from? In your submission you say quite plainly: "...in the face of organised competition from the Far East the employment of British seafarers... could no longer be sustained..." given certain circumstances. If that is a fact how do you see the Secretary of State's initiative on training as announced on 10 December? What happens about that? Is there anything in it for you, as you see it, as a shipping company?

(Mr Rendle) Yes, I think that is a very good move. I think that is a step in the right direction because it does recognise that in this country that is one of the areas of concern in that, if we are going to stay in shipping as a maritime nation, we have to have people obviously. The industry has a poor name as regards recruitment because it has fallen off and school-leavers do not think about going to sea these days because they do not think it is much of a job to go to, which is a great pity. Also—and this is an area in which we are uncompetitive—most of the Continental nations do put a good deal more money into the training of their young men than has been customary in this country. If that balance can be corrected, and if the initiative would also give the whole idea of training for sea service a boost, I think that would be a good thing. It does not solve the whole problem because there is still the problem of where the ships will be, but at least it is going some way towards that.

957. Have you got cadets?

(Mr Rendle) Oh, yes.

958. How many?

(Mr Rendle) About 150 at the present time.

959. Do you intend carrying on with cadets?

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[*Chairman Contd.*]

(Mr Rendle) Yes. We are recruiting. Let me remind you that at the moment the cadets are employed by Shell Tankers, because that is who they are indentured to. Under the new state of affairs the cadet recruitment will be done from the Isle of Man agency. We have assurances that that will be the case. The level of recruitment will be about 80 per annum, at that sort of level.

960. Do these agencies have an input into the Industrial Training Scheme? Is any money paid in to the Board for your crews to come back into training at all?

(Mr Rendle) Yes, it certainly is, because an agency is, in effect a contractor who does what you contract with him to do and, if you choose to contract with him to provide trained people and you specify what sort of qualifications you want—for example, we have quite a large fleet of gas tankers which requires people with particular qualifications, gas endorsements, so it is essential that training is done and these endorsements are obtained.

961. How do they provide an input into training? Are they not merely head hunters, people looking for skilled people who actually poach them, as we know these agencies in all sorts of industries do at the moment? If the British home-based training facilities run out for lack of a career structure, where are they going to get bodies from then? Perhaps you could put me right. Is there a way that the agencies put money into training? If so, how? They have no input into the Industrial Training Board.

(Mr Rendle) Really the situation of an agency in the Isle of Man is, if the agency wishes to it can—it is not obliged to—put itself in pretty much the same situation as an employer of seafarers in mainland Britain. The facilities for training and the input into the training system are available to an Isle of Man company if it wishes to take them on. As I mentioned, it is a question really of whether the shipping company that has contracted with an agency to provide people specifies what it wishes the agency to do, and the facilities do exist. There is recruitment on the mainland and there is recruitment also in the Island. A number of Manxmen go to sea as well. So the door is not completely closed but it is a different system from what we had before.

962. I am sorry to pursue it quite as closely but I am intrigued about how this actually works. We heard from the previous witnesses that they encouraged competition between three agencies. One might be an Isle of Man based agency which felt they had a moral obligation to put money into the industrial training which cost them money which would make them less competitive than the other two. Would there not be a danger, if there was no obligation on these agencies to put money into the training, that they would end up not doing that and expecting the Government to do it?

(Mr Rendle) I am sure there is. I am sure if there is no obligation on them then a lot of them will not do it. We only deal with one agency because that is the way we wished to set about it, but it does not prevent us, if we wish, going to other agencies. It is a fairly wide market. But the training facilities still exist and are available to be used, and the extent to which the Government—and I am pleased to say they are proposing to do something—are able to reinforce this and lubricate it, the better for the maritime health of the country.

Mr Trotter

963. The unions are a party to the agreement or a party to the original setting-up of the agency agreement?

(Mr Rendle) No, the unions are party to the individual contracts of employment between the agency and the seafarers.

964. So these people are still members of their unions?

(Mr Rendle) Yes, indeed so.

965. So the unions are co-operating in this agreement?

(Mr Rendle) Yes, I think the unions have been extremely pragmatic about this. Obviously they have not liked it—nor have we, if it comes to that—but we have had to find a way out of the problem and the way has been found.

966. You have no contact with the unions now? It is the agency which has the contract?

(Mr Rendle) Yes.

967. Was the Isle of Man an easier place to settle than perhaps other possibilities?

(Mr Rendle) Maybe it was, and our timing was fortuitous. We knew the Isle of Man was coming about when we started to look around. We looked at other places. We looked at Hong Kong, where we have a group of companies: we looked at Bermuda, Liberia and Panama, and for a number of reasons, two of which were that it is near at hand and that it can use the infrastructure of this country, we decided to go for the Isle of Man.

968. Is the dual training with a view to cutting the total size of the crew?

(Mr Rendle) Yes, that would be with a view to having officers, certainly in the junior ranks, with a dual skill. They can either keep a watch in the engine room or on deck.

969. Would the answer you would give be the same one you heard BP give about the allocation of cargoes within Shell, that you have to fight for those cargoes basically?

(Mr Rendle) Yes, we do indeed. The commercial arrangements within the group are strict. There is not much cosiness. It is done between the operating and trading companies and the shipping companies on an arm's-length commercial arrangement and it is not at all unusual for an operating company to elect to use third-party tonnage rather than group tonnage because it thinks, for one reason or another, it can get a better deal, so we are in that situation.

970. You and BP must be the two biggest companies left owning ships in Britain? You have 40 or so each, would that be right?

(Mr Rendle) Yes. Actually we do not own all 40 as I explained, but with that sort of responsibility, yes, that is true.

971. There seem to be three ways in which the Merchant Navy can be helped: one is protectionism,

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[*Mr Trotter Contd.*]

which we heard about earlier from the North Sea operators and their special case; the second is subsidy and the third would be tax incentives. You have not mentioned any of those three relating to your particular fleet.

(Mr Rendle) No. I think there are two stages to the question. There is the immediate problem of getting ourselves into a competitive situation so that we can survive—and we were not in that situation last year, which was why we had to make these changes. I think anything that can be done—and the training is a good example and assistance with travel costs is another—these sorts of things are all helpful in that respect. But one has to recognise that there are very much cheaper supplies of seafarers even against the present contracts, and to survive in our present mode we have to look at all our obligations and projects and the rest and have to try and put in some added value from the British seafarers in terms of higher performance from the ships. It is a complicated equation where the factors are always moving.

972. Protectionism is not applicable?

(Mr Rendle) I do not think so. I do not think it gets us anywhere in the business we are in because we are very much free traders all around the world. I think our answer must be that that is really not the answer to the problem. Nor do I think that overall subsidy of the sweeping American type is the answer either. I believe that we have to take this fairly steadily, perhaps even a step at a time, but we must, if we are to survive as a maritime country, check this loss of confidence and try to demonstrate that we really mean it, that we want to stay in shipping as a nation.

Chairman

973. In view of all the persuasive arguments which you and some of your colleagues have put to us about the impossibility of remaining as a flag fleet, do you believe that Britain should opt out of a flag fleet altogether? If not, do you believe there ought to be a minimum flag fleet for defence purposes and the rest and, if so, what would be the single strongest recommendation you would make, given my job and having listened to all the evidence we have had, to try and put forward something which is practical to HMG?

(Mr Rendle) Should there be a flag fleet or not? My own view on that is, yes, there certainly should and I am sure you have heard all the reasons. Even in the Shell Group, where we are very international and can really do things more or less where we wish around the world subject to local law, and all this sort of thing, we have a strong affinity to a British marine operation and a Dutch marine operation, partly traditionally, partly because we have a lot of good people, even though they are under different conditions of employment, still there and there is the infrastructure that goes with it, which no doubt could be recreated in Hong Kong or Singapore or somewhere, but given the choice we would prefer to see these things remain. Defence, yes, I am sure there is an argument there. The thing that is a bit worrying, of course, is that ships get older and, if a certain type of ship is required for defence purposes, there is no guarantee that that particular ship will be replaced when the time comes. I am really talking about the 30,000 tonners, one of which we sent to the Falklands.

974. We have to eat as well!

(Mr Rendle) Then there is the supply of the civilian population and these sorts of things. So I think at some stage this problem of reinvestment under the British flag has to be faced, if it is to happen. Because I think the majority of companies that are running ships have to take a pretty flexible worldwide view as to where they invest their money and, as I said, I am afraid the last decision Shell made in this respect was to invest in Holland because of the more favourable fiscal regime. So if one is looking at the future, I think there has to be some way—and maybe subsidy is not the way, maybe tax is not the way—but I think one has to recognise that the shipping company may not be in a position to invest in this country as much as it would like because business points it elsewhere.

Chairman: Thank you very much, Mr Rendle. You have told us what is not the way, we have to try and find out what is the way. We are most grateful to you for appearing before us this afternoon.

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HOUSE OF COMMONS

TRANSPORT COMMITTEE

Session 1986–87

DECLINE IN THE UK REGISTERED MERCHANT FLEET

MINUTES OF EVIDENCE

Wednesday 1 April 1987

Mr G J Bonwick and Mr M Grey

Ordered by The House of Commons *to be printed*
1 April 1987

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WEDNESDAY 1 APRIL 1987

Members present:

Mr Gordon A T Bagier, in the Chair

Mr David Gilroy Bevan	Mr Roger King
Mr Sydney Bidwell	Mr David Marshall
Mr Den Dover	Mr David Mudd
Mr Peter Fry	Mr Stephen Ross

Memorandum submitted by Mr George J Bonwick

FLAGGING OUT

Whilst it is understandable that considerable attention has been paid in recent years to the practice of Flagging Out ships from the UK to overseas registries, particularly as it has taken its toll in a period of structural change within and rapid decline of UK shipping, it is important to bear in mind that it is not of recent origin. History presents numerous instances dating back to the 16th century, when many adventurous English merchants sailed under the Spanish flag to evade the monopolistic Spanish regulations governing the lucrative trade with the West Indies. Towards the end of the 19th and early years of the 20th centuries some UK owners transferred their sailing ships to Norway, crews being cheaper and more readily available.

Some reasons for Flagging Out which have not been published elsewhere appear in my correspondence of 22 July and 27 August (particularly the former) with Sir Frederic Bolton, MC, President of the British Maritime League, commenting on its publication "Why the Ships Went". Sir Frederic is in an excellent position to speak on Flagging Out since the company that bears his name is the very latest to join the procession, to Bermuda, I believe, with its small fleet of bulkers. As it is now 90 per cent owned by a US national, however, it is surprising that it took the company so long.

Lonrho, the company of which Sir Edward du Cann, chairman of the Parliamentary Maritime Group, is the chairman, has first-hand experience of Selling Out, thereby contributing to the decline of UK shipping of which Sir Edward complains so loudly so often. Lonrho sold the small fleet of bulkers it owned to Hong Kong Chinese who still operate them.

In a 1984 lecture entitled "UK Shipping: Aspects of Ownership", submitted in evidence*, a score or so countries whose nationals have made use of the UK ship register are listed. The list, of course, is shrinking as owning companies and fleets decline. It must be recognised, it seems to me, that Flagging In to the UK no longer has the appeal it once possessed, save in special circumstances, eg, the availability of an MoD Falkland Islands charter. Flagging In is unlikely ever to recur to any significant extent.

There is, however, an aspect of Flagging In which *seems* to be (but may not be) increasing and calls for urgent attention and action. This is Flagging In to Dependency registers, mainly the Cayman Islands and Gibraltar. In the last year or so, for instance, a 10-strong fleet of mostly fairly modern ships has gradually been transferred from Finland to the Cayman Islands. To the best of my knowledge very few of these Flagged In ships are UK owned and even fewer employ any British personnel. Most are old and decrepit and bring nothing but discredit to the British flag wherever they go. Some have spent only brief periods on one or other of the two registers mentioned before sinking, sometimes with heavy loss of life. (I raised this issue with Shipping Minister Iain Sproat in October 1981.)

A recent instance occurred in July 1986 when the 24-year-old German-owned, Cayman Islands-registered *Olaf* of 999 gross tons, manned throughout by Germans and Poles, foundered off the Dutch coast, fortunately without loss of life. She was laden with some 3,500 tons of highly toxic chemicals loaded in Denmark and destined for UK discharge. There was serious anxiety in Holland about pollution and no doubt this led to the Cayman authorities requesting an inquiry by the UK's DTp. This, I believe, contributed to maritime history as it was the first ever inquiry into any of the many serious casualties in which Cayman-registered ships have been involved.

There was a great deal of adverse publicity in the German press about the *Olaf*, her crew (some officers were alleged to have been uncertificated, including her ex-barman owner/master) and her defective equipment (crew members claimed lifeboats were unusable). "British" shipping must have plumbed the depths when ships of this character are tolerated on the register. In 1969 the Resident Administrator of the Caymans stated that the first ocean-going ship registered there, the *Cayber*, would be the last. There must now be in the region of 100. It is suggested to the Committee that from now on no ship should be admitted to any UK or Dependency register — not even on a Provisional basis — without thorough inspection, approval by a recognised authority and guarantees that she is and will continue to be adequately manned. That, surely, is not too much to expect.

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Certainly, any criticism in the UK of Flags of Convenience is out of place so long as "British" rust-bucket registers thrive, and it is so convenient for fly-by-night foreign owners to register in the UK. The story of the UK-registered, unseaworthy rust-bucket *Tiger Bay*, written by its master, Captain Philip Cheek, has now been published. It is fair to comment that he is not complimentary to the DTp — but who is? The book is entitled, *Legacies of Peril.*

Examination of Witness

MR G J BONWICK, called in and examined.

Chairman

975. Mr Bonwick, we are sorry we have kept you waiting a little while, we had some formal business to see through and it does take time. Welcome to the Committee. I know you have submitted several memoranda to the Committee but would you say who you are and what your background is?

(Mr Bonwick) My name is Bonwick and I am a Master Mariner. I retired from the shipping business after many years in it, it is now my hobby I am afraid. About one-third of my career was spent at sea, most of my time ashore was spent in consultancy with a particular interest in personnel. For me, Chairman, this is a *deja vu* situation. Thirty-odd years ago I consorted with a number of Members of Parliament who had displayed an interest in maritime affairs and had expressed concern about shipping's future. Ship-owner Sir Leonard Ropner, "Featherbed" Fred Lee, I do not know why they called him Featherbed, Manny Shinwell and several others. Some of us thought an inquiry into the industry would be useful, if only to establish facts such as were flags of convenience, flag discrimination, subsidised competition, cargo preference, coastal trade reservation, low cost competition, alleged excessive taxation, etc, the threats to British shipping they were purported to be. At that time, as you know, Britain was at the top of the league where she had been established for generations. There was a great deal of public interest in the industry in those days which, of course, was only a decade after World War II. It was inconceivable to most that the time might come when Britain did not rule the waves. All the MPs, except one, have shuffled off this mortal coil, and the exception has only got as far as the House of Lords. Around that time I instigated a conference right here in the House of Commons, I have never been able to find the place. Mr Shinwell was in the chair and a couple of overseas' shipowners with UK interests were with him to answer Members' questions. I also instigated a press conference with Viscount Alexander, former First Sea Lord, in the chair and one overseas owner to answer questions. Incredibly, Mr Chairman, the major maritime topic 30 years ago was flags of convenience which is still a major maritime topic in some quarters, as you know. On 6 July 1981 there was a full-scale Parliamentary debate on that very subject. The *deja vu* feeling persisted yesterday when Mr Rendle of Shell spoke of the dual discipline of training Shell cadets. Twenty-two years ago I attended an ILO seminar in Elsinore on shipboard automation at which a French Shell executive proposed that officers should be trained, and serve at sea, as engineers as well as navigators. I understood the proposal proved unworkable. It is odd that it has resurfaced two decades later. I wrote a report on it, or a lengthy foreword to the seminar, it is in French which I do not understand.

Mr Bidwell

976. You are using French and baffling me.

(Mr Bonwick) A few days ago Sir Frederic Bolton spoke of the unprofitability of shipping as, indeed, many others have done. *Deja vu* again, Chairman. "The Unprofitability of Ship Owning" was the title of a lecture by the current president of GCBS, Mr Runciman, a mere 17 years ago!

Mr Fry

977. Could you on that point, Mr Bonwick, tell us whether you could give us the reasons why you think British shipping is unprofitable, is it just a feature of British shipping, is it a feature of particular sectors, or is it true of all shipping?

(Mr Bonwick) It is certainly not peculiar to British shipping, it is certainly not peculiar to all British companies, the liner companies are still quite profitable, P&O, for instance and Cunard. The ferry companies are still reasonably profitable, not doing too well at the moment but they have had a very good run up to now.

978. Can you summarise why you think those sectors of shipping which are unprofitable are unprofitable?

(Mr Bonwick) Well, Mr Chairman, for the last 20-odd years I have said the main reason is bad management. I recall in various papers the most prominent shipowner of the 1950s/1960s and 1970s, the Deputy Chairman of P&O, saying that it is to shipowners alone that the credit or blame lies for the rise or fall of British ships. I am not certain I agree with that entirely because there are other parties involved but they run the industry and are largely responsible for the industry.

979. I have heard that comment about just about every industry in the country at one time or another. I think there is substantial truth in the criticism of British Management. You will appreciate that many people are saying that the Government ought to do something about it. What we would be interested in is if you could give us your views on what the Government ought to do to bring about a return to profitability because I assume what you are saying is without profitability we shall not get a resurgence of British merchant shipping?

(Mr Bonwick) Absolutely true, Mr Fry, and like everyone you have asked that question, so far my answer is I do not know. This is a fragmented industry privately owned, I do not see how any Government can dictate what the industry should do. Everything it has tried in the past, subsidies, scrap and build schemes, taxation concessions, you name it it has all been tried before and

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[Mr Fry Contd.]

it has all failed. I have no reason to believe it will succeed in the future. Equally, back in 1966 the Government thought it would help the industry by lashing out £600 million of taxpayers' money by way of investment grants but it did not work, at least not for long. The sad thing in those days was not that the Government gave that money but that it was unnecessary because within a few months of them giving it the Suez Canal closed and freights went sky high. At that time it would have been better if Government had stopped the tap.

Chairman

980. Although I know you have been heavily involved in shipping for a number of years and your memories of 20 years ago are very much up-to-date now, do you think you are being fair saying the present troubles are entirely due to bad management? We have had a series of witnesses who have told us there is unfair competition in the world, we seem to play by the rules. Do you not feel in the present day situation when you say you do not know what can be done—unfortunately our job is to put a finger on it—and the British Maritime League have put forward the case we should have a size of fleet big enough to maintain some measure of profitability and survival, do you not agree with that statement? What size do you think it should be?

(Mr Bonwick) I do not know the answer, Mr Chairman, I just do not. Nobody else knows it.

981. On the question of flagging out, it has been put to us very forcibly by BP and others that they have no other option but to flag their fleet out under flags of convenience in order to get out of what they call overheads, what I would call obligations to the crew in the form of pay and various other matters of that nature. Because of the high overheads it makes them uncompetitive in a very tight world market. How do you suggest they would get out of that? Do you believe the Government should be involved in covering those overheads?

(Mr Bonwick) I do not believe that Government should be involved at all. I agree entirely with what this Government has done by giving it a wide berth until December when I think it was Mr Moore introduced or proposed three measures. I do not agree with those at all.They are not going to be very costly. I am just sorry the Government is doing it. I do not think it will make an atom of difference really.

982. The concern is that the British flag fleet is disappearing. One of the objectives of this Committee, is to try to find a reason and try to pinpoint the effects that would have, possibly even on defence though it is not our remit, but certainly on our whole structure as a maritime nation. You said you were glad the Government had kept its nose out of it?

(Mr Bonwick) Yes, I am very glad.

983. Do you therefore agree that the open market should be allowed to take its course, even if we end up with no maritime fleet at all?

(Mr Bonwick) I do not think we will.

984. It is happening.

(Mr Bonwick) No, I do not think it is, Mr Chairman. I argued on many occasions in lectures and articles and so on that the fleet should be allowed to find its own commercial level. That is my argument. There may— —

985. They are doing that.

(Mr Bonwick) Incidentally I must say I always steer clear of defence issues. I know nothing about defence. That is for other minds. That is what I would like to see.

986. Even if the fleet, for its own economic reasons, as you have just said, decided the whole of the fleet short of ferries, which obviously cannot move away, but any deep sea shipping of that nature, should flag out for economic reasons, that is the best way for them to do it?

(Mr Bonwick) As to flagging out, I am not quite sure how far the Isle of Man is from our mainland—80 miles? I have no idea. I do not regard that as a genuine flagging out.

987. That is only one. What about Gibraltar, Bermuda, Liberia?

(Mr Bonwick) I have no objection to Gibraltar or Bermuda if the registries are run properly, circumspectly and responsibly—none at all. After all they are in the Commonwealth and, if our owners want to use them, I see no reason why they should not use them. Going back again, *deja vu*, Chairman, thirty years ago many of our owners drifted to Bermuda. I think it was done in an attempt to persuade the then Chancellor of the Exchequer to cough up with some tax concessions, which he duly did. He doubled the investment allowance from 20 to 40 per cent and none of them made the trip after all.

988. You have some pretty strong things to say about the British Maritime League and the Nautical Institute. I think you describe them as "Parasitical organisations which suck the life blood of the community". Could you explain that in evidence?

(Mr Bonwick) I have nothing against the people in them. I am very fond, for instance, of Sir Fredric Bolton, an old enemy or rival of mine, if you like.

989. That is a nice way of being a friend of his.

(Mr Bonwick) But we are quite good friends really. They take up so much of people's time and effort and they are achieving no good at all. If I could do it, I would wind them up.

990. They are doing nothing at all? What would you do?

(Mr Bonwick) I have already said I would leave what in my opinion is well alone and let the industry find—as long as it is private industry—its own commercial level.

Mr Fry

991. Can I take you up on that point? When one says "leave well alone" one is presupposing it is well in the first place. The overwhelming weight of evidence we have had put to us is that the industry is very sick and, if you leave a sick man to deteriorate, he will usually die.

(Mr Bonwick) Yes, well, that is not the opinion of the last President of the Chamber of Shipping. I thought I had brought his report with me. He said the industry is fit and well.

992. Can I take you back? The Chairman referred briefly to flagging out. It has been put to us yesterday that

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[*Mr Fry Contd.*]

there should be a genuine link between the ownership of a ship and the flag that it flies. There were various definitions of ownership of companies. Do you think there is anything in the idea of a genuine link? If so how would one set about defining it?

(Mr Bonwick) There again *deja vu*, going back thirty years to the Court at the Hague when the genuine link was upheld but nobody knows exactly what the genuine link is. If they did know, how are you going to enforce it? I do not know.

Mr Bidwell

993. You are arguing and you are dwelling in the past a great deal, of course, which inevitably is called the melancholy precedence of seniority in our intellectual activities. I am in the same boat myself so I deeply sympathise; but we are in the EEC, do you see that we can tie that up with the situation that we are an island and need a merchant marine? We may need it for defence: although you try to steer clear of defence matters, the Defence Chiefs do not steer clear of the whole question of whether we need a merchant fleet, whether we need British ships under British management capable of being taken hold of at some time or another by the Government, by the Ministry of Defence. So we are in that situation. You cannot just let if drift, can you, to work itself out on a purely commercial basis? You cannot do that, can you?

(Mr Bonwick) If you can achieve full scale co-operation or collaboration within the EEC that is fine by me.

994. We are in the Treaty of Rome, are we not? It rests on your ideals, not mine. I am a socialist, it rests on free trade, it rests on the movement of capital and labour over a widening area of Western Europe. Do you see that as a prospect when we sit down and come to make recommendations also on the training of seamen which you cannot let go by default, can you?

(Mr Bonwick) We already are training seamen, of course.

995. Not on the scale apparently that would be required if we had any upturn of trade.

(Mr Bonwick) That is a matter for private shipowners to look after with their own personnel, is it not? We come back again to defence considerations. That is a matter for government. I know nothing about that, but if——

996. You would not be opposed to subsidising training seamen?

(Mr Bonwick) I think I would be. I have not thought too much about that.

997. Think about it then.

(Mr Bonwick) I want companies to look after their own personnel issues. Chairman, you mentioned a few minutes ago BP—sorry, Mr Bidwell, *deja vu* again. BP has got, it says—and I will accept it—to shift to Gibraltar, the Bahamas and Bermuda for economic reasons. One of the main reasons, if not *the* main reason, for BP being in this precarious position, goes back, I suggest, to 1974. I have here an article from "A1 at Lloyd's" in which the Chairman of BP, Sir Eric Drake, was questioned by the editor and one of the questions was, "Is there going to be a great deal of surplus tanker tonnage in the near future?" His reply was, "Right now BP has a fleet of 20 million tonnes deadweight, 6 million tonnes of which is wholly owned, the rest mostly on longterm time charter, and I think it is going to continue to be fully employed and in the longer term I think more ships will be needed rather than less, assuming there is a continuing flow of crude from the Middle East." He then went to itemise the tankers he had on order. Those tankers were ordered at a very high cost and had to be serviced over the years with depreciation and capital charges generally.

Chairman

998. What point are you making? This is 14 years ago.

(Mr Bonwick) I am making the point that, if they had not been ordered at that excessive cost and if the capital costs had not been so great against the ships, they might not have been in the position now of having to flag out.

999. Could it not be you are being wise after the event of the circumstances at that time determining the policy that company was pursuing?

(Mr Bonwick) That is because I did not believe it. At the time I did not believe it or accept it.

Mr Ross

1000. Do you think we should assist owners of ships with finance to enable them to scrap surplus shipping?

(Mr Bonwick) It has been tried before.

1001. You say you think no help should be given at all and it should find its own level, the evidence given to us by successive witnesses is every other country virtually in Western Europe is subsidising to some extent their shipping fleets: Germany, Denmark, Norway and Tokyo are also doing it. Are you prepared to sit as an ex-seaman yourself and say if that is the case you will see British shipping disappear because freight forwarders have told us they do not mind which flag is flying, as long as it is the cheapest kind they will send it the cheapest way.

(Mr Bonwick) One of the witnesses earlier, Mr Winter I think it was, repeated what has been said many times, that every maritime country on earth assists its Merchant Navy. I wrote to Mr Winter the other day—I like to get my facts right—and I asked what assistance does Hong Kong give its merchant fleet, what assistance does Liberia give its merchant fleet, what assistance does Panama give? I have not had a reply but I would like an answer.

1002. Those are countries where people are flagging out because the Liberians, etc, allow different regulations over the question of crews and numbers employed and the safety standards and all the rest, do they not?

(Mr Bonwick) I do not fully accept that I am afraid. You do not make a ship unsafe by hauling down the Red Ensign and hoisting the Panamanian flag or the Liberian flag. I have made a close study of the flag of convenience question since 1948 and I have been aboard many, many Liberian and Panamanian ships where the conditions for crews, including wages, are superior to our own. Companies like Esso, they are not skinflints, Shell, Texaco and Mobil, these big oil companies and

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[*Mr Ross Contd.*]

industrial concerns, they are not skinflints, they look after their crews. I would concede in many of them conditions would be sub-standard by British standards.

Mr Marshall

1003. Could I return to the point Mr Fry made that I think is the crucial point in the whole of this session that, in effect, the patient is sick. I think all Members of the Committee would agree this is the case and your solution to the problem was to leave well alone and again I think most Members of the Committee would feel if we were to recommend that course of action this would have the effect of the fleet disappearing altogether. So far all you have told is about the past and *deja vu* but we are more interested in the future of the fleet, all the evidence you have given so far is rather negative. Do you have any constructive suggestions to put to the Committee we can perhaps use in our report?

(Mr Bonwick) Except pursue the European maritime policy in the co-operation with the EEC maritime measures, that is about all. As far as the EEC is concerned it would be an excellent idea if we had intra-European coastal trade reservation. I cannot see it at this stage going further than that but it may do in the course of time. You say I have got a negative solution, I never advanced a solution. I do not know the answer to this.

Chairman

1004. You do agree, Mr Bonwick, if we went to the EEC this would involve a longer-term policy because going into the EEC takes a long time. Do you think this Government should help British shipping more than it does at present?

(Mr Bonwick) No, except from the EEC point of view.

Chairman: Thank you very much, Mr Bonwick, for your help.

Examination of Witness

MR MICHAEL GREY, Editor of Fairplay Magazine, called in and examined.

Chairman

1005. Good afternoon, Mr Grey, thank you for coming along to talk to the Committee and help us with our deliberations. Would you, for the sake of the record, give us your background and why you wish to give us some evidence?

(Mr Grey) I am Michael Grey, I am Editor of Fairplay Shipping Weekly which is a weekly magazine devoted to the shipping industry. I have spent 30 years connected with the shipping industry and 15 of those as a journalist. Before that I was at sea for 12 years. I am a Master Mariner and had a job ashore in the Technical Department of GCBS for a few years before becoming a journalist. I write a great deal about the British shipping industry and, indeed, the international shipping industry every week. I thought it might be useful if I could give some ideas to the Committee.

1006. For that we are most grateful, Mr Grey. Would you like to open with a statement to the Committee as to what ideas you do have in mind or would you like us to go straight ahead with some questioning?

(Mr Grey) I would be happy to answer some questions.

1007. On the question of cost, Professor Goss has argued in a memorandum to this Committee and elsewhere that uneven protectionism across the whole range of industries exaggerates the disadvantages suffered by those areas left unprotected, in other words that a free market industry cannot operate in an economy which is not itself wholly free. Would you agree with that?

(Mr Grey) Yes, I would. I think there are certain problems in subsidising one area and leaving another area wholly unprotected in that there is a sort of political price to be paid for subsidising say farmers, for instance, which I think Professor Goss was referring to, and the general public does not like the idea of subsidies as a result. Also there is a second point in that just as a development area tends to fertilise one set of ground within the development area, by definition it also makes the adjoining areas leaner. I would tend to agree with that.

1008. Is it not sometimes a question of degree? You have given the corollary of agriculture, I would be the last, representing the shipbuilding area, to defend agriculture. I hope this Government has said something about that and there is a bit of a hue and cry. If you do not have that type of measured or selective help how do you see the fleet ending up? Is your press, and everybody else's press, being fair in suggesting we are not going to have a flag fleet unless we take some action? What action do you think we should take?

(Mr Grey) I would agree. I honestly do not think we will have a fleet unless some action is taken. I think there are a number of areas from which we can learn. One of them, the most important, I think, is Japan. The crisis facing the marine industry is primarily one of overcapacity and it is this word "overcapacity" which I think is the most important word almost in our vocabulary at the moment. It is overcapacity that is driving people to flag out, overcapacity that is driving people to try and employ cheaper and cheaper crews and run ships with fewer and fewer people. It is this one word that is the whole problem of shipping today.

1009. Again with respect, Mr Grey, we have heard this analysis from a series of people. What we are trying to put our finger on is what can actually be done about it. What would you in my position recommend the Committee to adopt in the form of a report which will help us as a maritime nation to maintain the fleet?

(Mr Grey) I think there is almost a positive side to overcapacity in that there are an awful lot of cheap ships available today, good quality ships in certain sectors where there are market opportunities and these are to be found in distress sales, they are to be found

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[*Chairman Contd.*]

at shipping companies in desperate trouble who are getting rid of their tonnage. So overcapacity has given us an opportunity, provided some investment incentives can be given to shipping companies, actually to obtain ships on the cheap without adding to the global overcapacity in any particular sector.

1010. I appreciate that from the shipbuilding angle there is an awful lot of ships lying around which could be got cheap. Some of the shipping people tell us they would be better off flogging their ships and putting the money in a building society, it would earn a bigger return on the capital. Do you feel that is a true assessment of the situation?

(Mr Grey) I think probably it is a true assessment at the moment, but I just think that is really a very short term view.

1011. With which I agree. If you come back to having that short term view, if the long term view is that you are going to be bankrupt, what do you do in the meantime? What do you recommend they do?

(Mr Grey) This is where I think that government has a place to ease somebody through this crisis into the years ahead where there is a future. I am seized with this idea of shipping: it is not as if we are talking about ostling or wheelwrights, industries where there was absolutely no future which disappeared completely. I personally believe there is no better way of carrying goods more economically than on a ship. Nobody has thought of anything better, so there must be a future in shipping. I have to believe that Britain ought to have a part in it.

1012. You did say government should play a part in easing them through this trough. What would you suggest?

(Mr Grey) I think for a start a short term measure is to restore depreciation allowances, investment grants, and basically give them a bit of financial help to enable them to take advantage of the low market prices that are available at present. I do not think this needs to be a particularly long term basis because, provided nothing is done that will add to global overcapacity, I think this is so critical, it is so important that whatever is done is done on the secondhand market but also maybe on the conversion side, repairs and conversions, upgrading of existing tonnage rather than adding to the global overcapacity.

Mr Fry

1013. Would you not agree that you do not have to have a degree in economics to know if the supply far exceeds the demand you have overcapacity and you have probably got declining prices unless you take certain protectionist measures to ensure that one sector of the market is not able to operate. It seems to me you have followed the line of some of our witnesses and talked glibly about investment allowances, but I questioned some of our witnesses quite closely on this. Some of them have agreed that the whole idea of investment allowances is a total red herring, that in fact shipping companies invest in order to increase profits and liner companies particularly will continue to invest because they have to. Secondly, can I put to you that to argue that, if we just give investment allowances, things will sort themselves out as long as we do not increase the supply even further, is running totally counter to what some countries are doing with subsidising shipbuilding like mad. If you continue to increase the supply of ships and have a decreasing demand for shipping, then surely whatever you do with investment allowances is not going to solve the problem? Nor, may I put it to you, is it within the hands of this Government or any one government to tackle what is clearly a worldwide situation simply because different governments have different attitudes. To add a third point, if the whole thing is exacerbated by the willingness, indeed determination, of certain governments to increase their registry by amending the regulations upon which ships registered with them have to operate, regardless of what we do, then you could get into a situation where whatever you do you can have no guarantee whatsoever of any success.

(Mr Grey) I think investment allowances, if I can turn to that first, have in the past been pretty well a failure because they have been misdirected in that they have applied almost without exception to—I am not entirely sure of this—as far as this country is concerned almost certainly they have only applied to provision of new tonnage, in other words, adding to the problems that you were originally facing. I do not honestly think it is beyond the wit of man actually to schedule investment grants so that they can only apply to secondhand tonnage.

1014. Yesterday we had evidence from the Offshore Owners who were bitterly opposed to the Business Expansion Scheme applying to shipping because they said it all led to the use of many more secondhand ships which they thought was detrimental to the development of their sector of the industry. What would you say to that?

(Mr Grey) I must admit I personally support the Business Expansion Scheme. I think it is a modest way of getting public money involved in shipping without actually increasing overcapacity and in the two cases—I think there might be a third one now—where public money has been asked for, both the companies, Bromley Shipping and Edinburgh Tankers, have specified the fact that they are looking for secondhand ships, both in tankers and in the short sea lower draft cargo ships, of which there are plenty at the moment at a low price. It seems like a good investment.

1015. What about the point I made on policies, that certain countries are encouraging new shipbuilding?

(Mr Grey) I think they are merely adding to global overcapacity. I think it would be all wrong if we went down this road, even though our own shipbuilding industry is in desperate straits.

1016. Does that not bring you to the point that we as an individual country cannot therefore control everything? If, for example, the Koreans decide to build ships and subsidise them, they will do it.

(Mr Grey) Yes, I would agree as an individual country we cannot possibly control matters. I wonder whether in fact there are possibilities for using the EEC in this respect.

1017. I am sorry to press you on this point. Therefore, are we not led to the conclusion that whatever

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[*Mr Fry Contd.*]

we may do—you espouse the idea of investment allowances— in any case may only be a temporary palliative: until there is some form of international agreement or rigid protectionism here in this country, then the decline is likely to continue?

(Mr Grey) I do think though investment allowances, if applied to provision of secondhand tonnage and also maybe for conversion and upgrading of existing ships, have not really been tried yet. I think it is something people ought to look at. The Japanese, for instance, are looking very closely at this area.

Mr Ross

1018. You have written about the Japanese and you have visited there, have you not?

(Mr Grey) Yes?

1019. Can you tell us what they are doing? You said they are looking at investment allowances, what else are they doing to maintain their shipping loans?

(Mr Grey) The most important thing the Japanese are doing is they have reinforced the earlier policy statement and they are absolutely certain in their minds they must have a strong Merchant Navy both for economic and strategic purposes. They were very frightened by the oil shock, I think this has done a lot to this. At the same time they are facing operating costs which are even worse than we face in this country. The Government is doing quite a bit to help them, it is really a two-pronged assault, for a start the Government and the unions together, they have come to a certain pragmatic agreement over a certain number, and a fairly small number, of non-Japanese seamen who can be employed on Japanese flag ships. The Government have put a great deal of money and effort into the development of new types of ships, ships which they think are going to be economic to run, ships which by virtue of their technological advancement can really compete with cheap flag tonnage.

1020. We went to Newcastle and there we saw at the university new ideas which have been largely funded by British Shipbuilders looking into new technology and types of ships. We have had evidence on this before but do you see that is the way forward for this country and more money should be put into this to allow us to build more advanced ships requiring fewer crew and it would make sense to put more money into training?

(Mr Grey) Yes, otherwise we become clients of foreign governments. If I thought there was no hope for advanced nations in shipping I would not think the Japanese would be spending such a lot of money in research and development for building better and more economic types of ships for Japanese owners.

1021. Do they allow flagged out ships to carry goods into their ports or do they insist on it being carried on Japanese ships?

(Mr Grey) They do not have any form of protectionism for the cargo side as far as I am aware. On the other hand, they do have quite a lot of long-term supply of things like steel mills and power stations which would be not so much on day-to-day spotmarket chartering of readily available tonnage but extremely long-term shipping arrangements. A ship is built for that trade and can stay on that trade all during its working life of 10/15 years. That is a Japanese flag ship.

1022. It is not looking to Taiwan or Korea, cheaper ways to carry the goods?

(Mr Grey) I think they do. When I first went to Japan I had the idea that all Japanese automatically followed the flag but they do not, they are interested in getting as good a rate as anybody else. Where they are a bit different is provided they can live with the rate they would generally put their goods on to a Japanese flag ship rather more than they would a British ship.

Mr Fry

1023. Can I quote an article from your own magazine, Fairplay, and two or three points you made there. You refer on the first page of the article to the "disastrous 1984 Finance Bill, chiefly the tax assistance towards the capital cost of acquiring a ship." You also show a graph showing the decline in British shipping which was a pretty solid downward graph even before the Chancellor got up to speak in 1984. One might surmise, although that did not help, it seemed to help a little in 1985, that decline was there and, therefore, to suggest by amending the policy that you are on the end of a losing run is like changing, for example, the goalkeeper in a football game when you want 11 new players and not one because the decline has set in. The second point in this interesting article is you quite clearly show the different costs of different flags where there still is the opportunity and you say here: "The cost of British manning is still a significant disincentive."

(Mr Grey) Yes.

1024. It does seem to me rather more than an incentive argument which you put forward, rather more needs to be done in these areas. You may or may not be aware of some of the answers we had yesterday from BP and Shell, they have virtually abandoned the British flag and gone towards manning agencies. What do you think can be done in other sectors such as employment to try and encourage other companies who one feels ought to be under the British flag to return? It is rather deeper than purely a question of the investment allowance.

(Mr Grey) I think so. I think the investment allowance has helped things along but the decline was well underway, it is the decline caused by overcapacity and at the same time because we are bottom of the market. It is time we ought to be thinking about buying second-hand tonnage and taking advantage of the tonnage which is available. On the point of what can be done I think other governments do help a great deal on very expensive things like training costs, for instance, a large number of flags and the training of officers which is much more expensive than that of ratings which is seen in the same way as the universities train people in this country. It is not the responsibility of the employer.

1025. You think we should do more in respect of training, but that is not going to reduce the cost of manning a British flag ship?

(Mr Grey) Yes, I think it is. All of these costs add up to the fact that the British flag has been uncompetitive. I have been very interested to see some of the ways the small ships sector in this country, companies like Crescent Shipping for instance, they can operate under the British flag and operate competitively with British crews and they do this because they pay them in rather a different way, they pay them on a profit-sharing basis

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[*Mr Fry Contd.*]

so that crews actually get something out of the freight of that ship, they have an incentive to make the ship work. This is not an isolated example, there are one or two others where I think they have been able to make substantial inroads into the Europen markets.

1026. I accept that but we have been given situations, for example, where the National Union of Seamen were prepared to make good settlements. We were given a figure yesterday where the figure agreed for the British officers and the crew was very near the rates from an agency but the oil company decided to go ahead and use the agency. Do you think in the present circumstances whatever we do, whatever changes we make in this world, it is going to fundamentally alter the position? Once a large company moves off and says: "We will forget how we were flagged out before, we will just go to a manning agency and we have no notion of what their costs are" do you think there is much we can do to attract them back? If so we would like to know what that would be?

(Mr Grey) I wonder if they go to the manning agency on the Isle of Man to wipe the slate clean of all the wage negotiations and conditions which they agreed to at the time when there was a labour shortage. They want to start again and they see this as the only way forward, once again, because of over-capacity. They really have two choices under the existing regime where they are losing money, one is to close down completely and the other is to move out to somewhere like the Isle of Man where they can negotiate an off-shore agreement which I suppose is better than nothing. I wonder, in fact, whether once they have taken the fresh move the incentive for stopping off-shore may not remain.

Chairman

1027. As a man with obviously a long interest in this business, how do you see this affecting the industry as a whole? If one takes the evidence as we have it, that, if they start taking on manning agencies, they will shed the overheads as far as pension rights and all that is to do with staff is concerned—however much we may be distressed about that sort of thing; but how do you see the provision of future officers and future seafarers coming through if they have also shed the responsibility of training and education? When we were in South Shields last week we found there, for example, a dramatic figure. In 1977–78 the cadets enrolled were 1,220, and last year they were 265—a dramatic drop. Sooner or later agencies are not going to be able to pick up crews and say "There's a full bunch of boys", who is going to train them? Where are they going to come from? You did mention training before. Do you feel this is one avenue where government could come in and provide the necessary finance to provide that long term training? If we do, we are accepting the responsibility of training seafarers for everybody else in the world except ourselves, if we have no flag.

(Mr Grey) At the same time I do think it is important for us to accept that responsibility because, if we do not, we are going to have absolutely no experience left in this country of the practical operation of ships; maybe in twenty to thirty years time there will not be anybody who has first hand experience of operating ships. You will then be in the hands of foreigners completely. I dare say we will still have the Baltic Exchange, brokers, and insurance houses and finance houses, but all those people will have to go to Manila or Hong Kong to get expertise as to whether they should take a financial decision because they will not know whether this ship is falling to bits or a bad buy or mortgaged up to the hilt. Nobody will know that sort of thing.

1028. That was the stark story given to us at South Shields. You have repeated it again. When you say that we have to do something, what? What would you recommend we do? How would a British government—any government, a Labour government, a Tory government—justify expending money on training seamen when they have no flag fleet left? How would you justify it?

(Mr Grey) It is enormously difficult, I think.

1029. Should it be justified?

(Mr Grey) I do think it should be. I think it should be done. I do not know how it is going to be made politically acceptable. You made the point about South Shields. I think one of the really sad things about the merchant navy today is the fact that it has gone right back to what it was in the last days of the last century, relying totally on casual labour. My family has been in shipping, for the last 300 years. I have three boys, none of them is going to sea. It is the first time in our family, as far as I know, that we have had nobody in the family at sea. I would be most unhappy for them to go into what is a casual labour situation.

1030. Can you think of any way in your experience whereby a government could recoup any money it put into training if a case could be made for maintaining the training colleges, bearing in mind that it is awfully difficult to put an industrial training levy on ships that are flagged abroad? It seems to me they ought to pay something. Can you think of any way in your experience in which this could be applied either individually by the United Kingdom or collectively by the EEC?

(Mr Grey) I think it would depend on how much the owner did have to pay. I think one of the arguments for flagging out has been that he has found the training burden too big to bear, so perhaps if central government can take over a higher proportion of that cost it may alleviate this in some way. I honestly do not know how.

1031. Do you have any sympathy for some of the arguments put forward—this is not casting aspersions on BP or Shell, they have an excellent safety record in many ways—that, because of the flagging out arrangements, because of the agency means of getting crews, because of the mixed nationality type of crew which ends up on ships, the safety element is involved? Do you subscribe to that?

(Mr Grey) Yes, I do. I think it is quite important. Possibly when are talking about companies like BP and Shell you have companies that have a long history of careful supervision of their ships; whether you have them flagged out with an agency agreement or not I think they are going to look after their ships fairly closely. But there are an awful lot of companies that do not have the same sort of history as BP or Shell who may well just hand the whole lot over to the agencies and depend totally on the honesty of those agencies. Who is going to check them? I do not know. Of course, if this persists in twenty years'

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[*Chairman Contd.*]

time there will be nobody in the shipping companies who is able to check whether that manning agency or technical agency is in fact doing a proper job.

1032. Because they are internationally not based, but floating, they are extremely difficult to control. I do not know if the Law of the Sea Conferences can start looking at them. I suppose you have no thoughts on those lines?

(Mr Grey) I think there have been various proposals—I do not think they have actually reached the International Maritime Organisation yet—that there ought to be some sort of licensing arrangement for people who set up as manning agents, technical services agents and that sort of thing. I personally would subscribe to that idea. I think we need it.

1033. When you refer to crew, in spite of having first class ships with first class equipment, radar and all the rest of it, could a ship occasionally become a substandard ship because of the type of crew?

(Mr Crey) Yes, I think entirely. I can think of many instances where a first class crew could work perfectly efficiently with a physically wrecked ship. The men are much more important, in my opinion, than the equipment they are given to work with and their attitudes and training.

1034. Do you have any thoughts as to how, for example, the ports of the EEC, which handle a tremendous amount of world trade, could get together and have a code of conduct as a means of ensuring and being able to follow through standards? Could that have an effect?

(Mr Grey) Yes, I think it could. There is the Paris Memorandum for Port State Control which at present looks at certain areas. Once again this is a very personal view, but I think these areas tend to be devoted to things that really can easily be looked at: they look at certain regulatory parts of that ship and check them, check the officers' certificates and this sort of thing. At no time do they check the competence of the management of that ship. I also think that, because they are bending over backwards to be fair to everybody, they are inspecting good ships along with bad. I think an informed Inspectorate is quite capable of sorting out ill manned ships.

1035. Do you believe in an overall look at the fleet situation in the United Kingdom? Do you believe we ought to have a size of fleet that is—let us not determine the size—under the umbrella of profitability but also desirable because of all sorts of defensive reasons, supply reasons, maritime national reasons, even connected with shipbuilding and ship repair, which are awfully important in the maintenance of that fleet? Do you believe we should have that type of fleet? What size do you feel it should be? In the present environment what do you think the Government could or should do about it?

(Mr Grey) I do believe that we ought to have almost a policy statement that a size of fleet was necessary. The size of fleet, I think, is very difficult because we tend to use the word "fleet" as a sort of unit. In fact, you have almost got to divide it up into sectors. I think each sector would have to be looked at separately, depending on market conditions. For instance, it would be ludicrous to require us to have large numbers of ships for which there was absolutely no commercial demand at the time because those ships happened to be useful for strategic purposes. In some respects I think once again the men are more important than the ships themselves. You can always charter ships but you cannot obtain men so quickly. It takes such a long time to train somebody even with the advanced training methods of today.

Mr Fry

1036. Within one of those sectors you talked about, shall we say the coastal shipping, there is no doubt that certain of our EEC partners do have systems of financial incentives, particularly the West Germans and the Dutch. You are aware there was not agreement on cabotage within the EEC, the British Government seems to have two alternatives, one is to continue to press upon its partners for a greater degree of neutralisation and, therefore, a freeing of trade all over the EEC which is rather what it has tried to do in other aspects, not only on transport but trade policy, or it should be much more single-minded and say "If we are not going to get an agreement", and I go back to the point you made at the start about the differing regimes in different parts of the world, say: "As we are suffering we are going to restrict our own cabotage to our own ships until you come to the negotiating table." Which of those do you think will succeed?

(Mr Grey) I think the consequences of the second one are probably the worse. I think you have just to try and persuade them to get rid of their cabotage policies by negotiation, I do not think you can do it by threat. I would make one point about this: I think you can do an awful lot by negotiation but one thing you cannot do is persuade people to change their sentiment. For instance, I think the Norwegians will always try and ship on a Norwegian manned ship, I really do think that. I think the Danes and Dutch are very similar, they do it by sentiment. I have actually written articles about this complaining about the way that the British short-sea trader is victimised by the Dutch and the German freight bureaux because they will not put cargoes on British ships even if they are available at the same price. I have had letters from the authorities in Germany castigating me for this view and saying that there is no cabotage practised there, everybody is free to pick up any cargo they want. They do this unofficially, they do this because of their sentiment and it is awfully difficult to legislate for that.

1037. If you sincerely believe that, and I accept that you do, it strikes me you will wait an awfully long time to persuade the Danes, the Dutch or the Germans to make the kind of moves you want. Perhaps in the long run the only way you will get people to alter their sentiment is by hard business practice and saying: "We are going to deprive you of that part of our cabotage you are at present enjoying". I put it again, maybe the second of those alternatives will be forced upon you if you want to retain that sector of shipping?

(Mr Grey) I do not believe it is that much of a problem within Europe, I think there are certain areas where the French will not let us carry fuel oil around the French coast but that is a one-sided example. I do not know that there are that many British companies that desperately want to carry fuel oil around the French coast but we

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[*Mr Fry Contd.*]

would like to carry passengers around the Greek Islands, for instance. I do not really know how to answer that. I think we are almost in the realms of what the Foreign & Commonwealth Office do really, they would say: "We cannot persecute those who are persecuting us because there are wider implications of trade and diplomacy."

1038. When we are told by British shipowners concerned with trading in the North Sea and the Channel that they are at a disadvantage in relation to cabotage what you are saying to us is even if you had a situation where there is an equal opportunity it would not make such difference, they would not take advantage?

(Mr Grey) I do not think it is that they would not take advantage, I do not know the problem, I think it would be difficult to legislate against, it would make people stick to their unofficial cabotage with even more rigidity to have their governments on their backs. One tends to do the opposite if you are bullied by the government.

Chairman

1039. I have often wondered why the Norwegians are so successful in off-shore oil supply, was this brought about because of lack of British business initiative or lack of ships, or lack of effort?

(Mr Grey) There was definite official protection but there was also a lot of unofficial protection. The Norsk Division of Shell, for instance, if you compare the two companies, the Norsk side of Shell would be going out to charter supply boats to service the platform in the North Sea and they would automatically go for the Norwegian ship, partly because of government policy but mainly because of sentiment; the British one on the other hand, British Shell going out to find the supply boat tonnage to service a rig in the North Sea in the British sector would go out on price. That would be the only thing they would look at, price, they were not interested whether it was a British flag or Liberian flag.

Mr Ross

1040. A lack of patriotism really?

(Mr Grey) I suppose you could say that.

Chairman

1041. In an international company like Shell if they are not looking at prices, however much the Norwegian flag is waved, why do they not ask how come it is costing us more on the Norwegian ships?

(Mr Grey) I do not know what the answer is. I know it is done.

Mr Bidwell

1042. Any change can be made with partners in the Common Market and not with Norway, the way forward surely is by pushing within the terms of the Rome Treaty and changing it legalistically as well if necessary? National preference, it is the spirit of the Treaty to exercise national preference?

(Mr Grey) Yes, it is.

1043. Do you get the impression that the present Transport Minister is moving in the direction of higher state expenditure on training of officers? It seems to me from what he has said so far he will lean quite heavily on our Report because nobody is coming up with clear answers. It seems he is leaning in our direction. You must watch the Transport Department much more closely as far as shipping is concerned than most people do. Is that your impression?

(Mr Grey) Yes, it is. At the same time I get the impression this training course was one of the three measures that were agreed earlier in the year but they seemed to be taking a long time to work out the nuts and bolts of it all.

1044. He could be waiting for our report.

(Mr Grey) I am not sure how the CGBS has reacted.

Chairman

1045. Just finally, Mr Grey, before we thank you for being with us, you have travelled to Japan and written quite a lot about Japan and it may well be that the Committee will have the opportunity of cross-examining some Japanese owners as well. They have been held up as an example, I think by somebody earlier on, as being a successful high cost fleet but there has recently been some pretty large bankruptcies out there. What is, roughly speaking, the Japanese Government's shipping policy and is there anything we can learn about it and query about it if we get the opportunity?

(Mr Grey) On the point of the bankruptcies I saw this really as an illustration of our talk about Japanese Inc, maybe they were not quite so incorporated as we like to think. In fact, the most spectacular one of them, Sanko, if you spoke to the Chairmen of the other Japanese shipping companies they would say that Sanko management was absolutely stark raving mad but the government allowed them to do this because the government has no particular control over the Japanese industry. I think it does give it financial help conditional on it doing what it wants. Sanko went out on a limb and it failed catastrophically.

1046. High cost or not cutting back too big a fleet?

(Mr Grey) They invested a vast amount of money hoping they would corner the bulk of the world bulk trade, which they projected was going to recover. In fact, the reverse happened, they were left with an enormous fleet they could not find cargoes for, and the bank just pulled the rug out from underneath them in the end.

Chairman: Mr Grey, we are most grateful to you for giving the Committee your time this afternoon. Your evidence will be of great assistance to us. Thank you very much indeed.

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HOUSE OF COMMONS

TRANSPORT COMMITTEE

Session 1986–87

DECLINE IN THE UK REGISTERED MERCHANT FLEET

MINUTES OF EVIDENCE

Wednesday 22 April 1987

Sealink British Ferries

Mr C Lenox-Conyngham, Mr W W Henderson, Mr J D Bell, Mr M Storey and Mrs M Thomason

P&O

Mr A Black, Mr A Langley, Mr A Bott, Mr T Barrett and Mr M Marchant

Cunard Steam Ship Co plc

Mr A G Kennedy and Mr J Gratton

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WEDNESDAY 22 APRIL 1987

Members present:

Mr David Gilroy Bevan
Mr Sydney Bidwell
Mr Terry Dicks
Mr Peter Fry
Mr David Mudd
Mr Neville Trotter

In the absence of the Chairman, Mr Fry took the Chair

Memorandum submitted by Sealink British Ferries

STATEMENT BY JAMES B SHERWOOD, CHAIRMAN OF SEALINK BRITISH FERRIES AND SEA CONTAINERS LTD

I am sorry that I cannot appear in person to make this statement but I had a prior commitment in the USA which could not be altered. I have asked my associate, Mr. Charles Lenox-Conyngham, to stand in for me.

The combined fleet of Sea Containers Ltd and its subsidiaries and affiliates numbers 53 ships and hovercraft, nearly all of which fly the British flag but many of which are registered in Bermuda rather than in the UK. This fleet is composed primarily of car ferries, containerships and roll-on, roll-off freight ships. We are progressively tranferring our UK registered vessels operating in international commerce to Bermuda and other flag of convenience registries because:

(1) No taxes are assessed on the profits of such vessels when operated in international commerce.
(2) We are free to enter into "off-shore" manning agreements with our British seafarers which are less costly than on-shore agreements.
(3) The Bermuda Registrar of Shipping responds more quickly to our technical needs, in a more practical and less costly way, with more dependence upon the Classification Societies, than does the UK Department of Transport.

The United Kingdom has a great maritime tradition, a large pool of management and seafarer expertise, the support organizations for shipping such as The Baltic, Lloyds, Lloyds Register, ship mortgage banks, the leading shipping journals, the leading shipping lawyers and shipping arbitration procedures. I, as a US citizen, have watched with amazement a succession of governments who have ignored shipping and let this great strength of the country be sapped. It seems to me unlikely that the UK's merchant marine will see growth again until there is some determination on the part of the Prime Minister, the Chancellor of the Exchequer and the Secretary of State for Transport to see this growth happen. I include the Chancellor because the Treasury has got to understand that the UK flag must become tax free as is the tax regime of most of the world's fleet today, and that taxes must be collected from the profits generated in the UK from the maritime suport services which employ hundreds of thousands of people, and not from the shipowners. It follows that ship ownership and operation must be entirely divorced from ship building. Vessels are always going to be purchased from shipbuilding nations which offer the lowest prices and best financing terms. You will no doubt recall that the investment grant scheme which brought so many ships under the UK flag in the late 1960s, was successful because the grant was applied to new buildings constructed anywhere in the world, not just in the UK. Our company bought some dozen containerships using the grant and were the grant to be re-introduced we would undoubtedly take advantage of it again.

It is well recognised that there are more UK seafarers working in foreign registered ships than in UK registered ships. Seafaring is a rather anti-social life. Wives do not like to accompany their husbands at sea because the life is too boring or children need to be looked after at home. In a highly developed nation such as the UK where the citizens pride themselves on their standards of living, we must expect that UK ships operating on long distance routes or in cross trades not touching UK shores regularly, will be manned primarily with seafarers from less privileged nations. It is vital, therefore, that the Department of Transport sets qualifications for seafarers on UK registered ships that do not include UK citizenship or residence. Nor must a seafarer be obliged to be a member of a UK trade union. In essence, I am saying that while there will always be significant numbers of UK citizen seafarers on UK registered ships, the numbers and their remuneration must be determined by free labour market forces. Any measure which forces owners to bear higher manning costs than their competitors operating under other registries, will defeat the objective. As I have said, the main benefit to the nation of a large UK registered fleet (other than having ships available for defence purposes) is from the business activity and employment ashore, not afloat. The last Secretary of State for Transport argued that NUMAST and the NUS would not accept these concepts, but I have to say that my discussions with leaders of these unions indicate otherwise. The trade unions will always try to improve conditions of employment of their members, but when

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it comes to jobs or no jobs, they will accept the jobs even under off-shore contracts of employment. It should be remembered that off-shore contracts do not provide for compulsory payments by employers for social security, pension and health benefits, so it follows that employers must be excused from such payments (or at least they must be in the employers' discretion) if there is to be any hope of adding vessels to the UK registry. On-shore contracts should be reserved for only intra-EEC trade. Employers would continue to pay the relevant social charges in connection with such contracts.

Let me give an example of the need for reform in the Department of Transport's controls over UK registered vessels. The Chairman of P & O told me at the naming ceremony for the Royal Princess that the DTp had forced his company to waste £5 million on modifications to the ship which were not required and he would never put another passenger ship under the UK registry because of this. It is not uncommon for inspectors to require materials of UK origin to be included in ships when equally good or even better materials are available where the vessels are being built or repaired.

The DTp asks for legions of inspectors to be sent to the far corners of the world on "freebie" first class trips for trivial inspections which most other industrialized nations relegate to the highly competent Classification Societies. There is no doubt that the DTp maintains high standards, but the organization needs to be reformed and be given a brief to act quickly, economically and not incur unnecessary expense for the shipowner. We cannot survive as shipowners of UK registered ships in the 1980s and 1990s with control procedures of the 1930s.

None of my three recommendations requires a penny of subsidy.

Excusing the UK shipowner from taxes costs nothing because 100 per cent first year tax allowances have largely sheltered the owners from taxes in the past and if the current trend continues there will be no UK registered ships shortly so taxes become irrelevant.

Freeing UK shipowners to enter into off-shore manning agreements for long distance and cross-trades and removing any requirement of citizenship or payment of social charges for seafarers merely recognizes the reality of seafarer employment today. By the way, in my opinion, no national defence problem arises because of ships being under the control of non-UK nationals. Control of ships is determined by legal ownership, not who is on board.

Finally, we need fundamental reform of ship registry control at the Department of Transport. The staff must be given the mission to expand the UK registry, not to discourage it.

Above all, it seems to me that the Cabinet must make a commitment to the industry. The palliatives recently offered by the present Secretary of State for Transport lead one to the inescapable conclusion that he and his colleagues have written off the industry. Only you, the politicians, can change this attitude.

Examination of Witnesses

MR C LENOX-CONYNGHAM, Chairman and Chief Executive; MR W W HENDERSON, Deputy Chairman; MR J D BELL, Sector-Director, Irish Sea; MR M STOREY, Director responsible for ship management, and MRS M THOMASON, Director of Communications for the Group Sea Containers, Sealink, called in and examined.

Mr Fry

1047. Mr Lenox-Conyngham, may I first of all apologise to you for the absence of our Chairman, Mr Bagier, who unfortunately has been delayed today. I have been asked to deputise. May I welcome you and your colleagues here this afternoon and thank you for giving evidence. As, in some miraculous way, three have become five, I wonder if you would be kind enough to introduce yourself and your colleagues to the Committee for the record, please?

(Mr Lenox-Conyngham) Certainly. If I can start from our right wing, on the right is Maurice Storey, Director of Sealink responsible for our ship management. Next, on my immediate right, is Bill Henderson, Deputy Chairman of Sealink. I am Charles Lenox-Conyngham, Chairman and Chief Executive of Sealink. On my left is Maureen Thomason, Director of Communications for the Group Sea Containers. On my far left is James Bell, another Sealink Director, who is responsible for our trades in the Irish Sea.

1048. Thank you very much. We have had a copy of a statement that has been issued by Mr Sherwood, your Chairman. There are a couple of questions that arise out of that, and perhaps you would be kind enough to answer them. The first refers to the statement that the bulk of Sea Containers Ltd.'s fleet is registered in Bermuda rather than in the United Kingdom. It goes on to give some reasons as to why this is done. Can I ask when Sea Containers first started to transfer ships to Bermudan registry?

(Mr Lenox-Conyngham) Perhaps I can transfer that. I became responsible for Sealink only 1½ years ago, and I would like to ask Maurice Storey, who is the Sea Containers head, to answer.

(Mr Storey) Gentlemen, Sea Containers started building ships in 1969. They built them under the British flag with, I think, UK Government subsidies, before my time at Sea Containers. They were building the ships principally in Holland. They started transferring to Bermuda in 1974.

1049. That policy has continued to date, has it? Any changes, for example, in the attitude of the seamen's unions in this country have not made any difference?

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[*Mr Fry Contd.*]

(Mr Storey) No, not at all.

1050. The other question we would like to ask on this point, before we go on to Sealink, is the summary of the recommendations that Mr Sherwood has made, and the second one in particular, in which he says: "in my opinion, no national defence problem arises because of ships being under the control of non-U.K. nationals. Control of ships is determined by legal ownership, not who is on board." Would you accept that that may very well be alright in theory, but in practice, if, for example, a ship is on the other side of the world and the owners need it for some particular purpose, then it is not readily available for defence purposes in this country, therefore it is a theoretical right that the Government have, rather than a very practical right, is it not?

(Mr Storey) Theoretically a ship, if it is on the other side of the world, of course, is not available if you want it in the United Kingdom, but we do have control of the ship, and depending how quickly it is required, it could be brought back to the United Kingdom or to the place of origin, wherever it may be, if required by the Government at that time.

1051. You do not see any difficulty in squaring its availability for national defence with the other recommendation about crewing, where Mr Sherwood says that the requirements for UK-registered ships should not include UK citizenship or residence? You might well end up with a crew none of whom were UK citizens, might you not?

(Mr Storey) That is correct. If that *were* the case and it was a ship that was required, bearing in mind that our Bermuda office, Sea Containers Ltd. (Bermuda), do control the manpower and all the ships, if it were required to bring a ship that was manned by a foreign national into service for the Government, then of course that foreign national could be changed for one of our other masters or chief engineers, or whatever it might be, from one of the other ships, whichever was required.

1052. Provided it was available?

(Mr Storey) We always have some available.

Mr Trotter

1053. Could I go back to the first point? The Committee have recently been to the Isle of Man, and most of the Members—if not all—were impressed by what they saw there. There was a suggestion that maybe those who flagged out to Bermuda in 1974 or whatever, if the Isle of Man had been available then, might well have gone to the Isle of Man instead. Do you see any possibility of transferring your ships to the Isle of Man or of new ships being registered there?

(Mr Storey) It is always a possibility. Certainly if the Isle of Man had been in existence then as a port of registry, it could have been considered. I think the reason we have stuck with Bermuda is that we have built up a relationship with Bermuda and have got a good relationship there. Also, of course, primarily the parent company is registered in Bermuda.

1054. The other question is about the crewing and flagging of the ferryboats. I imagine that Sealink has been very much involved in the Dover-Calais, etcetera, services. Is it practical to flag out those vessels, or not? From what is said in your Chairman's statement, you have referred to continual flagging out of the fleet. Do you see the cross-Channel ferries as going that way?

(Mr Lenox-Conyngham) We have agreement currently with our unions that we will not flag out any ships employed on traditional Sealink trades, so it would need union agreement so to do.

Mr Fry

1055. Thank you. Before we turn on to Sealink, I understand, Mr Lenox-Conyngham, that you would like to make a short statement. Perhaps you would like to do so now?

(Mr Lenox-Conyngham) Yes. I promise it is very short. Perhaps I could say, as my credential, that from 1970 onwards I was responsible for the shipping element of Ocean Transport which is Britain's second largest and second most profitable company after OCL. I was also involved in the establishment of OCL in the late 1960s, and I was a Director of it until late 1984. In 1982, on the collapse of the international shipping market, I reported to the Ocean board that in my view no free enterprise Western shipping company other than OCL could make money, and that Ocean should withdraw from shipping, sell its ships and sack its staff. This we did, and in 1984, having done it successfully, I had to find another job. There are now, as I see it, two segments left for the British Merchant Marine: container ships and ferries. I am responsible for the largest ferry company in Britain. Making money out of ferries is extremely difficult. I am not sure about the Scandinavian companies in the North Sea, but European Ferries lost £7 million in the first half of last year. Other than those companies, no ferry company round the UK made money last year, and most received massive subsidies from their governments. So it is very tough. I know the Tunnel is a controversial subject, and I am not wanting to query it; I accept the principle of it. However, in the sector that will be affected, the short-sea sector—Dover-Calais, Folkestone-Boulogne—ships on average are only half full at the moment, and when the Tunnel opens it will increase capacity by about five times. In my view that will do to the ferry industry what the collapse of the deep-sea shipping market did to the British deep-sea fleet in 1982. There is bound to be a price war, and there will be very many less ferries left. My comment is that none of the requests that the industry has put forward regarding that position have been accepted. All of our requests to help us survive have been totally rejected. I am very concerned that if one has this extraordinary increase in capacity and a price war, and no-one makes any money, one can be sure that a lot of ships will be lost.

1056. Before we go to other instances I would like to put this point to you: the Channel is an exceedingly expensive piece of water to cross. Some of us last year had the experience of seeing Vancouver ferries which run on roughly the same distance, at approximately one-third of the price of crossing the Channel, and I believe they are subsidised. Even if one adds the subsidy, it comes well below the level of fares appertaining on the Channel routing. Could you comment on why it is (not that this is your own company) other ferry companies in north-west Europe cannot be as efficient as the Vancouver or British Columbia ferries?

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[*Mr Fry Contd.*]

(Mr Lenox-Conyngham) I do not know that position. Do they have competition on that route?

1057. No, but the fares are low.

(Mr Lenox-Conyngham) We are expressly forbidden by law from co-operating. If the restrictions under which we and European Ferries operate had pertained in the late 1960s OCL could not have been established. If allowed to co-operate evidence I have produced shows that we could have a very much better schedule of our services by running a shuttle service. We could eliminate one ship and save between £5–10 million a year which would enable us to reduce fares by between 10–20 per cent, depending on how much benefit was passed on to the customer. We are forced to operate an uneconomic system through our pricing undertakings to the OFT.

Mr Bevan

1058. I have two points. I tried to get in on the earlier statement which was made, and that was appertaining to Bermuda. Could I ask if you employ your people direct, or do you use an employment agency and, if so, where is the holding company and who does the paying out?

(Mr Storey) The employment of people on Sea Containers-owned Bermuda ships is through our own registered office in Bermuda, with that office arranging for payment to that manpower.

1059. Is that a subsidiary company of the main company?

(Mr Storey) Yes, it is a subsidiary of the main company, Sea Containers Ltd.

1060. It is registered in Bermuda, is it?

(Mr Storey) The main company is registered in Bermuda.

1061. Would your company employing through that route in Bermuda be negotiating on the basis of lower rates than those obtaining in the UK with the union arrangements here?

(Mr Storey) Yes.

1062. Could you give us an instance of how much lower in proportion those are?

(Mr Storey) I would say about 20–25 per cent depending on the trading area and, of course, the operation of the vessel.

1063. How is the position with regard to pension payments?

(Mr Storey) The manpower employed are responsible for making their own pension arrangements.

1064. They are really in the position of self-employed persons?

(Mr Storey) Correct.

1065. This would be, I take it, an undoubted advantage to you in operational terms?

(Mr Storey) Correct.

Mr Bevan: Thank you. I have finished on that particular line of questioning.

Mr Dicks

1066. Are there any other benefits for flagging out in Bermuda besides the levels of salary and the status of self-employed? Are there safety differences you would have to meet within the UK which you do not have to meet there?

(Mr Storey) No. On the rules and regulations for safety on board ships, of course, the Bermuda authorities follow the UK rules, as everyone is aware. The problem that we are faced with is the current UK Department of Transport beaurocracy and the manner in which they survey ships and the number of people they send and the cost incurred in doing that. We do not have that problem with Bermuda. If you require a ruling on something you can get much more response from Bermuda than from the UK.

1067. On the point about the surveying of ships, are you saying that the Department of Transport is too thorough; for example are you suggesting they send too many people?

(Mr Storey) Not too thorough, you can never be too thorough as far as safety with life is concerned, but the number of people they send to survey the ship is more than is required. There is a duplication of surveying which has to be taken into account. The Classification Societies are responsible for insurance and have a responsibility to ensure that the hull and machinery of a vessel meets the requirements that are safe, and surveys in accordance with the requirements. The Department of Transport survey the same bits of machinery and so you have a duplication of survey. I see no reason why the Classification Societies should not be able to survey the hull and machinery itself and the Department of Transport should be responsible for fire protection and safety on board ships.

1068. How about the number of people, the manpower, on board ship, is it less because you have flagged out in Bermuda compared with being flagged out in the UK?

(Mr Storey) In principle it depends on the type of ships, age and equipment on board. In principle there are probably slightly less numbers on board foreign flagged ships than UK-owned ships.

1069. In terms of the type of staff, where it might change, would it be more likely to have fewer officers as against ordinary seamen?

(Mr Storey) Probably less seamen and there may be one less officer. One of the examples being that there is a great deal of flexibility with certain flags on the removal of radio officers where new ground and satellite equipment is more efficient. You do not need an officer—where you did to go on Morse Code—you can pick up the telephone and dial on the satellite and save an officer in that respect. There are various flags allowing that to occur. The UK is moving that way but not so quickly.

Mr Bevan

1070. Could you tell me if, therefore, by employing in the way you do you have no obligation whatsoever in terms of redundancy pay?

(Mr Storey) That is not correct. If you undertake a contract with one of the UK seafarers' unions on an

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[*Mr Bevan Contd.*]

offshore basis then there may be terms of redundancy incorporated in that contract: it depends on the contract you negotiate.

1071. That might obtain with a union of British origin with British seamen registered with that union. Would you be so kind as to tell me roughly the ethnic proportion of the crews hired through the Bermuda holding company?

(Mr Storey) If you take UK nationals, with the Sea Containers Ltd fleet around 15 per cent of those employed are UK nationals; probably about a further 40 per cent employed are UK Commonwealth citizens and the balance are other nationalities.

1072. Would I be right in assuming other than the 15 per cent, that is the balance of 85 per cent, would not be subject to redundancy payment?

(Mr Storey) That is not correct; some of them do have redundancy payment.

1073. Would I be right in assuming within that you would add the whole of the 40 per cent you mentioned of the Commonwealth evaluation?

(Mr Storey) No.

1074. What percentage would you estimate?

(Mr Storey) I would say 20 per cent of that 40 per cent would have a redundancy agreement within their contracts.

1075. 35 per cent of the people might be expected to have redundancy payment on lay-off but not the balance?

(Mr Storey) Roughly that is correct.

Mr Bevan: Thank you. That finishes the Bermuda portion.

Mr Trotter

1076. I presume that one of the savings from flagging out, so far as UK or European crew members are concerned, is the change in the leave arrangements?

(Mr Storey) Yes.

1077. What sort of leave would they get in a year, under that sort of agreement?

(Mr Storey) The offshore people?

1078. Yes.

(Mr Storey) Again, it varies on the nationality of the rating.

1079. What would it be for a UK officer?

(Mr Storey) Basically, a UK officer on a Bermuda offshore contract with Sea Containers Ltd gets one day's leave for each two days of service.

1080. So how would he work that in practice?

(Mr Storey) He does four months onboard and two months at home.

1081. So he is still liable to UK taxation?

(Mr Storey) Of course. He is a self-employed person. When I say four months on board and two months at home, that is the maximum period we ask someone to do or that we make compulsory. Some people say, "Can I stay on a ship for eight or ten months?" If they choose so to do, we agree, because they only get paid when they are on board a ship, they do not get paid when they are off a ship.

1082. Is it really right that an officer, or a seaman for that matter, should be ten months on a ship, working shift and shift about? Does his capability not fall after a period of 12 hours on/12 hours off for months and months at a time?

(Mr Storey) First of all, he is on a 3-shift system, not a 2-shift system, just as you youselves are.

Mr Fry

1083. We are *not* on a normal-day basis!

(Mr Storey) I am sorry! He does eight hours on on a normal day. Let us say, he is on a normal British workman shift system whereby he does eight hours' work in a day and has 16 hours' rest. That eight hours is split into two four-hour periods.

Mr Trotter

1084. But even Members of Parliament have a recess at Easter. He is in the middle of the Atlantic at Easter. He can presumably go on for months doing this, can he not?

(Mr Storey) That is correct. As far as the timing on board a ship is concerned, the situation is that you look at the way in which the ship is trading. It depends how long a ship spends in port on loading and discharging, when he could be resting. If a ship is coasting in port for a long time, he will get a fair bit of time off.

1085. The other point on flagging out is, am I right in thinking that Sea Containers are basically operating container ships, as their name implies?

(Mr Storey) Sea Containers' parent company's ships are basically container ships and ro-ro container ships.

1086. Operating a regular service?

(Mr Storey) No, the majority of ships are on charter to various companies, and some of them are in what we would call a liner service, others are in a tramping service.

1087. One had got the impression that it was the container element that Mr Lenox-Conyngham said OCL could keep going because the crew costs were a lower percentage of the total cost of a container ship than they were in other vessels, and that there was less need to flag out in the container world than there was in the bulker world?

(Mr Lenox-Conyngham) Can I say that for Sea Containers virtually all their fleet are market ships, they are on charter to container operators who may want them to fill in, but Sea Containers does not operate like OCL, with a set route, market dominance, with a sales force ashore and so on.

Mr Fry

1088. Perhaps we can move off Bermuda. Let me ask this last point. A far as I am aware, Bermuda is still not a Convention country, is it?

(Mr Storey) It is still not a Convention country, no, but we have an agreement with Bermuda that we survey our ships in accordance with the 1974 SOLAS arrangements.

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[*Mr Fry Contd.*]

1089. You are aware of the proposals for putting tonnage limits on certain British colonies. What would your reaction be if a fairly low tonnage limit were applied to Bermuda?

(Mr Storey) I think that it would stop the British colonies flagging ships, and they would go to other flags like Liberia, Panama, etcetera.

1090. Thank you. May we now turn to Sealink? When Sealink was privatised in 1984, the new company promised two things: increased competitiveness, and to open up new routes. However, now you have a cartel arrangement with B+I on the Irish routes and, indeed, tried to get a similar arrangement with the European ferry companies. You have also ceased to operate on two other routes. The ideas you had to open up routes to Spain, Germany and Scandinavia do not seem to have come about. Could you please therefore explain why you have had so much trouble since all those hopes of 1984? Indeed, what are your current objectives now, if you have abandoned those that you had three years ago?

(Mr Lenox-Conyngham) Can I first say that I am talking from history. I joined in November/December 1985. Sealink had never made an adequate equity return before it was privatised. The first task is to get it profitable, particularly as it was all bought with borrowed money. The banks insisted that it was profitable before one could get into new development. The routes that we have pulled out from were unprofitable routes. Newhaven-Dieppe had always lost money, and we only owned a bit of a ship there. We passed that over to the French and retained the marketing and the business at the port. The other route lost, I think, £12 million in 1985 and would have lost about £4 million last year; it was an enormous cash drain. It is an area where, even before there was competition, Sealink had again never made money, and I do not believe that anyone can make money running ferries there. So those routes we pulled out of. We are still trying to turn the company round. It was, I think, grossly over-manned, both ashore and at sea, when we started. We have had to try to work with the unions to reduce the manning.

1091. It has been said that your problems in relation to that route were that you were trying to put in a "sports-car service" for what was effectively a "family-car market", and therefore a tremendous amount of money was lost on equipping certain ships which just did not fit the kind of demand or the prices that people were prepared to pay to go by sea to the Channel Islands.

(Mr Lenox-Conyngham) I accept that that is partially the reason, but the basic reason to start with is that it is extremely difficult to serve small islands a long way offshore. I know quite a lot of such islands, and I do not know any that have been served profitably. The Channel Islands, for example, have ports dating, in the case of Jersey, from the last century, which condemns you to operating uneconomic sized ships. An enormous amount of the business now goes by air. There is very cheap car hire in the islands, and increasing numbers of us go to Spain, whereas we might have gone there in the past.

1092. You explained why you had to abandon certain routes. Presumably similarly the difficulties of making a profit prevented you opening up new routes?

(Mr Lenox-Conyngham) If one goes back to the total ferry industry, I think that you need to look, as with the deep-sea industry, at the profitability for the industry. If you move round to what is the profitability of our competitors, in Ireland the one ferry company, ICL, was in receivership for two years before it could find a buyer. As to the other, whom we have eventually gone into a cartel with—B+I—we would love not to be in bed with them. They need between £32 million and £40 million subsidy. By normal competition laws, they should have been knocked out, but they have just stayed there, so either we have to get into bed with them or we compete against the bottomless purse of the Irish Government.

Mr Bevan

1093. Bottomless?

(Mr Lenox-Conyngham) In our terms, to subsidise £32 million to £40 million is bottomless.

Mr Fry

1094. In a previous reply, I think you said that you would like some "co-operation" (I believe that was the term you used, though some other economists might use other words). It is really just arranging the market amongst those companies that are still in business. Is it your objective now to move towards that?

(Mr Lenox-Conyngham) There is a specific objective on the Dover-Calais route where we think it is intrinsically unfair that an alternative system of transport is being set up through the intervention of a Hybrid Bill, which grants that system a monopoly of their own system until the year 2020. No one else can build a drive-through tunnel, whereas we are expressly forbidden by law from getting together with European Ferries to offer the sort of shuttle service by ferry that they are offering by rail. Were we able to do that, we could enormously reduce our overheads; we would save at least one ship, probably more; we would have much lower costs. If we came to an agreement with, say, the OFT on what was the split, fares would come down. Our proposal was not that we were given unfettered freedom, but that we would substitute new undertakings such that we would provide an adequate service for all types of traffic, and we would guarantee at the minimum to hold prices constant in real terms.

1095. I would like to put to you—and we are going to be talking to P&O later—that European Ferries have plans for very much larger ferries; they are talking of putting on much bigger ships. Is that not going to cause problems if you have an arranged market? Are you not going to be pushed into having the same sized ships?

(Mr Lenox-Conyngham) I believe they ordered them before the Channel Tunnel came along.

Mr Bevan

1096. No.

(Mr Lenox-Conyngham) Their economies of scale only pertain if the existing size ship is full.

Mr Fry

1097. They are not.

(Mr Lenox-Conyngham) They are half empty. On those ships at certain times, early in the morning going over and coming back in the evening, when there is a big

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[*Mr Fry Contd.*]

demand it would be sensible to put those ships on. If we did not do that—where the bigger ships could take everything—there would be more frequency and opportunity for choice for sailing.

1098. The larger the ship and the smaller the number of passengers the choice would be reduced?

(Mr Lenox-Conyngham) It depends. I believe that the important thing for the customer is not, do you have two ships at the same time, and then do you wait for two hours before the next ship, but what is much better is at least to know every half an hour you have a ship, and you can arrive and get the next ship.

Mr Bevan

1099. That is the basis of sailing a stage-carrying service. Did I understand you to say that if you were allowed by law to establish a cartel by other operators you would then arrange your service so that there would not be duplication and would be able to operate more profitably than at the moment?

(Mr Lenox-Conyngham) It would not be a cartel; it is with the other main operator. There is always the Sally Line.

1100. A semi-cartel?

(Mr Lenox-Conyngham) We know we can operate far cheaper and give a much better service. I produced in evidence to the House of Lords a schedule, compared with the present schedule where, quite often, a Sealink ship sails at the same time as a European Ferries ship and then there is a long gap.

1101. In other words, you feel that for the present operation it would be an advantage for you if this Committee considered a situation of a change of law in your operational remit in this way?

(Mr Lenox-Conyngham) I am not sure if releasing us from the OFT undertakings means a change of law.

1102. Or a change of statutory instrument?

(Mr Lenox-Conyngham) Yes. I believe that it is both to our benefit as ferries to help us survive, and also I believe, given the correct undertakings to the OFT, who should decide that all the benefits are split between the customer and ourselves, we can give a better service at a lower cost.

1103. In this context unbridled free enterprise is counterproductive to good profitability?

(Mr Lenox-Conyngham) Yes.

1104. Could you tell me the break-even capacity on a ship, for a ferry ship, in terms of the percentage carried?

(Mr Lenox-Conyngham) I cannot. The problem with our industry, firstly, is that there is over-capacity: secondly, that about two-thirds or 60 per cent of the revenue comes from the tourist trade and not from freight, and of the tourist trade, three-quarters moves in three months of the summer. It is very difficult. We earn a lot of our revenue in June and July which is high peak, rather than in winter when there is very little business.

1105. Normally I took it to be an around the world operation. At the moment you said, in your opening statement, that you were only carrying approximately 50 per cent capacity?

(Mr Lenox-Conyngham) Yes, on average, night and day, winter and summer, on the routes affected by the Channel Tunnel, Dover-Calais Folkestone-Boulogne, we and European Ferries operate on about 55 per cent capacity.

1106. Is that economic?

(Mr Lenox-Conyngham) That was economic for us on Dover-Calais but not economic on Folkestone-Boulogne; we lost about £4 million. It has been economic for Townsend Thoresen.

1107. At that stage, I wonder whether it is not economic to negotiate with the unions a reduction in the crewing capacity?

(Mr Lenox-Conyngham) We have had to go back——

1108. Is that a component?

(Mr Lenox-Conyngham) Yes. We have not got it to breakeven but could lose about 1½–2 million through the new arrangements.

1109. In your opening statement I noticed some apprehension about the Channel Tunnel. We did have the privilege, of course, of being addressed by Mr James Sherwood during our inquiry at that time. It was felt, and I cannot remember if it was James Sherwood, by some of the ferry operators, that the ferry business would even itself out, and even though the direct Dover-Calais route might suffer, that the others compensate?

(Mr Lenox-Conyngham) I do not think that is correct. If you take the pricing structure, Dover-Calais is perhaps the profitable pivot; further away it is worse. If you cross Dover-Ostend, the fares are the same as for Dover-Calais although it is 2½ times the distance. The costs are almost twice as much yet they get the same revenue. Newhaven-Dieppe is the same. The first areas to be hit will be the fringe routes.

1110. On routes at the moment you do operate under the British flag and directly employ your seamen?

(Mr Lenox-Conyngham) No. As Sealink we withdrew from some of these routes. As soon as Sealink was privatised, Sealink withdrew Newhaven-Dieppe. One of the reasons was that the routes were not profitable. We lost money on our route from Dover to Ostend and tried to renegotiate a new share with the Belgians, had a row and were thrown out.

1111. You do operate under the British flag?

(Mr Lenox-Conyngham) No. Not on those routes we pulled out of.

1112. On the routes you still operate, you do operate under the British flag?

(Mr Lenox-Conyngham) Yes, under the British flag on every route that we have.

(Mr Henderson) With the exception of the ST BRENDAN, Fishguard-Rosslare which is Bahamian.

1113. Who employes the crews?

(Mr Lenox-Conyngham) They are employed on the same terms and conditions as all the other crews.

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[*Mr Bevan Contd.*]

1114. They are employed through Bermuda?

(Mr Lenox-Conyngham) No, through Sealink. There is no difference in terms and conditions. It is the same agreement with the Officers' and Seamens' Union.

Mr Dicks

1115. I am somewhat confused. When you were privatised you made promises of increased competitiveness and that you would open new routes. You are telling us that competition is losing you money and you have had to close routes. You must have had some idea of what you were doing when you went private. How is it that your story when you went private is totally different now, as I understand it, a few years on? Indeed, did you make a statement publicly when you went private that you were going to have to close routes, if not it did not take you very long to decide to do that? What I have heard is a view that competitiveness is harmful in the circumstances in which you find yourselves. It is not a criticism.

(Mr Lenox-Conyngham) This is what I understand. Firstly, the purchase of Sealink was extremely complex and difficult. Most of the information that came through them was difficult to assess. My previous company was involved in looking at it and it was a hopelessly difficult one to form a judgment on. Secondly, a businessman's horizon does not stretch much beyond a year, let alone several years ahead. Obviously on purchasing—and I speak for James Sherwood—he thought it was a good deal but found to operate it was a good deal tougher than he thought.

1116. I do not dispute that. What I am saying is that I think it shows first of all the danger of making generalised statements at the beginning, when you intend to purchase, whether it is to be successful or otherwise. Secondly, it did not take very long to decide to close. If it is that complicated, I am surprised you could come to decisions so quickly to discontinue certain routes.

(Mr Lenox-Conyngham) I was just saying that the purchase of Sealink which was very big business and must have been complicated (it was when I, in a different position, looked at it). An analysis of a route may or may not be difficult, but you can look at how much it has lost and see what you think you can do about it.

1117. You said to my colleague, Mr Gilroy Bevan, if I heard you correctly, that competition in a free market is doing you more harm than good, and yet one of your statements to us was that you would increase the very thing you are now saying would do you harm. I do not understand.

(Mr Lenox-Conyngham) We are talking about on Dover-Calais where we will have to compete with the Tunnel.

1118. We are talking about now. The Tunnel is not there yet.

(Mr Lenox-Conyngham) Let us take now. On Dover-Calais we can produce a better service, at a lower cost than we do now. I am convinced of that. It is the history of OCL. I am not sure if you have OCL's evidence, but I was involved because I had to transfer the business from 45 ships for which I was responsible to five ships run by OCL, which must be one of the outstanding successes of the post-war era. That could never have happened if one had gone on extolling the virtues of competition among the four founders of OCL. We *could* produce a good service, I know, on Dover-Calais. Elsewhere competition is hard. I believe in competition, if it is fair competition. On the Irish Sea, when our main competitor is subsidised to the tune of £32 million to £40 million, we have this difficult debate about do we try to fight him and hope the Irish Government will let him go down the plug, or do we join him?

Mr Fry

1119. Are you not saying that in relation to transport, particularly public transport, unrestricted competition is not necessarily a great advantage?

(Mr Lenox-Conyngham) A lot of the competitors operate as public utilities at a loss. For example, Armement Navale loses regularly and last year lost £8 million; Brittany Ferries gets its capital free; RTM is a subsidiary of the French Railways, yet it has never lost money. It is very difficult to operate commercially against them.

1120. When you were talking earlier on about an arrangement or co-operation, do you envisage pooling arrangements in relation to fares and freight rates, if that happened?

(Mr Lenox-Conyngham) This is Sealink's view, because European Ferries has had three different chief executives in the last six months, so it is difficult to find anyone to talk to.

1121. By and large, you would say that that would have to happen?

(Mr Lenox-Conyngham) Yes.

1122. We have had evidence given to us by Dr Garratt of Liverpool University. It is public evidence and therefore generally known. He calculated that such a pooling arrangement, particularly over the Channel Tunnel, would result in relatively greater increases in car passenger fares than in freight rates, because of the number of charter vessels operating across the North Sea taking freight. Would you agree with that analysis? If you do, is not that going to make the situation even worse in relation to the Channel Tunnel?

(Mr Lenox-Conyngham) I am not sure what he means by greater tourist rate increases. We would give an undertaking that we would *not* increase the prices in real terms. That is the first position. Secondly, I would expect the OFT to extract from us some post-mortem examination of our profits, whereby if there *were* exceptional profits, those were split between the customer and the company.

1123. But if there were profits. In other words, if you agreed initially to a fare structure that was not sustainable, I do not see how the OFT or anybody else could hold you to it, because you would just say, "Right, well we'll cease operation." You would have to do something.

(Mr Lenox-Conyngham) I would not be recommending going into this if I were not confident that I could make money out of it, while holding prices constant in real terms.

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[*Mr Fry Contd.*]

1124. You actually think that far from holding prices, you may be able to cut fares by the figure of 15 to 20 per cent?

(Mr Lenox-Conyngham) On average, in the past 10 years, fares have decreased in real terms by 40 per cent.

Mr. Fry: It is an expensive piece of water to cross.

Mr Bevan

1125. Again, I find these points very fascinating which are coming out. I would like to quote from the submission of Dr Milne, as a result of our visit to Newcastle University, in which he says this: "One of the key elements in operating costs is the servicing of capital." That is just as you say. He goes on: "on some types of ships this can be half the operating costs. This means that the fiscal policy of the flag state is of crucial importance to the owner." I will not go on beyond that stage, because it is a fascinating document, I found, when I read this over the holiday. If that is so, may I ask you this? You quoted, for instance, that Britanny Ferries' capital is free. I believe you said that. Would you amplify that term, and would you give us an itinerary of the others you mentioned and the approximate capital costs? Would you comment on whether you agree with the statement that I have just attributed to Dr Milne?

(Mr Lenox-Conyngham) Certainly. Brittany Ferries are subsidised through Credit Agricole, then from their government and through what amounts to consortia of cauliflower growers in Brittany.

1126. It is part of the CAP policy, is it?

(Mr Lenox-Conyngham) Yes. I do not know the precise details, but there is an immense "aggro" among Armement Navale, the French offshoot of the railways, because although they lose £8 million, they say they would never lose that if they had the ships free as Brittany Ferries does. In the other areas I mentioned, ICL was the second biggest Irish shipping company. The Irish Government let that go bankrupt, it was in receivership for two years, and it has only just been sold. Then I have mentioned B+I and our problem there.

1127. Where you said there was a subsidy?

(Mr Lenox-Conyngham) B+I needed borrowings from the Government of between £32 million and £40 million. Normal banks would not give that, therefore they would go bankrupt and we would not have that competition.

1128. So on the one hand we have difficulties of crewing expense if under direct flag here: on the other hand we have difficulties in the servicing of capital which is far more expensive here than in other countries. So totally the whole situation is slanted against (a) the manufacture of British ships, and (b) the running of those ships under the British flag?

(Mr Lenox-Conyngham) Perhaps I can comment on the crewing. My colleague Mr Storey has been talking deep-sea. In general the ferries are operated and manned by the nationals around the coast, but there is quite a dangerous precedent coming up. We have again on the Irish Sea a new service starting from Swansea to Cork. The Irish Government have put £½ million into that. The municipalities of Cork and Swansea have each subsidised it. It is a Polish-chartered ship with Polish crews, at two-thirds of the cost of our service from Rosslare to Fishguard. That is the first ship to come on, but there is no reason why, at that price, gradually one should not move right round the coast and replace our ships.

1129. I know that you inherited a lot of existing ships from Sealink. I would like to ask over what period you amortise your ships, under your present capital considerations?

(Mr Lenox-Conyngham) We tend to do it, within Sea Containers, over 25 years.

1130. As long as that?

(Mr Lenox-Conyngham) Yes.

1131. In other words, on simple tables, that is some 4 per cent on top of the capital cost of producing the ships?

(Mr Lenox-Conyngham) Yes. That is, of course, P and L. The cash may be quite different, because if you borrow the money for a ship from the bank, the bank is not going to be prepared to wait 25 years to get the money, so the cashflow implications are quite different.

1132. That is what I am saying. On top of the cost of creating the capital, you would amortise it by 4 per cent?

(Mr Lenox-Conyngham) If we buy a new ship, we go and borrow all the money we have to from the bank, and the bank will want all that money back.

1133. Over what—a seven-year period?

(Mr Lenox-Conyngham) If we are lucky. Normally it is less—five years perhaps.

Mr Fry

1134. I am afraid we are running very late. I wonder if I can put two or three questions to you in relation to the market. First of all, will airline deregulation in Europe adversely affect your trades? Have you been affected already by recent cuts in air fares accross the Irish Sea?

(Mr Lenox-Conyngham) Yes, in both.

1135. Do you train members of your crews?

(Mr Lenox-Conyngham) Sealink do not train cadets.

1136. You have to hope the cadets will be available?

(Mr Lenox-Conyngham) The reason is basically because—I was on the receiving end when I ran Ocean Shipping and trained cadets who were pinched by ferry companies.

1137. Now you pinch them!

(Mr Lenox-Conyngham) A deep-sea officer in the end gets married and goes ashore; the ferry companies can take the elite of the Merchant Fleet.

(Mr Bell) In fact, the regulations, as they are at the moment, would not permit us to train them anyway. They have to have deep-sea experience, which we cannot give them.

1138. Turning, finally, to the possible Government action, as you know the General Council of British Shipping proposed a 50 per cent. first-year depreciation allowance; if the Chancellor had accepted that would

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[*Mr Fry Contd.*]

this have affected you in respect of your building programme? Do you have a building programme at the moment? If so, or you did have one, would you build in British yards?

(Mr Lenox-Conyngham) To take advantage of any depreciation allowances you have to have profits, we have not yet got the profits. I am hired to turn the company around. It would not have so far. On where we build, we build where we can get the best bargain. It does happen, fortunately for Europe anyway, that the ferries are multi-purpose ferries and are complex ships to build and the Far Eastern yards in general cannot build them. One has been built so far in Japan. Any ferry orders from Europe will go, at the moment, to European yards.

Mr Bevan: And Bremerhaven.

Mr Mudd

1139. The point has been made, clearly you want to shop around for the best possible price?

(Mr Lenox-Conyngham) Yes.

1140. To what extent is it important or, indeed, desirable in the costings of running a ferry service that wherever possible you should actually own the port facilities from which you operate?

(Mr Lenox-Conyngham) Before I answer that, I had forgotten to say that we have just started introducing a ship from Portsmouth to Fishbourne, £5 million, built on the north-east coast. The key thing for successful ferry operators is to control the shortest route, for cost pricing reasons. If you control the port that does help; you can make sure you get the best slots.

1141. And the actual effect of the port charges you pay. Are they less to yourself than paying them to another port operator? How does it affect your competitiveness, rather than your schedule?

(Mr Lenox-Conyngham) What we do have to make sure is that we compare like with like. We cost our ports independently and charge ourselves the same price as we charge outside customers. We can judge our performance on a genuine basis. Whether it is good or bad depends on what you pay for the port in the first place.

Mr Fry

1142. Finally, have you any other suggestions to make regarding possible Government action, other than the three recommendations that Mr Sherwood made in his paper?

(Mr Lenox-Conyngham) In addition to his recommendations, I would like to put in a strong plea for the Government to look sympathetically at the amendments which we have proposed to the Channel Tunnel Bill, because they have all been rejected.

1143. Thank you very much. Is there anything else you would like to say?

(Mr Lenox-Conyngham) No. Thank you for your time and allowing us to extend beyond it.

Mr Fry: I think our interest is shown in the length of time that this particular session has gone on. May I thank you all very much for appearing before us this afternoon.

Memorandum submitted by P&O

THE DECLINE IN THE UK REGISTERED MERCHANT FLEET

1.0 **The increase in the practice of flagging out of merchant vessels**

1.1 The substantial majority of P&O owned ships continue to be registered in the United Kingdom.

1.2 The exception is the P&O Bulk Carrier fleet which has transferred its owned ships to offshore registry in Hong Kong. Also the ships bareboated by P&O Bulk Carriers generally operate under Liberian/Filipino dual registry and fly the Filipino flag.

1.3 The Hong Kong registered ships are manned by British Officers and Filipino crews with the Liberian/Filipino flag ships being manned by Filipino Officers and ratings. The table below sets out the differences in manning costs for one of the bulk carriers operating under three separate modes:—

	Flag	*Officers*	*Ratings*	*Cost (US$ pa)*
1)	UK	UK	UK	955,000
2)	Hong Kong	UK/Indian	Filipino	446,000
3)	Liberian/Filipino	Filipino	Filipino	367,000

1.4 The transfer offshore of the P&O owned bulk ships resulted from extreme economic pressures in an acutely depressed market which had pertained for a number of years and showed no signs of improvement. It became clear if P&O was to retain a presence in this market sector that shipboard costs would need to be drastically cut to bring them into line with the rising number of competitors who had already proved that cheaper Far Eastern crews did not have a deleterious affect on shipboard standards.

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1 5 At the same time it became increasingly evident that the employment of a high proportion of owned ships was not a pre-requisite to securing bulk cargo contracts, although many first class charterers have a definite preference for operators with medium to long term control over the ships they operate. This dovetailed in with the increased availability of inexpensive chartered ships and tax leveraged bareboat deals for secondhand ships. It also coincided with P&O's revised policy whereby ships were not ordered speculatively but only against firm long term cargo commitments.

2.0 **Protectionsim, both within the UK and worldwide, and fiscal incentives offered to shipowners**

2.1 This subject has been fully covered in the GCBS submission which draws attention to the large number of occasions where protectionism is rife and where fiscal incentives are offered by governments to their national shipowners. However, it is important to re-emphasise the point made in the GCBS report that protectionism and subsidies are not policies indulged in predominantly by under developed countries but are widely followed by many developed countries.

In some countries national flag owners and operators are protected to the partial exclusion of others through the closely knit workings of business, industry and Government within these countries which produces an effective but somewhat covert form of subsidy.

2.2 The following specific areas remain of concern to the P&O Group and have either depressed revenue levels or frustrated the possibility of expanding the use of UK registered ships manned by British Officers.

2.2.1 *P&O Cruises*

(a) Swan Hellenic Cruises, which is a P&O owned company, is a major specialist operator in the Eastern Mediterranean but due to the Greek Government prohibiting the carriage of passengers, who originate from UK principally and the USA, from and between Greek ports in a non Greek ship, it is not permissable to operate a P&O ship in that area. In the circumstances, Swan Hellenic are limited to chartering Greek flag ships manned by Greek nationals. Similar restrictions apply to other P&O ships operating fly/cruises into or out of Piraeus.

(b) For some years now P&O has been interested in placing a cruise ship on the run from West Coast North America to Hawaii which would complement its existing North American services but is precluded from doing so by the Jones Act which limits the transport of passengers between USA ports to ships owned and built in the USA and operating under their flag.

(c) The restraints referred to in (a) and (b) are to be compared with the UK's open trade policy which has resulted in Russian cruise ships gaining a foothold in the UK cruise market in recent years by dumping excess capacity in the market at commercially questionable rates. Although the situation was eventually partially retrieved with support from the British Government through an agreement with the Russians to limit the number of berths offered by their ships out of the UK and to narrow the fare differentials, the damage had by then already occurred.

2.2.2 *P&OCL*

The restriction imposed by the Australian and New Zealand Governments on third party participation in the trade between their two countries precludes P&OCL from carrying container traffic on this sector which penalises their financial returns.

2.2.3 *Pandoro*

Major competition to Pandoro's roll on-roll off service emanates from the B+I whose annual losses are regularly covered by their shareholders the Irish Government.

2.2.4 *P&O Bulk Shipping*

The example alluded to in the GCBS submission, concerning restrictions in the use of non-French vessels for the carriage of coal, inhibits P&O's ability to develop their bulk trade relationship with the French steel mills.

2 2 5 Whilst P&O strongly supports the UK shipping industry's policy in vigorously advocating the opening up of all trades to competition and discouraging the creeping paralysis in world trade which will be brought about by widescale protectionism, there are undoubtedly occasions when a more pragmatic approach should be seriously contemplated.

3.0 **The international competitiveness of the UK fleet and ports**

3.1 *UK Fleet*

It is lack of competitivity of the UK registered fleet which has led to the accelerated trend in transfer to other registries and there is little evidence that a return to the UK Register is likely in the foreseeable future.

The GCBS report deals with the fundamental reasons for this uncompetitiveness but we would add the following additional comments.

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3.1.1 *Repairs & Maintenance*
In general there is no difference in repair and maintenance costs between various flags of registry but the extra financial burden arising out of the pernickety requirements of DTp Surveyors frequently discourages secondhand ships from being brought on the UK and its dependencies' registers. In spite of the many approaches made by the GCBS and individual shipowners there is no evidence of any improvement in the situation or the adoption of the more flexible approach that other regulatory authorities are willing to pursue.

Our own RoRo cargoship operators, experience has been that the cost of transferring a small modern RoRo cargo ship from the Danish to the UK flag amounts to £60,000 for a ship totally acceptable to the Danish Flag Authority.

3.1.2 *Exchange Rates*
Sterling exchange rates against the US dollar have a major impact on UK's competitiveness in respect of UK based costs.

3.2 *UK Ports*
It is a well established fact that UK ports are generally more expensive to shipowners than continental ports and productivity is usually lower. The principal reason UK ports are more expensive is due to the higher subsidies prevalent in North Continenal ports.

3.2.1 The impact of the National Dock Labour Board scheme in precluding compulsory redundancies and discouraging the removal of restrictive practicies continues also to be a cause of a substantial part of the high costs and inefficiencies of many UK ports.

3.2.2 Also, the highly inequitable system, which is referred to in the GCBS report, of charging UK light dues to merchant vessel owners only is another extra penalty that falls largely on the UK shipowner. The recent announcement by the Secretary of State for Transport that light dues are to be substantially increased only serves to add to the inequity.

3.2.3 Undoubtedly, high UK port costs has been a contributory factor in the last 30 years in the re-routeing of significant volumes of UK cargoes via the North Continent with a consequential loss of revenue to UK ocean carriers.

P&OCL have produced the following comparative table to illustrate the difference in costs for their container ship ENCOUNTER BAY (1500 TEU):—

EUROPEAN PORT AND TERMINAL COSTS FOR AN ENCOUNTER BAY CLASS VESSEL

	Ports Costs per call	*Terminal Costs per TEU*
Tilbury	USD23,393	USD127
Southampton	10,446	138
Felixstowe	26,646	97
Hamburg	27,852	76
Bremerhaven	12,915	85
Rotterdam	11,050	64
Flushing	11,049	45
Zeebrugge	14,301	36
Genoa	16,372	131
Naples	13,098	51
Fos	17,913	65
Barcelona	9,855	82

3.2.4 The Department of Transport issued a report in 1986 which dealt with the same subject under the title "Liner Shipping and Freight Rates, a UK/Northern Europe Comparison".

4.0 **Cabotage**

4.1 The GCBS report deals extensively with this important subject.

5.0 **The extent to which the structure of the shipping industry (with regard to both shippers and shipowners) militates against the practice of an effective national or European shipping policy**

5.1 We do not consider that the structure of the shipping industry adversely affects UK or EEC shipping policies.

5.2 The rationalisation in the number of shipowners through mergers coupled with the growth and establishment of consortia in the container trades, has produced more cost effective and stable shipping services for the UK and Europe.

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5.3 The structure, however, of the shipbuilding industry with the propensity of governments to subsidise domestic building costs for ships which are not required and where shipbuilders themselves are at times prepared to take equity stakes to promote new orders militates against a healthy shipowning industry in both Europe and the UK.

6.0 **The impact of the decline in the registered merchant fleet and associated trends on those who work within the industry**

6.1 The reasons for the decline in the British merchant fleet and the effect that this has had on employment in the industry and allied services have been fully covered in the GCBS report.

7.0 **The importance of the tourist industry to the future demand for shipping**

7.1 The tourist industry is a vital factor in the future demand for ferries and cruise ships. The quantum of support for ferries depends almost entirely on cost as compared with alternative forms of transport. In the case of cruise operations, cost is of equal significance and support depends on the competitiveness of like products and the alternatives that are available to holidaymakers at similar prices, coupled with the special appeal relating to the ambience and lifestyle on board a cruise ship.

7.2 If the Channel Tunnel is constructed and operates effectively then it is certain to affect the tourist pattern for holidaymakers travelling to and from Europe by ship. (Also the proposed switch of freight traffic moving between major industrial areas to State owned and subsidised railway services represents a very serious threat to freight ferry operators and will lead to a reduction in the number of ships operating under the UK flag and in the employment of British seafarers).

8.0 **Conclusion**

8.1 The decline in the UK share of the world's merchant fleet is partly due to technological change as well as the emergence of new trading patterns and these factors are unlikely to be reversed in the future. However, a further major influence has been the massive over capacity which has developed in most shipping sectors which has led to a decline in profitability and a diversion of corporate funds available for investment to other more attractive non shipping projects.

8.2 In the circumstances, an increase in shipping investment by UK shipowners whether under UK or offshore flag, will require an improvement in returns, bearing in mind that revenues are established internationally by external factors and cost reductions have already been maximised, principally through "flagging out". In the circumstances, it is now left entirely within the discretion of the UK Government as to whether they will provide the fiscal incentives to improve the returns to a level where British shipowners are likely to re-invest in ships or whether they prefer a non interventionist policy. The latter choice would signal the further rapid decline in the British merchant fleet.

The Peninsular & Oriental Steam Navigation Company

6 *March* 1987

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Examination of Witnesses

MR ALEC BLACK, Director P&OSN Co and Chairman of P&O Bulk Shipping Ltd, MR ALAN LANGLEY, Managing Director, P&O Cruises Ltd, MR ALAN BOTT, Director P&O Containers Ltd, MR TONY BARRETT, Director, P&O European Transport Services (P&O's freight ferry operation) and MR MIKE MARCHANT, Director, P&O Bulk Shipping Ltd., P&O, called in and examined.

Mr Fry

1144. Good afternoon. May I apologise for starting rather late. You have submitted a memorandum, for which we are grateful. Do you wish to make an opening statement?

(Mr Black) Briefly, if I may. It might be of interest to you to know that today P&O represents 11 per cent of the UK merchant fleet and approximately 20 per cent of the UK's invisible earnings in shipping and employs approximately 25 per cent of the seafarers employed through the National Maritime Board. Also, three of our owned ships are flagged out and operate under the Hong Kong registry, whereas all the others are registered in the UK. P&O is a strong supporter of free trading in shipping. However, the reality is that the competition we face in international shipping is severely distorted by various forms of financial subsidy and protectionism. Therefore, the UK shipping industry must be given realistic and timely assistance if we are to compete in a hostile market environment, and if this island is to have an effective British mercantile fleet during the next decade. As a company, P&O has priceless skills and experience which have been accumulated over the past 150 years. These assets are available to reinvest together with the relevant funds providing the returns and risks are acceptable. More specifically, the assistance falls into three categories: firstly, there is a need for improved capital allowances for British owners, irrespective as to the flag their ships fly; secondly, there is also a need to make employment of British seafarers more attractive to both the shipowner and the employee if the skills of the British seafarers are to be retained. In this respect, from the shipowners' viewpoint a way must be found of bridging the large gap between the cost of both training British cadets and employing British junior officers as compared with the other less expensive alternatives freely available. On the other hand, from the seafarers' viewpoint it is of equal importance to make the prospects of a job at sea more attractive through the reintroduction of the UK tax concessions on seafarers' earnings which applied before 1984. This concession should only apply to those employed on foreign going deep sea ships. Thirdly, and finally, we remain deeply concerned at the number of western countries who enjoy free entry to UK trades and yet deny us access to their own. We feel a more pragmatic approach by Government to protecting the UK shipowners' interests is fully merited.

1145. I think you were sitting there when we were questioning Sealink about the possibility of "co-operation" over the English channel. As you have recently become owners of European Ferries, can we take it that you too are enthusiastic about the idea of such co-operation as we have heard outlined recently?

(Mr Black) We do not hold it in the same priority as Sealink British Ferries. At this stage we feel quite capable of holding our own. I think that Sealink British Ferries have always been a follower. Townsend Thoresen have been a leader in the industry, and I think they are having difficulty in catching up. One would always expect the weaker in competition to be the one that seeks some protection through some form of co-operation.

1146. I asked that question because you may recall that Mr Dicks made some comments about promises that were made *before* Sealink were purchased. The point I am putting to *you* is that presumably you knew what the situation was in relation to the Channel traffic, and that, indeed, undertakings had been given to the OFT, so you entered into the purchase of European Ferries with your eyes open?

(Mr Black) That is quite true.

1147. Thank you very much. You have intimated that you believe that some kind of first-year depreciation allowances are essential. However, you have also heard the comment made that you have got to make a profit first. You are quite happy, are you, that you will be able to make sufficient profits to take advantage of depreciation allowances?

(Mr Black) Our view is that only by having those attractive first-year allowances will the profit reach the sort of level where, as a company, we would reinvest in shipping, to the degree that I think you as a Committee and we would like to.

Mr Trotter

1148. I presume that you would be in a position as a group to use the losses or allowances against income from other aspects of your group trading?

(Mr Black) That is correct, yes, I think we could. If you have the profits, as we have as a group, you can set off those allowances, so we do not have the problem of lack of profits.

Mr Fry

1149. If you had to build new ships, would you build them in British yards?

(Mr Black) As I think you probably know, Mr Fry, we have just concluded one new ship at Govan, so we have already built at a British Shipbuilders' yard. Yes, we would, if the price is right and the delivery time is right. Yes, we have shown our willingness to do it and we would do it again.

Mr Trotter

1150. Can I ask for confirmation that you are very happy with the product that you got from Govan?

(Mr Black) I think it is actually due to start in service next week, as far as I remember, so it is perhaps early days. As you probably know, the company with whom we operate, which is Nedlloyd, have built their ship in Japan. It is coming into service just a few weeks after our own, and it will be interesting to tell over a period of time which of the two ships is the better. It *was* the ship that Sealink referred to as being the first ferry built by the Japanese. It will be interesting to see how it does compare.

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Mr Fry

1151. Can we turn to the question of protectionism? I want to talk about cabotage restrictions. You yourselves have complained about the problems in the cruise market in relation to the USA, Hawaii and the Greek Islands, and of course there is always the problem of the Russians and what they are doing. Would you prefer all cruise markets to be restricted, or would you prefer them all to be free?

(Mr Black) Perhaps I can turn to my colleague Alan Langley to comment on that.

(Mr Langley) I think the comment made in our paper, under P&O Cruises, was really pointing out the problems that are created by the protection through cabotage. We are fully supportive of free trading in its fullest sense, and we have no concern over facing competition, providing that competition is on a commercial basis. Our main concern is that we are restricted not only as P&O but any foreign-flag operator, if we take the two countries concerned, the United States and Greece, from operating there untrammelled, and yet in the United Kingdom there is no restriction whatsoever. It came to certainly commercial and public attention as to our concern over the increase in the presence of the Soviet operation in the United Kingdom but one can project ahead to a position, if there should be problems, say, in the Mediterranean of a political nature, which we have experienced recently, where operators could seek the UK market as a refuge from their normal operating areas, and therefore come in and undermine our own business. So if you ask if we would wish to see closed operations worldwide, certainly not. We would far prefer to be able to operate in free trading circumstances, wherever that is possible and commercially viable.

1152. It has been put to us in another context—the shorter sea journeys—that this country should use the right to restrict cabotage in order to persuade other countries to free their particular markets. Are you saying that this is what the Government should be thinking of doing in relation to cruise operations?

(Mr Langley) No, I am not saying that that is what they should do. It is an alternative if there is no opportunity for us to operate freely in other areas.

(Mr Black) I think it is really a last-ditch suggestion.

Mr Bevan

1153. The equivalent in America surely is the Jones Act, is it not?

(Mr Langley) That is correct.

1154. That prohibits anything other than American ships built in America, flying under the American flag, from operating?

(Mr Langley) And owned by American citizens.

1155. How are they crewed—by Americans?

(Mr Langley) They have to be crewed by Americans.

1156. I notice in the Greek context, where they have a similar situation between Greek ports, that you charter their ships, do you not?

(Mr Black) Correct.

1157. Do you charter the American ships?

(Mr Langley) There are not any around to charter.

1158. I see. So they really have cornered the market?

(Mr Langley) They have got two aged American ships at the moment operating in the Hawaiin Islands.

1159. So the equivalent of the operation, as Mr Fry mentioned, of a British Jones Act is one of the alternatives, as you said, Mr Langley?

(Mr Langley) Yes.

1160. But not one which you would particularly favour, as I read it?

(Mr Langley) No.

1161. You would favour the situation of our being able to compete in those markets more directly?

(Mr Langley) Yes.

1162. So presumably the thrust of our recommendation, if we followed you on that, would be towards the negotiating of suitable agreements, possibly bilateral agreements such as those that are negotiated in aviation, between flag carriers, for the treatment of cruise ships? Would that be a fair question?

(Mr Black) That would be right.

(Mr Langley) I think that that is a reasonable comment. The Jones Act was basically created for cargo protection. It has been extended to passengers, but in fact there is no passenger ship industry in the United States, except for these two ships in Hawaii. It is totally different in Greece. We had felt that with the entry of Greece into the EC, there would be a greater recognition of free trading, as is enshrined certainly in the concept of the Community, if not *de facto*.

1163. Following this point (and I would like to couple it later with port costs, if I may), you have got the new international entrepreneurs (possibly one might describe them as) or predators even—that is, the Russians—who are entering into the low-priced cruise market in a colossal manner, if I read the scene rightly, producing ships which are totally subsidised or capital-free creations, therefore who start miles ahead, on a subsidised cost basis of running, with low port costs operation. Would that be right, and could you instance further examples?

(Mr Langley) If you take the Russian presence in the United Kingdom—which is the one that we are addressing—they pay the same port costs as any other operator, because their trading pattern out of the United Kingdom is not dissimilar to ours. They do not go to Russia; or they may go to Russia, but that is not their regular trading. So their costs in terms of port charges are the same as ours, pro-rated to the tonnage.

1164. On those costs, then, could I ask you why predominantly within Europe the North German and deep-sea ports of Holland, Rotterdam, Flushing, Hamburg in the German case, and Zeebrugge are colossally so much lower than our ports of Tilbury, for instance, and Southampton? In your own estimates, Southampton's terminal costs per TEU are $138, compared with Flushing's $45 on the same scale, and

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[*Mr Bevan Contd.*]

Zeebrugge's $36. Why would that situation obtain? Is that by subsidy as well?

(Mr Black) Yes. I think Alan Bott, who is responsible for producing those figures, might like to comment. The answer is, yes, subsidy does occur in these Continental ports which reduces the proper charge to the user.

(Mr Bott) There are two things: subsidy is certainly one of the elements. Some state money comes in, for example, to Zeebrugge, as an example here of a very low one. Flushing is the same. Another point is this: if you take Tilbury, that was built as a container terminal by OCL in 1965–1969 when containerisation had not been started in Europe; the only way we could get it going was in a joint venture effectively with the Port of London Authority. The work of reclaiming land and building and everything else we agreed with them; they would do the work and we would pay them back over 18 years. Effectively it was not state money, but investment on the part of PLA to do the work. That is why Tilbury was so expensive. Terminal cost is a function not so much of subsidy; the point there is, I think, a matter of throughput. Take Tilbury, built for Australia and New Zealand trades, which have declined over the years, and the throughputs although we have tried to make them good, they would be nothing like they are today through Rotterdam. The main point is the infrastructure. One needs to be rewarded with a large throughput to pay for the investment.

1165. At least in this field, with the new ownership of Felixstowe, you might be in a more beneficial competitive position than you were?

(Mr Black) Yes. I think, Chairman, as far as P&O is concerned that is true as with any other user of Felixstowe, as it is the most efficient port in the UK on costs and throughput, and the largest container port in the UK. We happen to be the beneficial owners but, of course, P&O container ships using it, and any other P&O ships, pay the same level of charges as any other user.

1166. Why did you opt for Hong Kong when you had your flutter of the flags abroad?

(Mr Marchant) We looked at the various ports and want to maintain a British flag; Hong Kong was about the only flag available that was not an FOC flag.

Mr Bidwell

1167. Will you be transferring to the Isle of Man? There is a tendency to transfer from Hong Kong to the Isle of Man?

(Mr Marchant) Yes, there is a tendency.

1168. It is safer than a Peking takeover of Hong Kong!

(Mr Black) Most people who have transferred their ships have transferred directly from the UK rather than from Hong Kong. I do not think I know of any who have transferred from Hong Kong to the Isle of Man. In the Isle of Man you still have to pay national insurance costs which you do not in Hong Kong. There is that additional element of cost added to the Isle of Man flag.

Mr Trotter

1169. We heard that if you had a manning agency but not based in the Isle of Man you did not have to pay national insurance costs?

(Mr Marchant) You would still have an agency. Our manning agency is in Hong Kong, and that is the point of having Hong Kong; you have the agency and the flag in one country.

1170. 1997 is only ten years away.

(Mr Marchant) At the moment it appears to us to be the right decision.

Mr Mudd

1171. As a former member of Union Castle, I feel that P&O seem to have been rather wingeing in their attitude that there is a "Soviet threat". In fact, the Soviets are operating at the bottom end of the market over routes that P&O, through BI, were operating quite well with educational and low-cost cruises with the NEVASA, UGANDA and DEVONIA. These were routes that BI and P&O had written off long before the Russians arrived. Port charges are constant irrespective of owner and victualling and bunkering remain a cost, irrespective to what extent this real threat exists from the Soviet passenger sector. Indeed, is there not some justification that it provides a good taster to people who might then move up the scale and fortunately have the privilege and the money to become P&O passengers one day?

(Mr Black) Alan Langley has dealt with those questions.

(Mr Langley) I would like to comment that between 1978 and 1982 the presence and offered capacity by CTC, which is a British registered but Soviet-owned company, did market their ships to increase by over 100 per cent. That is in a static market. No more passengers were carried during that period. The offered berths increased by 120 per cent in that period. Our concern was, that was not contributing to the growth of cruising, and it did not do that. We have found a degree of inelasticity in cruising in the UK; there have been peaks and troughs but, generally speaking, it is a fairly steady demand. We raised our concern about that increase when it became apparent it was appearing to continue without any control in terms of deployment of the Soviet fleet against a lack of demand for that service. You are quite right in saying it can be a taster for someone to go in at the lower end of the market and find that cruising appeals to them and they move on to try another type of cruising. It can have the reverse effect and turn them off entirely. The ships that the Russians are operating are of good quality. The standards of the service may not perhaps have been to Western tastes, but it would not take them too long if they so wished to get their act together and provide the sort of service people want. We do not believe they would operate in the UK for purely commercial reasons, but they are there as a place to utilise their ships, for whatever reasons they wish.

(Mr Black) There was an overlapping too actually between lower fare levels on the CANBERRA and the Russian ships.

(Mr Langley) Yes, we are competing in terms of quality and sometimes cost on a face to face basis.

Mr Bidwell

1172. When Mrs Thatcher met Mr Gorbachev that was, I think, the only worthwhile thing, the prospect of childrens' exchange visits. You should get in on that because that would be very popular.

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[*Mr Bidwell Contd.*]

(Mr Langley) I do not know if it would be profitable. Having noticed and been concerned about that growth, we have specifically discussed the Soviet operation and have reached an accord in terms of the level of their presence, which they are in fact reducing over a fixed period of time, and also their pricing where they are narrowing differentials to a more commercial and realistic basis. It is not totally satisfactory but it has contained what we saw as a snowballing effect of their presence in the market.

Mr Fry

1173. Are you saying effectively that there is not any action you think should be taken against Soviet shipping?

(Mr Langley) No. Commercially, and with the assistance o f the UK Government, we have reached an accord, as I have said, and providing that understanding is maintained I have no reason to doubt that it will be, within that, something we can live with. As I said in my opening statement, we are quite happy to face fair competition head-on.

1174. Could you perhaps answer a question that puzzles me? Why, on perhaps the most lucrative liner markets in the world, the Caribbean, is there such a predominance of Norwegian-owned shipping lines? One would not have thought that wage costs were low in Norwegian-crewed ships. I am aware of the franchising of the catering, the entertainment and the rest of it. Why is it that British cruise companies such as your own have not got a higher presence in the Caribbean, bearing in mind that most of the Caribbean islands are former British colonies?

(Mr Langley) We certainly do operate in the Caribbean.

1175. Yes, but not on the same scale as the Norwegians.

(Mr Langley) You have got to go back historically. The Norwegians were the ones who opened up cruising in today's terms. They used their expertise in the ferry industry. They used their ferries and they found a niche market in those days in the Caribbean, they developed their expertise, and it grew from that. They had the foothold there. As to wage costs, there is probably not a great deal of difference in the wage costs of a Norwegian and a British officer. If you extended that throughout the ships, then there would be a difference, because that would be quite substantial. The wage cost in the Caribbean for certainly the hotel area, which forms by far the greatest majority of cruise-ship employment, is usually through franchised or concessionaire crews, employing labour local to the Caribbean.

1176. But then a British-owned ship could do just the same, could it not?

(Mr Langley) We are doing that. We do that.

1177. Do you see that as a growth market for you?

(Mr Langley) The United States is a growth market certainly. Estimates vary, but it is growing somewhere in the region of 10 to 12 per cent per annum. However, supply at the moment is growing far more rapidly than that, and so we have a gap between the supply and the demand. Historically there has always been a situation where the cruise industry is supply-led and then the demand catches up. So you have a bit of a roller-coaster, as it were; you have got a gap, then it exceeds that, then you get more tonnage coming in, and so you have that constant move.

1178. Does the future lie in providing a higher-quality product, aiming more at the people who are prepared to pay substantially more to cruise, to have more room, for example, to have a more comfortable cabin and everything that goes with the highest class of service on board ship?

(Mr Langley) That is entirely up to the operator. I think that each operator has identified the level of the market that his particular product is designed to attract. You can have the lower-cost operator, but his ship is a high-density ship, low fares, more people in the same amount of space as other ships which charge higher fares, more space on board per passenger, and the returns vary.

1179. You have done your market research, obviously. Where do you see the future being—with the lower-cost operator or with the higher-cost operator?

(Mr Langley) In the Caribbean I think you have to look upon that as the market which is attracting the lower level of the middle market, if I can put it that way.

Mr Bidwell

1180. Pensioners?

(Mr Langley) Yes. As to the other crusing area, if you take the west coast of the 'States up to Alaska, the longer voyages across to the Far East from the 'States, by the nature of the voyage attract and seek the upper level of the middle market. There are some ships which are exceptions, but generally speaking crusing is geared to the middle market. I know that people who follow P&O have specific ships, but there are very few cruise ships which one can say cater for the elite. Generally speaking, cruise ships are geared to the middle market, the upper level, middle and lower. Those are sectionalised or segmented, and it is up to the operator to determine how he wants to address that. We as a company approach the upper level of the middle market in the 'States. CANBERRA is a cross-section (that is our European ship) which covers the whole spectrum.

Mr Fry

1181. Can we turn to the memorandum in which you complained about "the extra financial burden arising out of the pernickety requirements of Department of Transport surveyors?" When we asked Dr Cowley, the Surveyor General, to comment on these criticisms, he said, "but then what is the intention of the Regulations? The intention of the Regulations is that the ship should be safe." Do you still remain of the opinion that the Department of Transport should adopt a more flexible approach to these surveys? Is not it the case that the Department has in any case been more flexible in recent years?

(Mr Black) Our view is that our complaint is nothing to do with safety. We will uphold the highest safety standards without question. What we are talking about often is the standard of the bath tap, what type it might be, and that is where we refer to pernickety regulations.

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[*Mr Fry Contd.*]

It is the interpretation of these regulations. As our note also indicates, I think, there is an example of the Danish flag where the extra cost of transferring to the UK flag—and no one would suggest that the Danes operate ships in an unsafe state—does cost a great deal of money. We are finding constant examples of it, and that is a deterrent to the transfer of ships to the UK flag; not only, I may say, UK British but even UK Hong Kong which does tend to follow the British Department of Transport surveyors.

(Mr Barrett) Perhaps I can give you one specific point on that which will illuminate the problem in connection with that particular ship in our submission. That ship had on board some compressed-air breathing apparatus which was made by world leaders in Europe. It does not happen to figure on the list of British Department of Transport approved suppliers, and so we had to buy another set of actually not quite as good equipment which had got Department of Transport approval.

Mr Trotter

1182. Do you find the same niggles, or do you suspect there are the same niggles, the other way around, or are other governments more sensible if you want to transfer a ship from, say British to Danish registry?

(Mr Black) It is difficult, because we have not actually had that experience. I think there *is* more flexibility with the other governments and in regard to accepting changes and transfers of flags. However, I cannot be authoritative in that statement, because we have not the experience.

1183. On this question of acquiring second-hand tonnage, would you wish to see the capital investment allowance extended to second-hand tonnage?

(Mr Black) Yes. It would certainly be helpful in quickly restoring to some degree the level of the British mercantile fleet.

1184. Could I ask about new fleet orders? It is very good news that you did build the big ferry on the Clyde, but do you see more orders in the near future?

(Mr Black) European Ferries has already been referred to as having those two new ferries being built in Germany. At this stage in time we have none on the drawing board, but as I said in my remarks at the beginning of this session, we have a preparedness to invest further. I think we have to have the right climate and the right allowances, and we have to have the right level of profitability. In P&O, because we have so many wide areas of investment opportunity, clearly capital is competing between those various opportunities within the group. I think that shipping has to be looked at in that way; it is not something that we just do because of our historical association with shipping. We naturally intend to continue to invest. We believe that because we have the expertise, the knowledge and the skills within our group, we would like to continue that investment, to use these skills.

1185. I think that in your evidence to us you referred to chartered ships which were Liberian/Filipino?

(Mr Black) That is right.

1186. Those are ships you charter in?

(Mr Black) That is correct.

1187. The interesting thing there was that the officers were Filipino, as well as the ratings, is that right?

(Mr Black) That is correct.

1188. One had got the impression that the ratings might be Filipino, but that the officers tend to be at least Indian. You have said in your written submission that those officers are perfectly satisfactory, have you not?

(Mr Black) I think that again Mike Marchant might like to comment here. What we have found, to be fair, is that we put on one or two British officers as supernumeraries on those ships, to help to keep them to the standard. The problem is that there is such a demand for Filipino crews, both officers and ratings, today that I think the Philippines has some difficulty at times in providing the right level of skill. I think there needs to be some training on the job also. They have the right level of certificates but sometimes need a little more supervision. Our own feeling today, is that P&O's bulk shipping operation should operate under the Hong Kong flag. We would like to move the ships to the Hong Kong flag, even though they are chartered ships and employ at least British senior officers, probably four, with Indian junior officers and Filipino ratings. At the moment we think that is about the best plan. I think, as I indicated in my opening remarks, we would be happy to see British junior officers and then we could operate a training scheme. At the moment these ships fall into the pattern of having to steal them from other people and not have any training. If we could find some way of bridging the cost for junior British officers we think they could stand on their own in the international market.

Mr Fry

1189. You would then go back to training?

(Mr Black) Yes.

1190. You have got a ferry company that can pinch your own officers. I do not think you are worried about fulfilling your manpower requirements over, say, the next 5-10 years?

(Mr Black) No.

1191. Could I ask about OCL, would you like to say anything special about container trades?

(Mr Bott) Yes. The questions which have been asked, so far as competition is concerned, have been around the Russian menace and it is worth putting that into perspective. The Russian menace has been there for a long time, but in a number of trades, I am talking about cargo trades, we have come to terms with the Russians. In Australia and New Zealand trades the Russians are members of the Conference; in some other trades they are a nuisance and there is predatory pricing. We are not involved in that. I know that to be the case. By far and away the largest menace before us is not so much the Eastern Bloc, and that includes, the Poles, the East Germans as well as the Russians, it is the Asian flags, the Taiwanese and the Koreans. They are giving us real worries because they seem to have limitless numbers of ships they can produce, and the pricing they can achieve. I have firsthand experience of the Koreans and they are a pain in the Australian trade. If our rate is $2,000 per

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[*Mr Fry Contd.*]

box to carry it from Tilbury to Australia the competition might be $1,800, and that would include the Poles, and Hyundai would be down at $1,500, and that is the competition one has great difficulty in facing up to, not so much that the cargo necessarily goes, but if a customer can say, "I can get $500 off your rate, you will have to come down to $1,900", or some such figure, your company cannot go up to $2,100. That is a very depressing area. It is an area where we do welcome new EEC regulations because a number of cases of this kind of pricing may well be brought within those regulations when the regulations become effective on 1 July. There are a number of Taiwanese and Koreans who are probably giving us more collywobbles than the Eastern Bloc.

Mr Bevan

1192. With the situation in Australia and New Zealand and restriction of utilisation of third party ships, why continue trading there?

(Mr Bott) The answer is that our ships are basically involved with Europe, Australia and New Zealand and back and there is a dead leg between Australia and New Zealand. Basically the balance of trade is outward to Australia, and north-bound from New Zealand meat and butter comes back, and fine outward cargo goes to Australia but you have a dead leg. You could carry, if it was not for the restrictions, at an absolutely knock-down rate. That particular route was started effectively by P&O and the Union Company, and Sir James Mills started it at the turn of the century and stopped about 20 years ago because of the unsupportable beliefs of Australian and New Zealand seamen and Australian and New Zealand dockers who stopped a cross-trader doing what was economic and historically sensible.

1193. I am sure this Committee would like to put a series of recommendations forward which would not only appeal to Parliament but might be implemented by Government and result in flagging in and new shipbuilding in Britain. I know if terms were equal you generally would obviously be keen to support that type of thing. What should one do, increase the depreciation allowance and embrace the colossal market of secondhand shipping laid up some time ago? What should one do about this matter. Should one aim for international agreements for scrapping at certain age levels, or for agreements to omit in a certain way, or what?

(Mr Black) I think the international agreement on scrapping is too difficult a one to publicly consider at this stage and I doubt that we would find a solution to it. Clearly there are too many ships still in the world. I think a problem is that if a lot were scrapped it does not take much time to build new ships as speed of building has increased. You can get a new ship within a year if it is an unsophisticated one. As far as bringing ships under British registry is concerned, somehow we have to find a way of reducing employment costs in some form, and one does not particularly want to suggest subsidies as the answer because none of us like subsidies. We do not think they really help us to be more efficient. I think that one has to find a way of overcoming the tax problems for UK seafarers. If you are flagging out there is no PAYE deduction from their salaries and they have to declare their own tax situation. We have to find ways of avoiding problems with the fringe benefit costs which are very, very high if you employ people directly in the UK. I find it difficult to see how we can overcome those problems; these are major ones to overcome, to get ships back under the UK flag. It is not only the bulk ships facing very fierce competition overseas. For cruising, if you continue in cruising and make new investments, then one would have to be looking at the whole question of where that investment might take place and what the flag ship might fly and take into account the competition in the cruise market.

Mr Fry

1194. Thank you very much. Are there any other points you would like to make before we close?

(Mr Langley) Just a very small addition to what was said about contributions, to assist in terms of crews. The Government is considering some form of contribution to repatriation costs. Where we have crews in the region of 300-600 people on a ship our repatriation costs are very considerable on those ships which are cross-trading. That is another element which is contributing.

Mr Fry: Thank you very much. May I thank you, Mr Black, and all your colleagues for answering our questions so fully.

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Memorandum submitted by Cunard

INQUIRY INTO THE DECLINE IN THE UK REGISTERED MERCHANT FLEET

(i) **"Flagging out"**

Cargo ships

Cunard owns and operates eight cargo vessels under the UK flag, seven of which employ UK officers and ratings and the eighth has UK officers and Indian ratings.

Cunard Cargo has so far considered and rejected an option to seek alternate arrangements in favour of UK flag. However, the highly depressed market conditions in a majority of shipping sectors and the inherent competitive pressures, coupled with the availability of trained maritime labour from lesser developed countries at much reduced costs, is likely to force us to reconsider our position very carefully.

The increase in the practice of "flagging out" is primarily led by economic considerations. The financial implications on a UK owner's profitability can be illustrated as follows:—

(a) the comparative level of costs under different flags for a 25,000 dwt products tanker are:—

Flag	*Crew*	*Manning costs per annum*
British	UK	$0.90 million
Liberian	Korean	$0.49 million
Bermudian	UK senior officers plus Filipino	$0.48 million
Hong Kong	Hong Kong Chinese	$0.39 million
FOC	Polish	$0.34 million

(b) Against these potential savings which can be achieved by flagging out, the UK company will have to pay severance pay to its existing workforce. Although such a one-off payment is rather high at around $0.5 million, the pay-back period for this is well under two years which is attractive.

Passenger cruise ships

Cunard owns and operates five passenger vessels and has two other cruise ships under long term charter. Two of the wholly owned vessels, namely, the QE2 and Cunard Countess, are British flag ships. Sagafjord, Vistafjord and Cunard Princess operate under a Bahamian flag and the two vessels on long term charter are currently Norwegian flag vessels.

Flagging out offers even more dramatic savings than cargo ship operations for the numbers of crew involved are relatively high. Pressures to flag out are very high for cruise ships operate in an international market and the geographic area of operations tends to move with the changing seasons. A high majority of the passengers are American and competition in the international market is fierce.

Cunard has carried out an exercise to determine a quantum of savings which could be achieved if QE2 was operated using an international labour force and it has been estimated that this could be in excess of £5 million per annum. Whilst this figure may look surprisingly high, it should be realised that the basic wage of a "tip earner" being recruited through an international manning agency is approximately 40 per cent lower than that paid to a British NUS employee. Additional savings result from reduced costs of flying crew home, reductions in national insurance contributions, etc.

There is an increasing trend towards the use of this international labour force and Kloster Cruises, which is the holding company for Royal Viking Line and Norwegian Caribbean Lines, recently announced a decision to leave the Norwegian flag and move to offshore operations. The press quoted a potential saving of $25 million per annum.

(ii) *Protectionism/fiscal incentives*

This subject has been well documented in a General Council of British Shipping submission to the Chancellor of the Exchequer during early December 1986 and subsequently discussed with him on 12 December 1986, (with reference to the 1987 Finance Bill).

(iii) *International competitiveness*

Paragraph (i) above is self-explanatory in terms of the competitive disadvantage faced by the UK shipowner insofar as it affects the UK fleet.

As regards UK ports, the subject was analysed in detail by the Economics Division of the Department of Transport during 1984–85; a report was subsequently published by the Department of Transport in 1986 entitled "Liner Shipping and Freight Rate".

The costs of bringing ships into British ports include light dues which can amount to £150,000 per annum for one ship. The Government has recently announced that light dues are to be increased by about 14 per cent. The full cost of lights is recovered from trading ships; no charges are made to the Royal Navy, yachts, etc., and the cost of lights in the Republic of Ireland which are part of the overall scheme are not fully recovered against ships serving the Republic. The balance is recovered against

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ships serving the United Kingdom. On the continent the cost of lights is absorbed by government. The effect of this is that British imports and exports pay a tax not payable by continental traders, to the disadvantage of Britain. This also has the effect of encouraging ships to serve continental ports and leave UK cargo to be handled by feeder services, ferries, etc.

UK port costs are increased by the inefficiencies brought about by the Dock Labour Scheme and the very high costs to port employers of reducing numbers of employees under voluntary severance schemes.

(iv) *Cabotage*

Although Cunard Cargo is not directly affected by cabotage restrictions applied by some European governments to protect their merchant fleets, indirectly it does tend to frustrate our desire to get involved in entering a coastal trade or acquiring a company involved in it.

In considering acquisitions and establishing possible new services, Cunard has been influenced negatively by cabotage restrictions applied in European countries.

Cabotage affects the ability of Cunard to operate cruise ships in the domestic American trade. The Jones Act prevents a non-American built and manned ship from operating a service where the port of departure and arrival is in the US, unless there is a call to a foreign port. This is particularly significant with regard to operations in Hawaii where Cunard could compete, which is presently serviced by only two very old American ships which meet the above criteria.

(v) *Industry structure/problems*

The dichotomy between shippers and shipowners, particularly in the liner trades, is one of business time-frame. Some shippers seek a short term cost advantage, sometimes by encouraging new lines to serve a trade to force prices down. Other shippers' business depends on a reliable regular shipping service with known forward price stability. Shipowners may be prepared to adopt marginal costing to break into business or to employ otherwise surplus ships while shipowners already serving a trade will seek to make a return on their capital on a steady basis over a long run.

(vi) *Impact of the decline*

The irrecoverable loss of trained and experienced manpower is probably the most significant effect of the decline in the UK registered merchant fleet. For instance, the sale of 10 conventional refrigerated ships by Cunard during the first half of the 1980's prompted by our inability to compete mainly due to high 'flag costs' resulted in a significant depletion of highly qualified sea and shore personnel from the company and probably from the industry.

(vii) *The importance of the tourist industry to the future demand for shipping*

The international cruise industry has been growing in the recent past at rates which most observers believe are in the region of 7 to 8 per cent per annum.

There are some suggestions that in 1986 the cruise business which operates in geographic areas close to the US, may have grown by as much as 13 per cent. It is thought this may be true and part of the reason will have been the downturn in the Mediterranean in the wake of the Achille Lauro affair, Chernobyl and the attack on Libya. Most surveys show that tourism is a growth industry and there is evidence to show that companies are attempting to broaden the appeal of cruising as a tourist product by trying to appeal to a younger market and also by offering cruise products as a part of a holiday rather than the whole. Developments in this field can be seen with the work of companeis like Premier Cruises who essentially draw passengers from those who go to Disneyworld in Florida and offer them short cruises.

Probably the greatest challenge which will be faced by the international cruise industry in the next few years is the dramatic growth in capacity which is just starting to affect traditional cruise areas such as the Caribbean.

It is not foreseen that increasing cruise ship capacity will benefit the UK domestic tourist industry. Various products are offered during the summer months and previous attempts to increase cruising in and around waters in the UK have not met with a great deal of success, probably because the weather is insufficiently warm.

An active participation by British companies in the international cruise industry can be very beneficial to British trade and would provide further jobs for British citizens, providing the realities of the marketplace are recognised by the National Union of Seamen.

6 *March* 1987

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Examination of Witnesses

MR A G KENNEDY, Managing Director, Cunard Steam-Ship Company plc, and MR J GRATTON, Managing Director, Cunard Shipping Services Ltd, called in and examined.

Mr Fry

1195. Mr Kennedy, Mr Gratton, may I welcome you to the Committee. I apologise that we are running late, but perhaps you do realise that the Committee is taking considerable interest in this matter, and the questions do rather run on from some of the rather interesting answers. I wonder whether, for the record, you would introduce yourself and Mr Gratton, please?

(Mr Kennedy) Yes. On my right is Mr Gratton who is the Managing Director of Cunard Shipping Services, who is here in place of Mr Mackintosh who is unfortunately abroad and who runs the Cunard Cargo Division. I am a Director of Trafalgar House and I am the Divisional Chairman for the Shipping, Aviation and Hotel Division of Trafalgar House. Perhaps by way of explanation I should say that Cunard Line, of which I am the Chairman, is the cruise-ship operation, and Cunard Cargo, whom Mr Gratton is representing, is based in the UK. Cunard Line's operational management is in New York.

1196. Thank you. You have submitted a memorandum to us. Is there anything else you want to say as an introduction, before we ask questions?

(Mr Kennedy) I might, if I may, Mr Fry, comment on one point that was raised in the evidence by P&O, and that is regarding the Jones Act. I think there was a suggestion that possibly some bilateral agreement with the US would be helpful. I find it difficult to believe that that would come about, since Hawaii is a relatively attractive cruise destination year round, whereas the UK as a cruise area is probably only attractive during the summer.

1197. Arising out of that, perhaps you will recall the question I was asking about why the Norwegian-owned vessels were so thick on the ground—or thick on the sea, in this case—in the Caribbean, compared with our own. It seemed to me that the answer given about the future of cruising—that very much would depend in the future, in deciding what flag one was registered under, on the profitability—did make it even more surprising that the Norwegian are present there. You too are in the Caribbean. Is your attitude not the same roughly as that of P&O?

(Mr Kennedy) I think so, with certain differences. They undoubtedly got in there historically. They have remained there because I suspect that within quite a lot of cruising there is a degree of brand loyalty and sometimes even ship loyalty. Perhaps I could quote an example. When we took the QE2 out of service to be re-engined, we assumed that some passengers who, on a fairly regular basis, made a world cruise in the early part of each year, would perhaps switch to either the SAGAFJORD or VISTAFJORD which we also own. Whilst there was small evidence of some people shifting, it was equally clear that a lot of people had brand loyalty to that particular ship, and it works the other way around. It is rather like going to a bank: once you are in, you are in.

1198. You have eight cargo vessels, I think, under the UK flag?

(Mr Kennedy) That is correct.

1199. They operate where mainly?

(Mr Kennedy) We are shareholders in Atlantic Container Line where we hold a 22.2 per cent shareholding, and also shareholders in ACT(A) which is Associated Container Transportation (Australia), where we hold a 42.5 per cent shareholding. In addition to that, we have three product tankers which effectively trade round the world on a spot market.

1200. How would you describe the state of those markets at the moment?

(Mr Kennedy) The Australian ACT(A) is suffering, as the P&O representative said, from the activities of Hyundai and rate cutting. There are a number of rate cutters who operate in that trade to greater or lesser degree, some who are not in the Conference, who tend to preserve a parity of rate below the Conference, others who come in and create mayhem for a period. I would certainly not put Hyundai in that category. One has to bear in mind that on the whole that is not just the straightforward Australia, New Zealand, Europe trade for us, but we also serve Australia and the east and west coasts of the United States. On the whole, that trade is profitable—not as profitable as we would like, but that profitability or lower profitability is more to do with the volumes of exports. This year I think the New Zealand Meat Board are forecasting a fairly substantial reduction in the amount of meat that they will be shipping. It is volume that affects a container operator.

1201. You probably heard—I am sure you did—some of the suggestions that have been made by previous witnesses as to what could be done to improve the situation. Have you any other ideas than those that we have heard already this afternoon?

(Mr Kennedy) No. I think the suggestion of the 50 per cent depreciation is sensible. One has got to look for something which is not just going to prolong inefficient operators, whether they are UK ones or whether they are anybody else. Therefore, on the whole, I do not favour subsidies. Clearly, a crucial element is the wage costs of running any ship. If I may, I would like to make a few comments on that. It is not just a question of reducing a person's wage to an internationally competitive level; you have also got to persuade them to work in a different pattern. For instance, if one took the QE2, we entered into a considerable period of negotiation with the National Union of Seamen, which was aimed at trying to bring our wage costs for the hotel department of the ship—which amounts to nearly 700 people—in line with that which is available or is achieved by our international competitors, the Norwegians and so on. One of the problems there is that it is not just the absolute level of wage, it is also all of the other ancillary costs that go into your total cost of running that ship. For instance, there is the cost of flying crew home, which I think was referred to by the P&O representative. In the

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[*Mr Fry Contd.*]

case of the QE2, a lot of the people only wanted to work either for every two months on/one month off or three months on/one month off. Whether you go for either of those, it is totally different to what a European wants to work; he does not want to go for those short periods with a break, he wants to work for six months. In fact, if you try to offer, say, a German hotel worker the chance to have a two and one cycle or a three and one cycle, he will not take it; he wants to go away to sea for six months to earn money, then finish his contract with that company and then go back to Germany. That represents a substantial amount of money. We estimated that our savings, by going to a concessionaire crew, would amount to something like £½ million just in flying costs alone. That is clearly a major impact on our ability to operate that ship, quite apart from the levels of wages you are actually paying on board.

1202. I may be being a bit dense, but surely if somebody is prepared to work six months and then be off, you only have to fly them back once every six months?

(Mr Kennedy) That is correct.

1203. Whereas if they want to be off once every three months, then you have got to fly them back twice in six months?

(Mr Kennedy) Yes, therefore you save money if you only fly them back every six months.

1204. But that is using European crew?

(Mr Kennedy) Yes.

1205. So they are cheaper, you say?

(Mr Kennedy) In effect, they become cheaper, because you do not have the constant flying costs.

1206. Then why should the Government support repatriation, if it is cheaper to employ Western European staff than, say, Filipino staff?

(Mr Kennedy) I think for the cruise industry, which is a specialist area, I do not think repatriation and Government support in that is so significant.

1207. It is not?

(Mr Kennedy) I do not believe so.

1208. You have mentioned a spectrum of saving money, and cargo vessels are under British flag at the moment. Do you think you can make considerable savings by flagging out those cargo vessels or continue to expect to operate them under the UK flag?

(Mr Kennedy) Theoretically one could make savings we have indicated in our submission to this Committee. The difficulty of it, of course, is that you have to live in the environment in which you find yourself and one of the problems which has not been offered in the brief evidence that I have heard is that for people who do not normally call at the UK flagging out is a slightly different option from those who do regularly call at the UK, for obvious reasons. The National Union of Seamen have a much greater power if their ship is dependent on coming into and out of a UK port on a regular basis.

1209. When we raised the question of the National Union of Seamen and their attitude with the Department of Transport they took the view that the National Union of Seamen has acted very responsibly and realistically to pay and conditions in recent years. Do you not agree with the Department of Transport? In your evidence you did say that the cruise trade has the potential to be very beneficial to British trade, "providing the realities of the marketplace are recognised by the National Union of Seamen".

(Mr Kennedy) Yes, that was written some time ago. It took us nearly four months to reach agreement with the National Union of Seamen regarding the manning of the QE2, which is one of the few cruise ships that regularly calls at a UK port. At the end I was asked by the General Secretary whether I felt we had gained a victory and I said, "No. All I have done is to position that particular ship on the same terms as competitors in an international market".

Mr Dicks

1210. Why do you think it is that the unions are willing to make deals which to some extent people could say are bad for their members in flagging out for areas like the Isle of Man and Bermuda, but not prepared to act as realistically with people like yourselves sailing under a British flag?

(Mr Kennedy) I think there was a particular case, in that the QE2 is a rather emotive subject, if I could put it in those terms. Before we tried to do anything some said it will be like Custer's last stand for the National Union of Seamen.

1211. I still cannot understand why the National Union of Seamen are so keen to do a deal for their members on all sorts of aspects of employment which they are not prepared to do here; whether they do not want to lose face in the trade union world but are prepared to in the Isle of Man and Bermuda, looking at it, why do you think they are prepared to do deals there and not here?

(Mr Kennedy) I suspect that is because they are prisoners of history.

Mr Bevan

1212. Gross tonnage of UK ships has gone down from about 30 million to about 8.6 million this year, nearly a 25 per cent reduction. You are only running eight cargo ships?

(Mr Kennedy) Yes, and seven cruise ships.

1213. That is a very small quantity compared with probably what you had in previous days, is it not?

(Mr Kennedy) Yes, undoubtedly.

1214. You present here a fascinating table of costs between crews which has been referred to when you put $0.90 million as being the cost of a UK crew under a British flag for a 25,000 dwt products tanker, compared with $0.39 million under a Hong Kong crew of the same. How long will you be able to resist this? Do you say, "Let competition go to the wall" if it is bad? How long can you be super-efficient and pay twice the cost?

(Mr Gratton) That is one of the problems we have at the moment. You are looking at this particular instance of a product carrier. We have approached the union to ask if we should revert to the manning that we have for

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[*Mr Bevan Contd.*]

the life of the ship, this particular ship we have instanced here—15 years old; for 12-13 of those years we had, with the union's agreement, an Indian crew and went to the Falklands and put on a British crew. We cannot revert to an Indian crew; the time for that ship is very limited.

(Mr Kennedy) If the ship was not fairly heavily depreciated we would be taking action now.

1215. It is fair to say, is it not, you feel that you might not be able to continue the flagging in arrangements you have much longer?

(Mr Kennedy) With regard to the product tankers, yes. They are trading in a spot market and, therefore, they have to compete with international rates. Those are not quite the same conditions on the container vessels in either the Atlantic Container Line or ACT(A).

1216. Where are your cargo boats plying?

(Mr Kennedy) The container ships run between Northern Europe and the East Coast of the United States as far down as the Gulf. ACT(A) run between Northern Europe and the Antipodes and the East and West coast of the 'States.

Mr Fry

1217. In your evidence you mentioned the fact that high port costs in this country encourage ships to increasingly serve continental ports and leave UK cargo to be handled by feeder services, ferries etc. Does this growth of transhipment pose any great threat to the survival of UK shipping?

(Mr Gratton) It could do. For instance, we have had a 14 per cent increase, as you have heard, in light dues. We feel that is not necessary, but here is just another instance of the increased costs that we have to bear. There are other costs. You heard from P&O of the awful costs at Tilbury for handling containers. If increases go on in the UK, as it appears they are going to do, then it could do.

1218. What do you think about the GCBS proposal for 50 per cent first year depreciation allowances?

(Mr Gratton) I would agree on that and the proposal for some sort of tax free reserve over the monies obtained from selling ships, provided it is re-invested. If it is thought through clearly, all we are asking is, if we sell a ship, could we have some monies that would go by way of a balancing charge, holding them for a short while in order to re-invest. You could possibly say, "Why don't you re-invest immediately?", but with ships it is cyclical and it is not always wise to buy when you have sold; it may be two, three or four years. If it is that period of time we should be allowed to hold this money in order to re-invest again; that would encourage British owners to do some re-investment. Maybe it is not the right thing to do, to build ships at a particular time.

1219. Do you think that would be more effective than a depreciation allowance?

(Mr Gratton) I am thinking of both together; 50 per cent and also this other benefit as well. In the GCBS submission the two are coupled together.

1220. Can we turn to cabotage? In your memorandum you say that in considering acquisitions and establishing new services, Cunard has been influenced negatively by cabotage restrictions applied in European countries. Would you like to tell us a little more about this, and would you like to comment on the suggestion that has been made to us by other witnesses that this country should hold in reserve, or be prepared to us, a restriction on cabotage here, unless all our European neighbours give us the same kind of free access that they can enjoy now?

(Mr Gratton) As we have said, we are not directly affected by these restrictions, but we have found that when we did own some smaller vessels 10 years or so ago we were then affected, and we felt that really there should be some protection for British owners. It is rather difficult, indeed, to see why European governments are allowed to protect their own vessels, and we are not allowed to protect ours. However, we do understand the problem. At the moment, though, as we have said, we are not directly affected through these restrictions.

(Mr Kennedy) I would have thought that from Cunard's point of view the most significant aspect of protection at the moment is our inability to compete in Hawaii.

1221. Yes, we did know about that. Can we turn to manning and training? Can you tell us what you *are* doing now, in relation to training officers and ratings?

(Mr Gratton) Yes. I think we are about the only people who *are* training.

1222. Three cheers for you!

(Mr Gratton) You ask what we are doing. Some while ago we were training a fair number of cadets. You know what a cadet is. I think we had for the Cunard Passenger and Cargo Division some 100 cadets in training, and it was roughly 60/40 (60 engineer/40 deck); it may have been 50/50, but it does not matter. Then we realised some while ago that this could not go on, because the deck and engine cadets were costing us somewhere in the region of £4,000 or £5,000 per annum per cadet, and that was coming to £½ million. So we looked at another scheme, and we started a scheme about three or four years ago where we took in trainees. These trainees are young men whom we would have taken as cadets, but they were not given the same facilities or salaries or wages as a cadet. We are training these now by bringing them for the first 12 or 18 months either through as a deck rating or as an engine rating. They are given periods of study at home, but not quite that which we would give to a cadet. We have had some encouraging results. We have had some failures, of course, but some encouraging results. We have found that certainly on the deck side some of the young men who have come through are already serving as second officers, having obtained their Class IV certificate. On the engine side again we have had quite surprising results. Our problem is that it is costing us a lot. As we only have eight cargo ships, we do feel that the number that we have at the moment, which is about 20, is a few too many for the number we require. It is obvious that we are training for other people. We do not wish to stop it, but I am afraid that we will have to cut down the numbers in the next few years, if we cannot find more ships.

1223. Are you finding—as has been said to us by other witnesses—that though there seem to be sufficient

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[*Mr Fry Contd.*]

British-trained masters and first officers, there is now an opening for junior deck officers particularly; that so few are being trained that the vacancies are starting to appear?

(Mr Gratton) Yes, very much so. We are afraid that if it goes on, there is going to be a problem in the very near future.

1224. Therefore, would you agree with those who have given evidence to us, who have said that there needs to be a much more co-ordinated national effort in relation to training, actually to encourage young men to enter into this career, because the numbers are tailing off amongst those who want to apply?

(Mr Gratton) I would agree. As you are aware, I think, there is a GCBS scheme that we thoroughly endorse.

1225. Because you have taken this interest, you continue to train and you accept that there *is* a very considerable cost, what would your view be, as a shipping company, if there were some kind of scheme for training, but the shipping companies were asked to contribute so much towards it?

(Mr Gratton) If we were left to our own devices we would obviously tail off. We cannot afford it, because we find that we are training and others are not, and it is obvious that in a few years' time our young officers will be "poached". That was said by a number of people. However, we do feel that the Government can here help us with their training schemes—we think that this is one which is fair, which is reasonable—together with us. We will certainly carry these young men, we will expect something of them, but if we can get some monetary assistance, then I do not see why we should not.

1226. What is interesting me about the scheme put forward is that it is not all that dissimilar from some of the training schemes that are taking place in industry in this country over a much shorter period. In shipping one needs to have a longer period, because of the necessary time that is needed to gain experience. So we are not basically talking about any great change in principle, we are talking mainly about a change in emphasis perhaps for a longer period of training. Do you think that the young men will come forward—perhaps even young women as well—for that kind of training, in sufficient numbers?

(Mr Gratton) We have had young women as well. Unfortunately, they do not last long.

Mr Bevan

1227. The young women as opposed to the young men?

(Mr Gratton) The young women as opposed to the young men, yes, because there are certain attractions on board ship! We have had half-a-dozen (I would not put it any higher) young ladies who have come. We put them through an apprenticeship or a cadet course, and they have done reasonably well, but, as I say, they have not lasted. We do feel that we will not get the numbers that we had previously. We did have, for every post, 10 or 20 applications. I do not think we will get that sort of number. However, we are getting young fellows at the moment for this trainee scheme of ours, with four, five or six 'O' levels. That is good. We are not going for the high-flyer with a couple of Honours Degrees or anything of that sort; we do not want them, they will not last very long. If we get young men who have got that sort of qualification—four or five 'O' levels—we are quite happy, they will come through, they will stay with us. We do find that if we breed our own trainees or cadets, we have a certain loyalty from them that you do not get elsewhere, and they stay with us.

Mr Fry

1228. I take it from what you said about training that you think that the present proposals of the Secretary of State do not go far enough?

(Mr Gratton) I think that we are going to find a shortage soon, as is recognised in the industry. Because of that, they do not go far enough to attract the numbers.

(Mr Kennedy) I believe that whether you attract somebody into an industry depends on the fortunes of the industry. Clearly, if it is not looking that profitable and it is shrinking, it is that much harder to persuade anybody to join, unless they have got a real vocation for the sea.

1229. Your memorandum identifies a conflict between shippers and ship owners. Is this peculiar to UK shippers and ship owners?

(Mr Kennedy) No, I suspect it is germane to a lot of people around the world, but it is quite a significant problem. I think that Mr Bott referred to that in P&O: people driving down rates, you get one maverick person who is prepared to come in, then there is competition on rates and ultimately that does not actually benefit anybody, because you can always gain a short-term advantage. If you look at the ACT(A) trade, there have been, certainly in the last two years, a number of companies who basically have gone bankrupt by offering very low rates.

Mr Bevan

1230. But you have benefited, have you not, in Cunard, from part of this conflict, in that on your cruising side am I not right in thinking that you charter two Norwegian ships, so that they, in that respect, are the ship owners and you are the shippers? There must therefore be some advantage in such an arrangement. Could I ask you have the financial advantage of that kind of operation is compared, for instance, against the QE2, or the CUNARD COUNTESS, or even the SAGAFJORD or VISTAFJORD which one assumes has got some Norwegian connotation?

(Mr Kennedy) Perhaps I could, by way of explanation before I try to answer your question, make a short introductory statement. First of all, Cunard believes its place in the passenger shipping market is at the top end of the market. We have no interest in competing in the middle market. We see the incursion of a number of operators, and this Committee has heard reference to the advent of the Russians. The characteristic of most markets which are to a certain extent volume-rate, in the way you can compete, is to become the lowest cost operator. Our policy is not to get into that market. It so happens that we have two ships that are in that market, where the CUNARD COUNTESS and CUNARD PRINCESS have quite a following and so far we have been able to operate them profitably. The other ships,

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[*Mr Bevan Contd.*]

the QE2, SAGAFJORD and VISTAFJORD, are in the 5-star end of the market. The advantage of that market is that you can add value and, therefore, you can charge a premium price: provided the purchaser believes he is getting added value, he is prepared to pay that price. Our accent is on adding value to a basic product. The two ships that you referred to, which are SEA GODDESS I and SEA GODDESS II, did result from somebody effectively running into financial problems, and they ran into those problems, I believe, partly because they had an inadequate international marketing operation, bearing in mind they were appealing to the top end of the market. Secondly, there were factors which last year related to the impact of terrorism in the Mediterranean, the Chernobyl nuclear reactor incident and the attack on Libya which severely depleted the numbers of passengers who would travel to the Mediterranean—one is talking in this context of a very large percentage of Americans—and that caused the company as it then was a number of problems; and we were able to go in and effectively—against the guarantee of our long term charters for those vessels—refinance. They are attractive to us because they are small ships offering a 5-star service, and they are in effect a niche within the 5-star market. We believe that since they can offer a different itinery, in that they are smaller, they are like private yachts without the bother or expense of owning one, they will survive and do well in that market. That has been borne out by our experience over the last 9-10 months. There is a slight difference there in terms of capital cost and operating cost. They are Norwegian flag ships and employ Norwegian crew and are relatively expensive to run in absolute terms. In terms of product quality they bring, they provide a great deal of satisfaction and a lot of repeat bookings from satisfied clients.

Mr Fry

1231. Thank you. I think that has brought our questioning to a close. Finally, is there anything else you would like us to consider to recommend that the Government might do to assist Cunard and assist the shipping industry generally?

(Mr Kennedy) There are a number of things that obviously come to mind regarding shipbuilding. That is really a different subject regarding the shipbuilding industry, rather than the pure business of transporting people or passengers around.

Mr Bidwell

1232. And ship repair?

(Mr Kennedy) Yes, we would like to have had more sympathetic treatment with regard to the lengthening of the ATLANTIC CONVEYOR, which we had chosen to put into a Scottish yard with no Government assistance; whereas our other partners, ACL, are putting their ships into a Korean yard. We happen to own the yard.

1233. And put the QE2 into Germany for repair?

(Mr Kennedy) Yes. You raised a number of questions earlier in your examination of other witnesses about the way one would build or repair. We have at the moment four vessels within the ACT(A) organisation which have been re-engined in Japan. We have one ship with ACL which is being lengthened and is being done in a Scottish yard, and we have the QE2 being re-engined in Germany. The reasons were different in each case. In the case of the QE2 it was a fact that no British yard wished to tender for that work within the timescale and penalties we require, which is sad.

Mr Fry

1234. Do you as a shipping line agree with the pessimists who say whatever we do in this country in relation to the conditions of flagging out or assistance with shipbuilding there will always be somebody else in another country that will do more or undercut us more? Or are you more optimistic than that, that some of the changes that have been recommended will be sufficient to at least stop the continued decline in the number of British ships?

(Mr Kennedy) I believe in the cruise business we have the wit and skill to be able to drive that business ahead, because it requires a lot of other characteristics than pure cost. For the cargo businesses I am less certain. It is difficult to see, if you examine the business, what particular competitive edge any container business has that is truly significant other than price. If a ship is built on cheap finance in a Far Eastern yard and there is a debt moratorium for four or five years it has an enormous advantage in establishing itself in that trade. I think there are ways that British shipping will survive on the cargo side, but it is going to involve economies of scale, and that suggests to me that there will have to be a further degree of rationalisation, as has occurred in other countries.

Mr Fry: May I thank you very much for answering our questions. We are most grateful to you.

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HOUSE OF COMMONS

TRANSPORT COMMITTEE

Session 1986–87

DECLINE IN THE UK REGISTERED MERCHANT FLEET

MINUTES OF EVIDENCE

Wednesday 28 April 1987

Lloyd's Register of Shipping

Mr H R MacLeod and Mr J G Beaumont

British Ports Association

Sir Frederic Bolton, Mr N Finney and Mr J Sharples

Ordered by The House of Commons *to be printed*
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TUESDAY, 28 APRIL, 1987

Members present:

Mr Gordon A T Bagier, in the Chair

Mr David Gilroy Bevan
Mr Sydney Bidwell
Mr Terry Dicks
Mr Den Dover
Mr Peter Fry
Mr Roger King
Mr David Marshall
Mr Neville Trotter

Memorandum submitted by Mr H R MacLeod, Chairman of Lloyd's Register of Shipping.

Based on a paper delivered to the West of England P & I Club Conference at Luxembourg, September 24, 1986.

INTRODUCTION

There are many challenges facing classification societies today. Although our work stands or falls by the competence of each of our individual surveyors and the technical support that we give them, it is helpful I believe to take a wider view from time to time in terms of concepts and policies rather than in terms of the properties of materials and structural analysis.

I only speak for LR, although I believe that the major propositions I shall make to you would be supported by any of the other leading international classification societies.

My remarks about classification societies will be solely in relation to their activities and responsibilities in the marine field. LR has developed and continues to develop a wider range of subsidiary interests, based on the Society's ability to provide consistent engineering services all round the world, but LR's responsibility in the marine field is the prime reason for its existence and two thirds of its work is still in this field.

I JUDGEMENT OF SAFETY LEVELS

LR's constitution charges us to "secure high technical standards of design, manufacture, construction, maintenance, operation and performance, for the purpose of enhancing the safety of life and property both at sea and on land". But what constitutes a high technical standard? We are not talking about absolute safety which, even if achievable, cannot be justified economically. We can only judge what we believe to be acceptable, taking into account past experience, present technical knowledge, future expectation—and cost.

Ships can be built in different ways and an acceptable level of safety can be achieved by using different techniques. So the formulation of classification Rules cannot always be precise or uniform because there are many areas of judgement. The larger the area of judgement, the less often the Rules have to be changed to take account of new materials and techniques but, on the other hand, the more important becomes the judgement of the surveyor applying the Rules. A balance has to be struck between flexibility and certainty.

How do we set our classification Rules? In various ways: by calculation using increasingly powerful computer techniques, by analysis of past experience, by research and by continuous re-examination of the written Rules with the assistance of our customers all round the world who are represented on our Technical and National Committees. But it is important to recognise that however detailed the Rules (and LR's are very detailed) we are not dealing in absolutes—neither absolute safety, nor rules defined with absolute clarity to be applied without discretion in all circumstances. It would be a lot easier if we were.

II APPLICATION OF RULES

Although the adoption of sound Rules is the essential first step towards safety, the application of them in practice presents a far greater challenge. A classification society could choose to do no calculation, research or analysis whatever and merely adopt the Rules formulated by another established society, knowing that the international societies are continually re-examining their rules. They do this as a result of developing knowledge and experience and they also compare notes in the process of making combined proposals to IMO, and while seeking areas of desirable standardisation.

Applying the Rules in practice is another matter: this cannot be done properly without an understanding of the underlying principles which enable the experienced engineer to use his judgement. This judgement is often put under very heavy pressure because of time or cost, and none of you will need to have this underlined at the present time.

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However sound its Rules, a classification service stands or falls by the experience, skill and integrity of those who apply those Rules. The importance of this justifies heavy emphasis. Striking the balance between costs and service and holding it often requires a strong nerve as well as technical competence!

How do we meet this challenge? By choosing the right people to become surveyors, by ensuring they have the necessary skills and technical information, by giving them proper support wherever they are in the world and—above all—by making sure that they are able to carry out this responsibility because they are proud of the position they hold. Only in this way is it possible to achieve consistency on a worldwide basis. All these factors point to the need to employ exclusive surveyors.

III NEED FOR CONTINUED EXPLANATION

I do not need to stress that classification does not include responsibility for the way that ships are operated or maintained. It seems to me that there is a need for continual reiteration—at government level, in all parts of the insurance business, to the shipping industry and to the general public—of the responsibility that classification societies carry, and the balance they must strike between cost factors and safety factors.

At the present time, public expectations of safety are rising. This is natural given the impact of television and newspaper coverage of accidents, the increased political sensitivity and the increasingly serious consequences for today's larger and more expensive ships. Apart from the risk to human life and the environment, cargoes today are more valuable and, in many cases, more hazardous than those carried in the past. At the same time the willingness or ability of the shipping industry to pay the price of safety has reduced sharply because of the acute economic pressures all owners and builders have been under for some time.

This places the leading classification societies in an unenviable position, knowing that whatever judgements they make are likely to be criticised from one quarter or another. On the one hand it is unthinkable that safety standards should rise and fall with the freight markets (although some well-meaning suggestions for controlling the amount of tonnage in the world come pretty close to this proposition). On the other hand the public demand for safety, as a reaction to an accident, might only be met by setting safety standards at a level which would be economically out of the question.

We have no right to complain about this and I am not doing so. The nature of the judgement that has to be made is demonstrated more clearly in today's extreme conditions than it would have been in easier times—and the challenge is correspondingly greater! Classification societies can only meet this challenge by ensuring that all concerned see the need for such a judgement and recognise that the society is competent to make it, operates effectively and economically in so doing, and is completely impartial.

Meeting this challenge in current circumstances requires a much higher profile than international classification societies have been accustomed to adopt. This has its risks but I believe that a bolder policy is justified. Apart from the economic pressures which hopefully will ease, the shipping industry is changing rapidly: there are new owners, new methods of fleet operation, new attitudes towards shipowning and shipbuilding and new financial structures. There are also new government organisations in the field. So I see an increasing need for us to explain ourselves, because we cannot assume that the same knowledge, objectives, or the same long term commitment will pass unchanged from one generation to another.

It should also be kept in mind that the international classification societies set and apply rules which they believe to be appropriate for all shipowners in the world—not just those who happen to share a similar style, industry, language, political orientation or commercial philosophy.

IV FINANCIAL

It is not only the costs of maintaining proper standards in the shipping industry with which we are concerned, but also the costs of providing an expert and consistent classification service. When LR's new constitution was finally agreed in 1834 we were given the direction I have already quoted and we were told that we had to be self-financing. This is still our position—I cannot, of course, speak for other societies. Being financially independent and without shareholders makes it easier to do our job in some ways, because our aims are not complicated by direct commercial or political pressures or the need to take a profit. The converse is that, at the moment, the cost of the organisation needed to set and apply safety standards on a proper basis world wide exceeds the available income because of the very sharp drop in shipbuilding. Hopefully this will be corrected when there is a general recovery in the rate of shipbuilding orders.

This poses a particular challenge for classification societies. Our prime obligation is to maintain standards at a time when public expectations of safety are, if anything, increasing and when the legal consequences of putting a foot wrong are *certainly* increasing. At the same time the willingness or ability of our customers to pay the relatively small cost of classification is diminishing.

We have very little choice about the way in which we meet this challenge.

First, we must be quite clear about the standards we set and resolute in our determination to maintain them.

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Second, we must make sure that our operations are as efficient and as cost-effective as we can make them.

Third, we must try and persuade our customers to accept our estimation of the proper level of standards and the minimum cost of providing the service necessary to support them. If we fail to do this we should not be surprised if they go elsewhere.

Fourth, we must not allow a price war to develop. However tempting it is to buy business in hard times, a price war inevitably forces standards down, and it is difficult to raise them again. Our competition must be in terms of quality and service.

It might be argued that an organisation setting standards should not be exposed to financial pressures because such pressures could affect its ability to do the job properly. Against this, a competitive stimulus is healthy—provided it does not go too far. In more practical terms, I wonder who would finance the various societies, at what level and on what basis? LR is international—less than 10 per cent of its marine income comes from the UK–so I cannot imagine the UK readily financing our worldwide marine operations, nor would I think this was at all desirable.

When we consider the cost of doing our job properly we must not overlook the high cost of research and development. Without R&D the major societies would not be able to make a proper judgement between cost and safety—nor would they be able to provide the considerable technical assistance that they now give to shipowners and shipbuilders all round the world.

V LEGAL

Classification societies, like other professional bodies, view the danger of legal liabilities escalating out of all proportion with apprehension. As I have already emphasised, a judgement of safety levels is a subjective judgement which can often be disputed: courts seem often tempted to examine such judgements against a standard of absolute safety and with the benefit of hindsight. If this temptation is not resisted professional bodies are put into an impossible position. *Either* they continue to make honest judgements against the prospect of a level of damages which it is impossible to meet and which may become uninsurable, *or* judgements are made on the most conservative possible basis (which will increase the economic burden on the shipping industry), *or* judgements are hedged to a point where they become valueless.

It is difficult to make this point with any force without appearing to be asking for immunity from responsibility for error or incompetence. Nevertheless, the international classification societies face a real threat and it would be wrong not to recognise it.

We can only meet this challenge by taking every possible step to make our service as good as we can and by trying to make sure that our performance is not judged against a standard of absolute safety applied by infallible people in ideal circumstances. The *real* world is not like that.

VI CONFIDENCE

Underlying much of what I have said implies confidence that classification societies perform an effective and commercially essential role in the maintenance of world maritime safety. I believe that if all the international societies were abolished tomorrow it would be necessary to create very rapidly some similar organisation—an organisation which could draw in the same way on the general marine knowledge and experience of the last hundred years, with the technical capacity to analyse and extrapolate it, and the skill necessary to apply it consistently anywhere in the world. But perhaps it would be surprising if I did not hold this view—what matters is who else holds it.

Classification societies must not assume that what they do and why they exist is general knowledge. I have referred earlier to the pace of changes in the shipping industry: what was taken for granted even twenty five years ago is looked at quite differently today.

International classification societies should be ready to take a higher public profile to ensure that it is generally appreciated what is involved in judging an acceptable level of marine safety. If we do not do this we must not be surprised if on occasion there seems to be a lack of confidence that competent organisations are exercising this judgement. Any organisation which has responsibility for safety is very vulnerable to criticism from all quarters when a casualty occurs: this criticism may be wildly irresponsible, emotional, ill-informed or even malicious—and yet, if lives have been lost or there has been much damage to property, any rebuttal can appear to be an evasion of responsibility, or a callous acceptance of risks to life or property in order to save money. We have to live with the fact that allegations of incompetence are newsworthy, while explanations of individual technical judgements are not.

Besides taking a higher public profile to maintain public confidence, I believe we have to work also to ensure that the organisations which share the responsibility for world marine safety—principally governments, underwriters, P & I Clubs and classification societies—understand and trust each other; this also cannot be taken for granted. This is not a disguised attempt to avoid criticism: we take all criticism seriously and we welcome it provided it is specific and constructive. General criticisms are easy to make and can be worse than useless if they reduce confidence in the system without those criticised being able to rebut any specific allegations or put right anything that is wrong.

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We have to make sure that confidence is maintained by investigating constructive criticism, and taking action when necessary. LR has advocated for some time that Clubs (and underwriters) should take the right to examine the classification records of ships on entry or on change of class. This possibility is being developed in the regular contacts which exist between insurance interests and IACS. The good owner and the competent classification society have nothing to fear from this right being exercised and it would reassure those who fear the erosion of safety standards, or expose failings which could then be remedied.

VII MAINTENANCE OF PURPOSE

Classification societies must keep their objectives absolutely clear throughout their own organisations and externally. They also need to ensure that momentum is maintained, especially in difficult times. Because there is no yardstick with which to measure success, this is not always easy: we cannot measure success in financial terms and the statistics of casualties are at best a very crude indication of whether classification societies as a whole, or individual societies, are doing their job properly or not.

We must find the proper middle position between the high public expectations of safety and the natural desire of owners and builders to operate as economically as possible. There is no-one who will tell us if we have this balance right, although there are plenty of people who will tell us if they think we have it wrong. We depend on the integrity of our staff, their skill and their pride in their responsibility to maintain the motivation and the quality of what we do.

Although this is the most difficult challenge to define it is perhaps the biggest one. We attach great importance to the selection and training of our staff. Staff constantly circulate between offices: they also attend training and re-training courses. On top of this there is regular monitoring and auditing of the quality of work.

VIII CONCLUSION

The natural reaction to any casualty involving life, property or pollution is that it should not have happened, and that someone must be held responsible. This is not deflected by taking into consideration that acceptable levels of safety—not absolute safety levels—prevail. It is not a wrong reaction.

However, criticism of the existing safety structure sometimes leads to the proposition that rather than a number of complementary (and sometimes competing) organisations, such as classification societies, Clubs, underwriters and even governments, there should be a single world authority which, it is implied, would be just as effective and much less fallible. I do not see this as a realistic proposition.

It is a formidable task to apply proper and consistent standards in the technical areas covered by the international classification societies. These are changing constantly and call for continuous research and technical development to keep ahead. Even if all classification societies could be amalgamated and centrally administered, that would still leave the co-ordination of underwriters, Clubs and all maritime governments. Even if *that* could be done, all customers would have to be persuaded that it was in their interest to accept a single world monolith without choice or competition.

IMO, of course, does a considerable task in leading international opinion and co-ordinating the views of those governments which take an active interest in marine safety, subscribe to conventions and implement them. But IMO necessarily deals in the formulation of general principles rather than detailed applications and the range of its responsibilities makes it impossible for it to react to the details of technical change at the speed that the world's shipyards require.

The present structure for maintaining marine standards of safety may seem to lack cohesion but it has developed to meet all the important demands—political, technical, economic and social (to some extent) and it has the required degree of flexibility. But because it is not monolithic it is vulnerable, especially at a time of rapid technical development combined with strong economic pressure.

All those with responsibilities in this area must continue to seek more effective ways of working together to maintain proper standards of safety. There is a great danger of assuming that this will happen without a conscious effort—merely be responding alternately to demands for greater safety at sea following a casualty and to demands for greater economy under acute economic pressures, without recognising the conflict between these desirable principles.

I have sought to list the main challenges that we face. If I have emphasised that making judgements about levels of marine safety is not a simple matter; that applying consistent standards of marine safety throughout the world is a very sophisticated business; that the rough economic weather through which the world's shipping industry is now sailing can threaten the maintenance of proper standards—as can the application of the law of tort in an unreasonable manner; this is not to invite your sympathy, or to suggest that classification societies are complaining about the challenges that face them, or that they seek to avoid them. Far from it.

The conclusion I invite you to draw from my remarks is that there are many bodies which are concerned with world marine safety from different points of view and that in current circumstances we shall only keep standards at a proper level if we work more and more closely together.

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Examination of Witnesses

MR H R MACLEOD, Chairman and MR J G BEAUMONT, Chief Ship Surveyor, Lloyd's Register of Shipping, called in and examined.

Chairman

1235. Good afternoon, gentlemen. Could I declare this hearing open and ask you to introduce yourselves and give the purposes for which you are appearing in front of this Committee?

(Mr MacLeod) My name is Roderick MacLeod and I am the chairman of Lloyd's Register of Shipping. I have come here with my colleague to answer any questions that the Committee may like to ask about classification.

(Mr Beaumont) My name is Gary Beaumont and I am the Chief Ship Surveyor for Lloyd's Register of Shipping and here to assist Mr Macleod.

1236. Could you give us a brief description of what Lloyd's Register is, explaining the types of work it does and the sorts of people you employ, their numbers and their geographical deployment?

(Mr MacLeod) With my paper I sent a sheet which describes the function of Lloyd's Register and the area that it covers. It is the world's first classification society; it classes about 25 per cent of the world's fleet. It has 250 offices, more or less, round the world, manned by staff solely employed by Lloyd's Register whose prime function is to apply consistent standards of ship classification and survey for the purpose of classification to the owners with whom we have a classification agreement. The same network covers offshore work and general industrial inspection and a number of other things as well. The prime purpose for which the society was founded, however, is ship classification and when one combines the classification work with the statutory work this amounts to about two-thirds of the society's turnover.

1237. How many other classification societies are there that you know of?

(Mr MacLeod) There are 11 classification societies within a grouping called IACS, the International Association of Classification Societies. Of those, four or five are in the proper meaning of the word international societies, in the sense that they give a world coverage. Outside IACS there are some 40 aspiring classification societies, usually on a national basis, who have no ability to provide a comprehensive world service, nevertheless they discharge some function, usually within the country of their own nationality.

1238. Would you say it was the insurance companies who originally created Lloyd's Register?

(Mr MacLeod) Certainly. The origin of Lloyd's Register in 1760 was in the need of the insurance market to have a record of ships and some indication of where they were built, how old they were, the style of their construction and in short whether they were good risks or not in very crude terms. That is still a necessary function of the classification societies, although not the sole function. to enable the underwriters to have confidence in the risks they are underwriting.

1239. Competition is not necessarily a bad thing in most fields but in this particular field there seems to be a high competitive element between classification societies to take ship owners under their umbrella. Does this not lead to ship owners shopping round to find not necessarily the best classification society but one that could perhaps come up with lower rates or even lax instructions as far as safety etcetera is concerned?

(Mr MacLeod) Yes, that certainly can happen and in some circumstances does. That is particularly the case when one is considering not the established classification societies who have a reputation to consider but aspiring or developing classification societies who are anxious to buy their way into the market.

1240. How do you feel this ought to be dealt with? Is there room for this growth of aspiring classification societies?

(Mr MacLeod) It is a difficult thing to judge and I am probably too much interested in it to be accepted in all quarters as a reliable judge. It would be impossible to say that a country should not develop its own classification capability and I certainly would not seek to do that. On the other hand there is a great danger not only in the competitive commercial sense that you have referred to but in the variation in competence between classification societies at different stages of development not being recognised. To speak from our own experience, Lloyd's Register has been in this business for over 200 years, we have an immense statistical base, we have very extensive research and computer facilities and we have experience coming in from all round the world every day on which to make judgments of safety standards. It is impossible for a national classification society to build up to that sort of situation in a short time. The information is just not available.

1241. Probably everybody agrees that Lloyd's Register's reputation goes without saying but I do want to press this particular aspect of classification. One gets into a competitive element on the registration of ships and it may well be that your standards as a surveyor may be a lot higher than some classification societies have been prepared to accept and this competitive element makes the difference between having the business and not having the business. How would you like to comment on that?

(Mr Beaumont) I agree that there is competition between the classification societies and we do not fear that provided it is competition on the basis of efficiency rather than price. Naturally, to be efficient we can go as low as is reasonable with our price but if competition is on price alone then standards must fall and we are determined that we shall not go down that road.

1242. But does not this whole thing hinge round responsible owners taking responsible decisions as far as classification is concerned? If the market is so depressed, and everybody accepts that it is depressed at the moment, how do you deal with unreasonable ship owners who seek to avoid their obligations in this area? After all, you have no powers of detention or anything of that nature have you?

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[*Chairman Contd.*]

(Mr MacLeod) We have to persuade them, if we can, that our judgment of what is the appropriate level of safety is the right judgment. If they are not persuaded and wish to go elsewhere you are perfectly right, we cannot stop them. However, it is not just the ship owners who are involved: it is also the underwriters. As you said correctly, the classification procedure is a tool for the underwriters and if there is a perceived difference between the standard of service or the level of judgment of standards between one society and another I would hope that the insurance companies and the P & I Clubs would make that judgment.

1243. It is perhaps asking too much to have the answer which I am perhaps fishing after or perhaps you can throw it out of the window straight away. Have you perceived in your judgment of the market role, as well as your own, that there has perhaps been a lowering of standards required in order to get the business in a depressed world market?

(Mr MacLeod) Not a lowering of standards required.

1244. Or a lowering of premiums if you like?

(Mr MacLeod) Do you mean in insurance terms?

1245. Insurance as well as classification.

(Mr MacLeod) I cannot talk for the insurance industry but certainly the very hard economic times ship owners are going through—and I can understand these because I was a ship owner for nearly 30 years before I came to Lloyd's Register—compel ship owners to look for the cheapest costs that they can achieve. Undoubtedly the competitive element between classification societies has been exploited in this environment. All we can do, as Lloyd's Register, is to be determined to maintain the standards that we think to be right and to accept the fact that there will be cases where ships are transferred from our classification to another. There is another angle to this which I think is worth bringing out. We are not just a judge of safety standards, we are one of the main repositories of technical information about ships in the world and that is classification societies as a whole. So an owner who classes with us does not do it solely on the basis of our assessment or his confidence in our assessment of safety standards and our ability to apply standards on a world wide basis, he does it because he will expect to get, in the course of the ship's construction and in the course of her life, very substantial assistance in technical respects. That is another factor which must be balanced alongside the judgment of safety standards.

1246. In the context of our inquiry about the flag fleet disappearing, two aspects seem to be coming out: one is on the conditions of service of seamen and their officers and the second is the question of safety standards. Obviously safety standards are very much under your umbrella. Do you feel that there is evidence that ship owners are registering away from British ports because of the high standards of safety under our flag?

(Mr MacLeod) Not away from British ports. There is no connection at all between the classification and the port of registry, absolutely no connection.

1247. But having registered further afield are they not outside the remit of safety standards?

(Mr MacLeod) As far as the statutory safety standards are concerned, yes, but not as far as classification is concerned. We class ships of any nationality provided they are up to our standards and there is no correlation between where a ship is registered, the statutory authority it comes under, and which classification society the owner chooses to be classed with.

Mr Dover

1248. What happens about the classification surveys when there is a change in ownership of a ship, because there are many changes of ownership? Do you do the one before or do you do one on the change of ownership? I understand that your classification surveys cannot be seen by the Department of Transport or the insurers. Could you explain why, if that is the case?

(Mr MacLeod) Let us take the second question first because that is easy to answer briefly.

(Mr Beaumont) In fact it is not correct that the classification reports are not available to the administration of the flag state.

(Mr MacLeod) This is a point made in earlier evidence.

(Mr Beaumont) The classification certificate is largely synonymous with the safety construction certificate issued under the SOLAS 1974 Convention. In that respect the classification certificate is also a statutory certificate although it is seldom referred to as one. There have been recent cases under the British flag where the DTp have requested copies of a report on a British ship and they have been given them.

1249. So the Department can see these surveys?

(Mr MacLeod) Yes.

(Mr Beaumont) They can.

1250. And also the insurers?

(Mr MacLeod) No.

(Mr Beaumont) The insurers provided the owner so agrees but not so with the administration of the flag state where the permission of the owner is not necessary.

1251. And the ownership change?

(Mr MacLeod) The point about denying anyone access without the owner's permission is that we get the information about the ship on this express proviso and I think it is a reasonable one. We have been trying to encourage the insurance companies and P&I Clubs to make access to classification records a condition of entry in the P&I Club or acceptance for insurance. In other words an underwriter or a P&I Club would be entitled to look at records as a right. Some have done that, some have not, but it would be a very beneficial move. As far as transfer of ownership is concerned, there is no reason necessarily why the classification should change; usually it does not.

Mr Trotter

1252. Presumably Lloyd's Register was built up basically at the same time as the steam merchant navy?

(Mr MacLeod) Lloyd's Register originated in 1760.

1253. And as the merchant navy grew to its height Lloyd's grew?

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[*Mr Trotter Contd.*]

(Mr MacLeod) Yes.

1254. There would be a natural national link between the UK classification society and UK owners or was it as simple as that?

(Mr MacLeod) Initially the predominant part of the merchant fleet of the world was British and it was quite natural for those ships to be classed with the only classification society which was about at that time.

1255. We have seen a great change since then, we have seen the emergence of the flags of convenience in most of the Third World. Has that led to a significant reduction in the percentage of the world tonnage that Lloyd's have been asked to class?

(Mr MacLeod) Yes, because being the first classification society for a considerable period we classed 100 per cent before anyone else was doing that. As the other major international societies developed they naturally enlarged their share and as the minor societies develop they also come into the picture so it is not surprising that we now class about 25 per cent of the world's fleet.

1256. Are there any figures readily available showing the change in perhaps the last 15 or 20 years?

(Mr MacLeod) Yes, there are.

1257. Could we perhaps be supplied with those if it is not too difficult?

(Mr MacLeod) Yes, certainly.

1258. I wondered to what extent these emerging registers are beginning to become more dominant?

(Mr MacLeod) We would have to define them quite carefully. One of the major changes has been in the emergence of the Japanese classification society as a major force in this field, not because of its world wide organisation, because it does not have a very extensive world wide network of its own, but because of the natural desire of Japanese owners to class with a Japanese society and the predominance of Japan in shipbuilding.

1259. So to some extent it follows the country where the ship is being built?

(Mr MacLeod) In that case yes.

1260. What about Korea?

(Mr MacLeod) No. There is a Korean classification society but it is not a major one.

1261. Once a ship has been classified in Japan that does not necessarily mean it would have its annual or periodic certificate issued by the same society?

(Mr MacLeod) Yes, it does.

1262. It would stay with that society?

(Mr MacLeod) The responsibility of the classification society towards the owner and towards anyone else who has a legitimate interest is to make sure that not only are the plans right and the ship built in accordance with the plans but that the ship maintains its survey position throughout its life. We hold on computer the survey particulars of all surveys due for the ship's life.

1263. Under what circumstances then would you lose that to one of the other classification societies?

(Mr MacLeod) If the owner decided to transfer class from us to another society or if for some reason we took class away. We take class away if surveys have not been complied with. Then the owner, who would presumably want to maintain class in order to maintain insurance, would have to look for another classification society.

1264. There do not seem to be the consequences which a layman might have expected of a ship being taken out of one of the traditional classification societies and given to one of the emergent ones; there do not seem to be adverse consequences to the owners as far as we can make out?

(Mr MacLeod) It only has adverse consequences to the extent that this reacts unfavourably in insurance terms or to the extent that the service and advice which is available from the new society is less than the service and advice which is available from us.

1265. But it does not affect what happens when they come into a European port in terms of inspection?

(Mr MacLeod) No. Port state control is another issue altogether.

1266. You are not involved in that?

(Mr MacLeod) Not directly. We know about it and we entirely support it.

1267. How can a Third World owner or somebody who has a ship registered in the Third World which is classified by an emerging classification society obtain insurance? Surely the premium is going to be so high that it is not worth it?

(Mr MacLeod) In some cases there is dual classification, with the developing country being involved with a major international society. The insurance will probably be obtained on the basis of the involvement with the major international society.

1268. There seems to be a snag somewhere there because one really would have thought it would be impossible or so expensive to obtain insurance for a ship which was not properly surveyed that it would not be on for those owners to do it and they would not have cover?

(Mr MacLeod) This is really a question for hull underwriters on which I could not comment. I have my own views but it would be improper for me to express them.

Chairman

1269. But you did say it would have an effect on insurance. I wish you would enlarge on this because it is important to us as a Committee that we have some idea how you feel it affects insurance.

(Mr Beaumont) The standard underwriters' policy, as I understand it, alludes to nine classification societies as a normal clause. I understand that if an owner wishes to go outside those nine classification societies then he has to negotiate his premium on the basis of what he intends to do. I cannot give you any more information than that.

1270. Do you have any idea how many ships are outside those nine classification societies and registered and insured outside that umbrella?

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[Chairman Contd.]

(Mr Beaumont) I cannot speak of the numbers insured, I can obtain for you the number that have moved from one of the majors to one of the minors.

1271. Without dual classification?

(Mr Beaumont) Without dual classification, yes, we can do that.

1272. That would be useful.

(Mr Beaumont) Over and above what Mr MacLeod has said, there has been an acceleration in more recent years of this phenomenon of the big societies losing ships to the smaller ones. Over the first half of the last 20 years there was a gradual redistribution between the big societies, with the Japanese classification society emerging as a major and in the last ten years of that 20-year period there has been an acceleration into the smaller classification societies. We believe there is a threshold size for a classification society to act effectively world wide.

1273. Do you believe that this is something which the Committee ought to delve into a bit deeper and perhaps find out more information about the effects on the insurance side? Would it be relevant to our inquiry in your opinion?

(Mr MacLeod) I would not wish to be misunderstood on this but I do not think it would because it is not related to transfer of ships away from British registration which I believe is the main purpose of your inquiry. I looked at your terms of reference and I think none of them fits very readily into our areas of professional competence. We are very pleased to answer questions on the general role of classification but because there is no correlation between classification and port of registry I do not believe that it has much bearing.

1274. It was just broadly under the umbrella of safety.

(Mr MacLeod) That is right but that relates probably to the standard of safety world wide in merchant shipping rather than to the standard under any particular flag or the transfer from one flag to another.

Mr Bidwell

1275. Members of this Committee have been to the Isle of Man to inquire very closely into the reasons for registration of ships or flagging out, sometimes from Hong Kong to the Isle of Man, now in relation to the possibilities of Peking taking over Hong Kong and a few in Bermuda. It seems that they are striking new agreements and using agencies in the Isle of Man for manpower. They had discussions with the trade unions concerned on officers and crew quality. Do you ever get drawn into that in relation to the safety of ships? Do you do that in the broadest sense?

(Mr MacLeod) No, not in any sense. We are not concerned with the operational side of ships; we are concerned with the structural strength and seaworthiness of ships.

1276. Are ferries on your register?

(Mr MacLeod) Yes.

1277. Are Townsend Thoresen on your register?

(Mr MacLeod) Yes.

1278. Will you be called to give evidence in the present inquiry? I know this is *sub judice* and in this session today we would not be expected to exchange words which might have some relationship to a specific inquiry. At no time then do you get involved in the actual construction or design of ships in a consultative process?

(Mr MacLeod) We are constantly involved in the design and construction of ships but not in the operation of ships. The plans of the *Herald of Free Enterprise* which was classed with Lloyd's Register were passed by us.

1279. They were passed by you?

(Mr MacLeod) Yes, that is right. We are very much involved but we are not involved in the way in which the ship is operated or the number of the crew or the training of the crew or the standards of the crew. Although we have said that we are very willing to give evidence to this inquiry we have not in fact been asked to do so.

1280. Are you disappointed that you have not been asked?

(Mr Beaumont) May I make one qualifying remark on what Mr MacLeod has said. We have approved plans for compliance with classification, which is the structural strength of the ship and the watertight integrity. That approval and classification does not cover the stability of the ship. That is under the remaining parts of the safety construction certificate and the load line certificate and in the case of a passenger ship under a British flag that is not delegated to Lloyd's Register.

Mr Dover

1281. Could I turn to the *Kowloon Bridge* and her sister ship the *Derbyshire*? You apparently approved the design and construction of both of those.

(Mr MacLeod) You will forgive me but I am not sure that the purpose of this inquiry is to have a general interrogation of classification societies in respect of particular casualties.

Chairman

1282. No. We have certain difficulties. The broad question of safety has been involved when flags are moved from one registry to another. It is basically with this background in mind that we are seeking some answers.

(Mr MacLeod) But this is not in any way relevant to the transfer of ships from one flag to another.

Mr Dicks

1283. Could I suggest that is a matter for the Committee to decide, with respect to Mr MacLeod, and not Mr MacLeod?

(Mr MacLeod) Well I suggest that to you.

Mr Dover

1284. If you did approve the design and construction how do you look back at your own investigations and see whether you were happy with both those ships? Are you giving evidence to the Secretary of State who is wanting an inquiry into one or both of those?

(Mr MacLeod) Yes, we are considerably involved with this but I must repeat what I said before. I do not wish to appear to be defensive on this but it is unfair to ask us to come to give evidence on one basis and then cross-examine us without preparation on another.

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[*Mr Dover Contd.*]

1285. Would you allow me just one clarification point. You said before that you did not cover stability for passenger ships. In the case of the *Kowloon Bridge* and the *Derbyshire* were you covering stability or not?

(Mr Beaumont) For a special reason we were. If a cargo ship has a free-board less than the geometric free-board then stability becomes part of issuing the free-board certificate. When Lloyd's Register is issuing the free-board certificate for that specific category of ship in which tankers and certain bulk carriers are involved then we do as a matter of routine look at the stability of the ship.

Mr Dicks

1286. In major difficulties and disasters of this type there is a general lack of information. Lloyd's Register initiated a programme in 1982 to examine the possibility of having a black box similar to that which exists on aircraft. Have you got any further along those lines?

(Mr MacLeod) We have been doing research on our own initiative into the development of a black box which is now just about completed. We are looking at ways of putting this into production so that it would be available for anyone who wishes to use it. We have had prototype black boxes on two ships for a period of a year to eighteen months.

1287. Would you expect when your research is complete and there is an effective machine that this would be a standard piece of equipment on every ship rather than leaving it to owners to decide whether they should have it?

(Mr MacLeod) Difficult to judge. One of the points about this is that a black box is a flexible piece of apparatus. You can record just about everything that happens on a ship or you can concentrate on particular control functions. It might be that if the instrument was developed for a small number of standard functions there would be a case for making it mandatory. It can record everything potentially from engine instructions to stresses on the ship's hull.

(Mr Beaumont) I have nothing further to add to that. If it were mandatory in any respect that would assist the commercial aspect because the more boxes that are produced the cheaper they will become. There would be a threshold problem if it were introduced on a non-mandatory basis: until enough were sold then the price would probably be too high.

Mr Trotter

1288. Do I take it that the aim would be for it to float off the ship if a disaster occurred?

(Mr MacLeod) Yes.

Mr Dicks

1289. If it were made mandatory would you expect more ship owners would want their classification to take place outside Lloyd's because there would be a possibility of not having to implement this machine?

(Mr Beaumont) I do not see the connection. If the British Government made a black box mandatory that would not have any connection with Lloyd's Register because unfortunately the British Government do not make it mandatory to register with Lloyd's Register.

1290. I appreciate that but other ship owners might want to register elsewhere if the British Government made it mandatory.

(Mr MacLeod) Yes, they might. This is a phenomenon which has come up a number of times in the evidence given to the Committee. One of the main reasons that flags are changed is because the receiving country is less onerous and this might be one respect in which they would be less onerous.

Mr King

1291. Do you get involved with the actual safety of the operation of the ship itself? There is a move towards gradual demanning of ships and it has been proposed that large supertankers might one day have a crew of only five or six. What are your views on that? Obviously the hull is insured but like a car driver who refuses to put decent tyres on his car, when insurance companies blanch a little, indeed they may refuse to pay up at all if that motorist is involved in an accident, what about the ship owner or operator who gets involved in something which could be attributable to negligence, demanning of the ship, call it what you might?

(Mr MacLeod) We do not get involved at all in the operation of the ship or the level of manning. These come within the statutory areas of responsibility. The underwriters of the ship who are of course not Lloyd's Register, may pay attention to the level of manning. On my knowledge, they are much more likely to pay attention to the safety record of the owner over a period of time because that combines his competence as a ship manager, his technical ability and the way that he runs his ships. I am not aware, though I am not in any way expert in this area, that insurance cover has been directly linked to a level of manning. It is, however, always linked to the reputation of the owner.

Chairman

1292. You can see that the Committee are desperately interested in the safety angle and if we have strayed a little into thinking of specific cases it is not that we are overstepping our remit but that there is something in that remit which requires us to try to find out why ships are re-registering elsewhere. Can we come back to the question of the state. In your recent annual report it was stated that there had been increased delegation by various governments of statutory surveying to Lloyd's Register, and there is a list of four such registers. You also say "I do not need to stress that classification does not include responsibility for the way that the ships are operated and maintained". In small offshore registries who therefore is responsible for these duties?

(Mr MacLeod) It is not a question for the classification society, it is a question for the owner under the guidance or instruction of the government with whom the ship is registered: as it is in Britain.

1293. What is your relationship with the UK Government in this direction? How do you work? Do you work hand in glove?

(Mr MacLeod) We work very closely with them but we do represent about 120 different governments to a greater or lesser extent. Lamentably the amount of tonnage that we handle for the British fleet is not anything like as large as it was, it is not our major

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[Chairman Contd.]

relationship in this area. We have a very close working relationship with them.

1294. Who do you actually work with, the Marine Directorate?

(Mr MacLeod) Yes. I believe that we have a very close agreement on the standards which should be applied and that is the critical area. When they ask us whether we will accept work on their behalf we will look at it and if it is within our competence we take it but we never solicit it. That would be our policy in relation to all governments.

1295. The Marine Directorate's numbers have been cut recently have they not? Do you think this is entirely due to the reduction in the British fleet?

(Mr MacLeod) It must be related to the reduction in the British fleet although I noted that in evidence to you it was pointed out that the reduction in the size of the Marine Directorate was not as great as the reduction in the size of the British fleet.

1296. In general terms you have been demanding a more coordinated approach towards maritime safety at sea and in port, for the protection of seafarers, populations and property. How far have these calls been answered? Is there any reaction to the calls, particularly with the traditional competitive outlook there is at the moment?

(Mr MacLeod) There is some reaction. The paper you are quoting from is a paper which I gave to a conference of a P&I Club. I believe that the P&I Clubs see things in very much the same way as the major classification societies. They have taken a number of steps which we strongly support and we have established very close relationships with them, particularly so that if we have any criticism of classification societies or Lloyd's Register we get it straight from the shoulder. I believe that is established. It is more difficult with underwriters because underwriters are not organised so centrally as P&I Clubs. They operate as a number of separate groups with their own separate areas of business and they do not have a central identity to the extent that the P&I Clubs have. There is a tremendous amount of work going on all the time at Government level, primarily through IMO to achieve consensus about what are appropriate safety levels and I believe that this makes progress with the assistance of the combined classification societies through IACS. Progress is being made but it is not an easy subject to regulate. There is no world order which can decree and enforce safety standards for ships.

1297. Is there a move towards an umbrella organisation to say for example that a classification society is okay and another one is not, that it comes up to a certain standard? Do you believe that standards should be set. There is this Law of the Sea Conference which talks about lots of things and very seldom gets things done, or is that being too cruel?

(Mr Beaumont) The central standards nowadays are largely being promulgated by IMO and the individual flag states ratify the IMO legislation and apply it in the way they will. If they delegate to a certain classification society, that is in their domain. The ship, when it moves around the world, has to show its Safety of Life at Sea Convention certificate to the port authorities for clearance. If the port authorities are not satisfied with that, even in fact if the Lloyd's Register surveyor who happens to be on one of those ships is not satisfied with that he will inform the port authorities and that should begin to put immense pressure on the owner.

1298. Do you believe there is an avenue for rogue owners to operate in the world environment as it applies now by getting classification through a group which is not good enough? Are you satisfied that all the classification societies which are now operating are operating at a standard which you believe is a correct standard for the job?

(Mr Beaumont) The big difficulty is, especially for the smaller ones, that there is a lack of uniformity of application. The smaller classication society may well apply the regulations in one geographical zone and be quite unable to do it in another.

(Mr MacLeod) The answer to your question is no, we are not satisfied. We believe that there are differences in standards, not necessarily as a result of wickedness, it may just be a lack of knowledge, lack of consistency, lack of experience.

1299. Can this lack of experience or lack of consistency lead to dangerous shipping at sea?

(Mr MacLeod) Of course. The judgment of safety is a subjective one: there is a necessary balance between cost and efficiency and safety. We have to decide where we stand on this and make sure that all our surveyors round the world take a similar stance.

1300. This is one of the avenues we are looking at. We are worried in case there is a bolthole for a ship owner who wants to register and he can get away with lower safety standards than he would otherwise be required to meet.

(Mr MacLeod) Yes, but there is no connection. There is a confusion in terminology for which we are as responsible as anyone. Lloyd's Register of Shipping is a very confusing title. The flag of a vessel is not connected at all with the choice of classification societies.

Mr Trotter

1301. I get the impression that it is more the way ships are operated than the standard of equipment on them which leads to the trouble. Am I wrong in that?

(Mr MacLeod) In crude terms it has usually been said that 80 per cent or thereabouts of marine casualties are operating error rather than structural failure. It is not always easy to separate the two.

Chairman

1302. We are most grateful to you for giving your time and your knowledge to help us with our inquiry. If there is anything else which occurs to you which you would like to make this Committee aware of we should be only too grateful to receive it.

(Mr MacLeod) If there is any information you want from us please ask.

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Memorandum submitted by the British Ports Association

THE DECLINE IN THE UK REGISTERED MERCHANT FLEET

PREFACE

The British Ports Association (BPA) is a trade association whose membership consists of most harbour authorities for ports of any commercial significance in the United Kingdom as well as many small and mainly recreational harbours.

The BPA seeks to rectify factors which inhibit—and encourage developments that enhance—the optimum operation of the ports of this country as a whole.

The National Association of Port Employers (NAPE) is a voluntary association of employers of dock workers comprising virtually all of the registered employers operating under the restraints of the Dock Labour Scheme and some non-Scheme employers as well. There is substantial overlap in the membership of the two organisations.

PART 1: PORT COMPETITIVENESS, UK TRADE AND THE UK ECONOMY

INTRODUCTION

1. The Transport Committee of the House of Commons has decided to undertake a short inquiry into the decline of the UK registered merchant fleet. The inquiry's terms of reference suggest that a key area of investigation will be "The international competitiveness of the UK fleet and ports"; this memorandum will present evidence on the competitiveness of UK ports.
2. The objective of the ports industry is to provide effective and efficient facilities for the passage of goods (imports and exports) and passengers from land and sea and vice versa. This is the case irrespective of the flag of vessels using the facilities. However, it is expected that there is a marginal advantage to British ports of UK vessel registration in that the owners of such vessels may make more use of the services offered at British ports (eg ship repair) than foreign registered vessels. For this reason, BPA and NAPE would consider favourably proposals which seek to arrest the decline of the UK registered merchant fleet.
3. The main theme running through the evidence presented is that United Kingdom ports through no fault of their own are, in a number of important respects, uncompetitive when compared with the major ports on the north-continental coast of Europe. This situation is undesirable on at least two counts. First, in the context of the ports industry itself the relative uncompetitiveness of many ports results in commercial distortions leading to lower employment in the industry than would otherwise be the case. Secondly, the relative uncompetitiveness of UK ports is passed on to the rest of the UK economy despite the best efforts of UK port managers to minimise costs. Uncompetitive ports imply higher charges on the users of the ports (that is, exporters and importers) than those that prevail on the continent, thereby placing UK industry at a competitive disadvantage to much of Europe. This has a detrimental effect on output and jobs in the United Kingdom as a whole.

WHY THE COMPETITIVENESS OF UK PORTS MATTERS

4. Before presenting detailed evidence of the reasons for the relative uncompetitiveness of UK ports, it is important to establish why the competiveness of ports matters at all. It is often said that since the British Isles are indeed islands, all goods must arrive in the UK by sea and therefore use a port (apart from a small amount of freight trade over the Irish Land Boundary and that arriving by air). This is, of course, correct but it does not follow, as is often asserted, that the costs of the UK port used are therefore unimportant. The competitiveness and costs of the port of arrival/departure used will have an important bearing on the ports industry and the UK economy as a whole. In fact it is precisely because virtually all goods must arrive/depart the UK by sea at a port that the competitiveness of the ports industry is vital.

EMPLOYMENT IN THE PORTS INDUSTRY

5. One indicator of the importance of the ports industry per se is the employment it generates. Table 1 shows that total direct employment in the industry over the last four years has been on a gentle but steadily declining trend. The number of dockworkers (both in ports registered under the National Dock Labour Scheme and "non-scheme" ports) is also shown.

TABLE 1: **Total Port Employment in the UK**

	1983	1984	1985	1986
Actual Employees	51,473	47,724	44,233	41,208
Percentage Change		−7.3	−7.3	−6.8
Registered Dock Workers	15,323	13,699	12,117	11,388
Percentage Change		−10.6	−11.5	−6.0
Non-Registered Dock Workers	3,966	3,930	3,972	3,893
Percentage Change		−0.9	+1.1	−2.0

Source: **Report on Manpower in the UK Ports Industry**; published by British Ports Association/National Association of Port Employers, October 1986.

6. Of course, this trend is a continuation of a much more rapid decline in manpower in the ports industry which began in the 1960s (in 1967 there were 56,808 registered dock workers alone in the industry) when

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technical innovations in methods of cargo handling (for example, containers) began to have a major impact. Ports today are capital intensive businesses with highly skilled workforces.

7. Ports have long been noted for their importance in generating economic activity and employment in their surrounding hinterlands. It is clear that in addition to the direct employment in ports there are a large number of jobs in the UK which depend substantially on the existence of ports (for example, ship repair, marine engineering, consultancy services of various kinds etc). Estimates of the number of port affected jobs in several selected ports, based on information supplied by port managers, are presented in Table 2.

TABLE 2: **Selected Port-Related Employment**

Port	*Direct Port Jobs*	*Primarily Port-Related Jobs*	*Port-Affected Jobs*
Bristol*	2,340	3,160	16,000
Multiplier	—	1.35	6.84
Clyde**	600	1,500	10,000
Multiplier	—	2.50	16.67
Ipswich** (Europe trades)	340	600	n/a
Multiplier	—	1.76	n/a
Sunderland**	250	1,000	3,000
Multiplier	—	4.00	12.00

Sources:
* 1981 Survey.
** 1986 Port Managers Survey.

An average "multiplier" of 10:1 appears reasonable on this evidence, implying that for the UK as a whole a total of perhaps 400,000 people are employed in occupations affected by the ports industry.

8. These figures are intended to be illustrative rather than comprehensive. The implication is fairly clear, however: **factors which affect the competitiveness of ports in the UK have a widespread and real effect on a substantial number of jobs throughout the whole of the country.**

THE UK ECONOMY

9. The relative uncompetitiveness of UK ports raises the costs to users of ports, that is both exporters and importers compared with their international competitors (exporters are doubly affected if they must first import a substantial proportion of their raw materials). Other things being equal, these higher costs will tend to reduce the share of UK exporters in world markets thereby depressing output and jobs in exporting firms. Importers will only be able to offer their goods to UK consumers at a higher price.

10. In addition to the general effect on the UK economy, higher than necessary port costs will distort the development of the various sectors of the UK economy. Those industries where port costs are a relatively high proportion of total costs will be more adversely affected than those industries where port costs are relatively small.

PORT COSTS AND PORT CHOICE

11. It is sometimes argued that port costs are such a relatively small porportion of total transport costs involved in shipping goods, particularly over long distances such as deep-sea routes, that differences in the costs of alternative ports to users will have no impact on the choice of port by shipping lines. BPA and NAPE do not accept this argument in the context of current conditions in the market for deep-sea shipping services. On the contrary, port charges can and do have an important influence on the businesses of many ports.

12. Whilst on deep-sea routes it is the case that port costs may account for only around 5 per cent of total transport costs, it is illogical to assert that variations in this figure between ports will not affect the choice of port by shipping lines. Other things being equal, a saving in port costs will improve the profits of a shipping line, providing a strong incentive to change port.

13. Clearly, many other factors are involved in the choice of port and an assessment of the importance of port costs must take into account the general conditions of the shipping industry. To the extent that the shipping industry is stable and profitable it might be argued that the influence of other factors would dominate port costs.

14. The shipping industry has not been stable over the last few years, however, but has been characterised in general terms by a high degree of over-capacity and severe pressure on profits. In this situation, savings in costs available to shipping lines by changing ports have become increasingly attractive and have had a growing and adverse impact on the trade of the UK and the British ports industry.

TRANSHIPMENT

15. The highly competitive nature of the shipping industry has rapidly extended the phenomenon of "transhipment". This involves concentrating cargo delivery and distribution centres close to the main market

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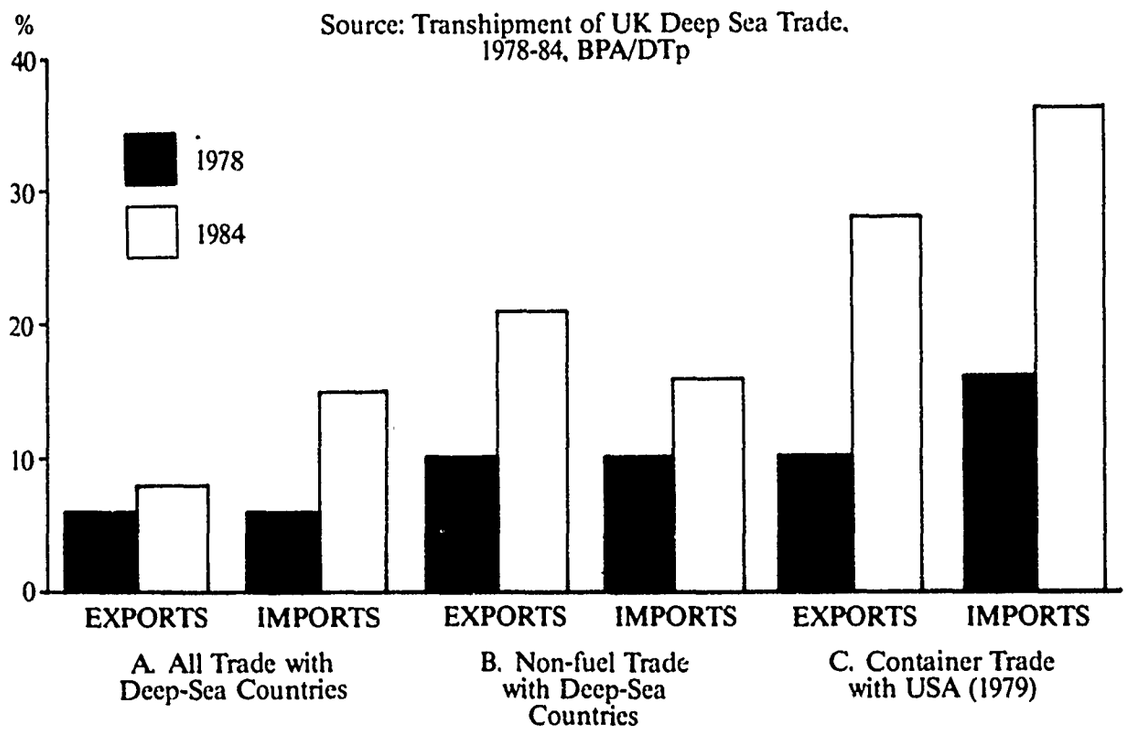
place of mainland Europe, with subsequent transhipment of small cargoes to the market periphery (that is, Britain). Thus, for example an exporter sending a container cargo from the Midlands may not send it to a British deep-sea port for direct shipment to the USA, but may send it on a small feeder ship to a major port on the north coast of the continent (eg Rotterdam) for loading there onto a large ship bound for the USA. Transhipment is a complicated option for exporters or importers, as it involves a longer land journey and two lots of handling onto ships for a consignment of cargo, but it is really the opposite of the situation when British ports acted as "entrepôt" centres for many world cargoes destined for Europe.

16. Over the last few years, Britain's deep-sea ports, including London, Liverpool and Felixstowe, have all been under severe commercial pressure from shipping lines which also use the major ports of Northern Europe, particularly Rotterdam and Antwerp. Until recently the effects of this pressure were difficult to determine because British statistics do not describe the process of transhipment very well for technical reasons. The Department of Transport and the British Ports Association will soon publish jointly some information on transhipment, however. Judging from Belgian and Dutch sources, the joint report ("Transhipment of UK Deep-sea Trade 1976-1984, DTp/BPA, November 1986) shows that Antwerp and Rotterdam are the main transhipment competitors to British deep-sea ports. A summary of the report's main conclusions is given in Chart 1.

CHART 1

Transhipment of UK Deep-Sea Trade via Belgium and the Netherlands



In 1984, 15 per cent of deep-sea imports to Britain were transhipped, and 7.7 per cent of British exports, to deep-sea countries. In some particular trades, of course, the figures are much higher than these averages. Of particular interest is British trade in modern containers with the United States. The chart shows that a remarkable 36 per cent of imports from the USA arrived in Britain indirectly via the continent and 28 per cent of exports to the USA went by that route. The chart also shows that transhipment has increased rapidly since 1978.

17. The process of transhipment has not been a total loss to the ports industry. The British container traffic involved has been carried to or from the European ports concerned in relatively small ships via a variety of British ports, particularly those in the South East of the country.

18. Port costs are an important element in the make-up of lower freight rates offered by shipping lines using north-continental ports which give rise to transhipment. This memorandum will highlight some of the most important factors which distort relative port costs in the UK and Europe and suggest urgent action which can be taken to remedy the situation.

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PART II: FACTORS INFLUENCING PORT COMPETITIVENESS

THE NATIONAL DOCK LABOUR SCHEME

19. A unique feature of the British ports industry when compared to the ports industries of other European countries is the employment regime within ports. Employment in roughly 75 per cent of the port industry's capacity in Britain is covered by the National Dock Labour Scheme (NDLS). The "Scheme" is made under the Dock Workers (Regulation of Employment) Act 1946. The original Scheme under this Act was contained in the Dock Workers (Regulation of Employment) Order 1947 but this was substantially amended (to provide for decasualisation of the dock labour force) by the Dock Workers (Regulation of Employment) (Amendment) Order 1967. The Scheme currently in force is known as the Dock Workers Employment Scheme 1967 (the constitution of the National Dock Labour Board under that Scheme has been replaced by the constitution prescribed by the Dock Work Regulation Act 1976). The Scheme has fostered restrictive practices in the docks, such as the so-called Aldington-Jones arrangement of 1972. Employment in the remaining 25 per cent or so of port capacity in Great Britain is not governed by the NDLS. Thus the situation described below, whereby the Scheme increases the labour costs and reduces the labour flexibility of the majority of British ports, does not apply to the non-Scheme ports (notably Dover, Felixstowe, Harwich, Newhaven, Ramsgate, Shoreham). Thus, the Scheme can be said to induce competitive distortions within the British ports industry as well as being a major factor in raising the average costs of British ports compared to their neighbours on the north continental coast.

20. **Direct Costs of the Scheme**

(*a*) Administration Levy

The administration of the NDLS is financed by a levy on the employers of Registered Dock Workers (RDWs). The levy is currently an additional 2.75 per cent of the wages paid to RDWs, thereby adding directly to the labour costs of Britain's Scheme ports. In 1985, the sum paid by the ports industry for the administration of the Scheme was £4.28 million.

(*b*) Severance Levy

A residual levy of £2 million is payable to the NDLB for severance costs incurred in 1985. This is likely to continue for several years and adds an annual cost of £180 to employing each RDW.

(*c*) Redundancy Costs

In Scheme ports only the National Dock Labour Board can sanction increases and reductions in the register of dock workers for each port. In practice, as the industry has become more capital intensive over the last 20 years, this has left large numbers of Registered Dock Workers who are surplus to requirements. The Trade Unions have consistently refused to agree to compulsory reductions in the labour force, using their equal voting power with employers on the NDLB to block compulsory redundancy schemes. As a result, severance payments have reached an artifically high level in an effort to persuade men to accept voluntary redundancy. The current maximum severance payment for a man declared redundant with 15 years service is now £25,000 (under a 2.5 year agreement beginning in October 1985). In contrast, the maximum figure for a man declared redundant and receiving statutory redundancy pay is £4,650. Table 3 shows the total sums paid to redundant dock workers since 1969, measured in the prices of 1986 (first six months).

TABLE 3: **Voluntary Redundancy Costs* for Registered Dock Workers from 1969 to 1986**

Number of Men Released from Register	*Cost to Employers*	*Cost to Government*	*Total Costs*
42,710	£255.9m	£303.5m	£559.4m

* 1986 (First half) prices
Source: National Dock Labour Board

21. **Indirect Costs of the Scheme**

(*a*) *Dock Labour Board Procedures.* The National and Local Dock Labour Boards are bureaucratic and time consuming in terms of the working time of managers and dock workers who attend meetings. The National and the 20 Local Boards meet monthly and in addition there are meetings of National Board Committees, and Local Board disciplinary and registration committees. Local Boards also institute enquiries among local companies to determine whether certain operations constitute dock work; the enquiry teams comprise equal numbers of managers and dock workers.

(*b*) *Industrial Relations.* It was noted above that only the National Dock Labour Board can sanction increases and reductions in port registers of dock workers. In effect they recruit and dismiss RDWs. Employers' discipline of offenders is subject to appeal to local boards or disciplinary committees who may, and often do, overturn or reduce employers' decisions. The Scheme ports thus do not always have the loyalty of

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the dock workers to their employers which is essential if they are to thrive in today's competitive market conditions. The registered dock labour force is kept separate from other parts of the same employers' workforces and divisions and demarcation lines are therefore artificially created by the Scheme. Employers' workforces are often divided with antagonisms which are artificially engendered by the Scheme.

22. **Industrial Blight**
Ports and dock estates are a natural focus for industrial activity in a geographical area. The Scheme is, however, so universally considered to hamper industrial activity that new firms are deterred from setting up business in or close to ports in case the work they do is deemed to be dock work, or might be so deemed in the future. This has the effect of starving Scheme ports of business development which would otherwise accrue naturally. In addition, long-standing businesses in port areas do not always flourish, and are not always replaced when they decide to close.

STATE AIDS TO CONTINENTAL PORTS

23. One of the main reasons for the relative uncompetitiveness of UK ports and for transhipment is that the continental ports are, directly or indirectly, heavily subsidised by their Governments (local and/or central) and therefore the costs imposed on ships using them are generally lower than in British ports. Information on the level of subsidy to north-continental ports is not generally available as the details of the subsidies are not made public. Table 4* shows in general what governments or local authorities pay for in other EEC countries compared to the situation in Britain, where port authorities must finance that expenditure. Comparison of the situation in the Netherlands with that in the UK illustrates the disparities effectively. For Maritime Access Channels in the Netherlands, a mixture of local and national government funds are provided for both municipal ports undertakings (the "Havenbedrijven") and the other statutory bodies which administer ports (the "Havenschappen"). How much the subsidies amount to is difficult to judge, but a figure of £200 million each year would probably not be too far from the mark.

24. Subsidies to continental ports are clearly in contravention of the spirit of the competition strictures of the Treaty of Rome. In the absence of firm information on the level of subsidy to individual ports, however, the European Commission has been unable to take action to ensure enforcement of the Treaty. Thus, BPA was pleased to welcome the passing of a Directive 85/413/EEC in July 1985, amending Directive 80/732/EEC, "on the transparency of financial relations between member states and public undertakings". The effect of the Directive is to empower the Commission when it sees fit to request, from 1 January 1986, that information on the amount and use of public funds in the sea ports of member states of the Community. The information would allow analysis of state aids to determine whether they result in distortions to competition.

25. As yet, the Directive has not been implemented in a number of member states. BPA has pressed over the past year for the European Commission to ensure early implementation of the Directive and a study into the practical difficulties of its implementation and solutions is currently under consideration by the Commission.

26. The Government of the United Kingdom has also made known to the European Commission its concern at the effects of continental state aids to ports. The Committee is invited to recommend that the UK Government continue to press the Commission (a special opportunity arises during Britain's Presidency of the Council of Ministers, July–December 1986) to take action in the light of the Directive and to consider additional ways in which the effects of state aids to ports might be brought to light.

LIGHT DUES

27. An important point in the relative uncompetitiveness of UK ports is that ships using British ports have to pay heavy charges in respect of lights and other aids to navigation provided outside harbours by Trinity House in England and Wales, the Commissioners of Irish Lights in Northern Ireland. In France, Germany, Holland and Belgium the corresponding costs are borne by the Government (see Table 4*). Generally, lights and other navigational aids outside harbours are seen as a public service. £46 million per annum are raised as light dues on ships calling at UK ports. Huge sums can be paid by some ships for light dues. A large container ship, perhaps unloading 400 containers, can pay £20,000 in light dues alone for each call at a British port. A bulk ship bringing a cargo of, for example, 40,000 tons of raw materials pays about 13p per ton of its cargo for light dues. This has a clear disincentive effect. Recently, an executive of a major UK container port reported to BPA that a prominent foreign shipping line had advised him they had dismissed thought of direct calls into the UK because light dues charges of the order of £1.3 million per annum were intolerable. Their ships therefore will continue to call at continental ports, and by eschewing direct UK calls, deprive the port and the country of valuable earnings. Of course, his ships will still use the lights as they pass up the Channel to continental ports but will not pay anything for them as they do not call in Britain; the burden of light dues on other ships will thus be increased.

* *See* p 320

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28. Under the Merchant Shipping Acts, the provision of lights, etc, by Trinity House and the Commissioners of Irish Lights and the Northern Lighthouse Board is financed in a rather complicated way. The level and incidence of light dues are fixed from time to time by Order in Council, taking into account estimates of their prospective expenditure submitted by these General Lighthouse Authorities. The General Lighthouse Authorities levy the dues on the ships affected and pay the proceeds into the General Lighthouse Fund. The expenses incurred by the General Lighthouse Authorities in providing lights and other aids to navigation are then met out of that fund. These arrangements derive from the Merchant Shipping Act 1894 as amended by the Merchant Shipping (Mercantile Marine Fund) Act 1898 and have not been changed as a result of the changed constitutional position of Ireland. As a result, ships calling at British ports also fund the major part of the cost of lighthouses in the Irish Republic.

29. The UK Government has recognised the part played by light dues in causing UK ports to be relatively uncompetitive compared to their north-continental neighbours. The Department of Transport published a report earlier in 1986 entitled "Liner Shipping and Freight Rates: A United Kingdom/Northern Europe Comparison". The report identified "that,for deep sea container cargo, British port costs are on average some 60 per cent above continental levels" (paragraph 7, page 2), and further, that "about one seventh of the overall cost difference between UK and continental ports can be attributed to light dues, which are paid by carriers using British ports". (Paragraph 9, page 3).

30. The British Ports Associaion regards light dues as an unwarranted tax on shipping lines which wish to call at United Kingdom ports. The burden of the tax is heavy and uneven as regards different users of the ports and clearly operates as a major disincentive for large modern ships to call in the UK. The Committee is invited to recommend that the UK Government abolish light dues on the users of UK ports at the earliest practicable opportunity.

TABLE 4: **Financing of Certain Port Functions**

Source: European Commission

MARITIME ACCESS CHANNELS

Member State	*Cost of Investment*	*Cost of Maintenance*
BELGIUM	100% National Government	100% National 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	100% National Government
IRELAND	100% Port Authority	100% Port Authority
ITALY		
autonomous ports	National Government and Port authorities in varying proportions	Varies but in general the National Government pays
State ports	80% National Government 20% Communes and Provinces	100% National Government
NETHERLANDS		
"Havenbedrijven"	⅔ National Government ⅓ "Havenbedriji" (Rotterdam) or	100% National Government
"Havenshappen"	Municipality (Amsterdam)	
GREAT BRITAIN	100% Port Authority	100% Port Authority
GREECE	National Government and Port Authority	National Government and Port Authority

SEA LOCKS AND EXTERIOR BREAKWATERS

Member State		*Cost of Investment*	*Cost of Maintenance*
BELGIUM	Locks	100% National Government	100% Municipality/Authority
	Breakwaters	100% National Government	100% Authority
DENMARK	Locks	100% Port Authority	100% Port Authority
	Breakwaters	100% Port Authority	100% Port Authority
GERMANY	Locks	"Lander" and Communes	"Lander" and Communes
	Breakwaters	"Lander" and Communes	"Lander" and Communes
FRANCE			
autonomous ports	Locks	80% National Government	
	Breakwaters	20% Port Authority	
non-autonomous	Locks	30–50% National Government	100% National Government
	Breakwaters	Balance Chamber of Commerce	
IRELAND	Locks	100% Port Authority	100% Port Authority
	Breakwaters	100% Port Authority	100% Port Authority

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ITALY			
autonomous ports	Breakwaters	National Government and Port Authority in varying proportions	Varies but in general the National Government pays
State ports	Breakwaters	80% National Government 20% Communes and Ports	100% National Government
NETHERLANDS			
"Havenbedrijven"	Locks	⅔ National Government ⅓ Municipal (Amsterdam only)	
	Breakwaters	⅔ National Government ⅓ Municipal (Amsterdam) or "Havenbedrijf" (Rotterdam)	100% National Government
"Havenschappen"	Locks	Varies from port to port	Varies from port to port
	Breakwaters	Varies from port to port	Varies from port to port
GREAT BRITAIN	Locks	100% Port Authority	100% Port Authority
	Breakwaters	100% Port Authority	100% Port Authority
GREECE	Locks		
	Breakwaters	100% National Government	100% National Government

LIGHTS, BUOYS AND NAVIGATIONAL AIDS

Member State		*Cost of Investment*	*Cost of Maintenance*
BELGIUM	Outside port	100% National Government	100% National Government
	Inside port	100% Municipality/Authority	100% Municipality/Authority
DENMARK	Outside port	100% National Government	100% National Government
	Inside port	100% Port Authority	100% Port Authority
GERMANY	Outside port	100% Federal Government	100% Federal Government
	Inside port	100% relevant territorial authorities	100% relevant authorities
FRANCE			
autonomous ports	Outside port	100% National Government	
	Inside port	60–80% National Government Balance Port Authority	100% National Government
Non-autonomous port	Outside port	100% National Government	
	Inside port	30–50% National Government Balance Chamber of Commerce	
IRELAND	Outside port	100% Commissioners of Irish Lights	100% Commissioners of Irish Lights
	Inside port	100% Port Authority	100% Port Authority
ITALY	Outside port	100% National Government	100% National Government
	Inside port	100% National Government	100% National Government
NETHERLANDS	"Havenbedrijven" "Havenshappen"	100% National Government outside the port-Position within the ports varies from port to port	100% National Government outside the port-varying responsibility within ports
GREAT BRITAIN	Outside port	Mostly Trinity House, sometimes Port Authority or similar body	Mostly Trinity House sometimes Port Authority or similar body
	Inside port	100% Port Authority	100% Port Authority
GREECE	Outside port	100% Port Authority	100% Port Authority
	Inside port	100% Municipality/Authority	100% Muncipality?Authority

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Examination of Witnesses

SIR FREDERIC BOLTON, Chairman, British Ports Association, MR NICHOLAS FINNEY, Director, British Ports Association and National Association of Port Employers and MR JOHN SHARPLES, Head of Economics and Finance, British Ports Association, called in and examined.

Chairman

1303. Welcome to the Committee. Would you give your names, background and the reasons for appearing in front of the Committee in this inquiry this afternoon.

(Sir Frederic Bolton) My name is Sir Frederic Bolton. I am Chairman of the British Ports Association and also Chairman of the Dover Harbour Board. Mr Finney is Director of the British Ports Association and of the National Association of Port Employers and Mr Sharples is Head of Economics and Finance for the British Ports Association.

1304. Why did the British Ports Authority, the largest UK port company, recently resign from BPA?

(Sir Frederic Bolton) The British Ports Association is a trade association and not an authority. Associated British Ports is a privatised company which comprises about 19 ports around the country. We very much regret that last year they did decide that although they remain

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[*Chairman Contd.*]

as members of the National Association of Port Employers they did not see a necessity to remain members of the trade association side, the British Ports Association. I hope that this split between us may not be irrevocable and may not last very long because it would be much better, as you are implying if we were able as *the* trade association for the ports industry to talk for all ports. Happily I can say that we have not yet detected very much of a divergence between us. We keep in fairly close contact with them. In particular, for instance, the latest legislation, the passage of a Bill through both Houses on pilotage is something we have been working very closely with them on throughout.

1305. That combined you and did not divide you did it?

(Sir Frederic Bolton) That did not divide us at all and the liaison we had with them in the past remained constant throughout.

Mr Trotter

1306. What percentage—if there is a meaningful statistic—do they represent of the total industry?

(Mr Finney) Twenty per cent.

Chairman

1307. As the BPA will be aware the Committee's inquiry is essentially into the decline of the UK registered merchant fleet. Do you think that British ship owners and British shipping are put at a disadvantage by the relatively high costs of UK ports? Would you like to comment on that particular aspect of it?

(Sir Frederic Bolton) It is difficult to say. When we submitted our evidence to you we were aware that you were looking into the decline of the shipping industry but also within your terms of reference was the uncompetitive nature of the British ports. We were at some difficulty in associating the two. We admit quite openly that we are uncompetitive compared to our near continental rivals and we admit that this is a matter of considerable concern, but we are also absolutely clear that almost all the reasons for our uncompetitiveness are caused by factors beyond our control. We have been making representations fairly hard to the Department about this and we have been making a certain amount of press comment about this increasingly over the last couple of years. How far this affects the British shipping industry and how far this has a bearing on its decline is much less clear. We are concerned with the facilitation of the movement of goods inwards and outwards through our facilities and we are necessarily concerned more with that than we are with the flag the ship flies. In so far as it is better for ship owners to use British ports, it is better for British owners to come back home, then it is of course a matter of interest and concern to them that we are more expensive than other ports. In so far as a ship coming to its home port probably spends more money there than a ship going to a foreign port, because there is a turnround there, it may accumulate repairs to be done there, it may need stores there, it may have a crew change there, then we would get slightly better benefit out of British ships using our ports than we do foreign ships.

1308. You must have some fairly strong thoughts about the reasons for the differences in your costs and the costs of the European ports.

(Sir Frederic Bolton) We have indeed.

1309. Would you care to outline them?

(Sir Frederic Bolton) There are about four separate strands here which are all important. The first strand probably can be described as foreign subsidies to ports or differences in treatment in allocation of costs in near foreign ports. In this country the Government pay for roads to and from ports but they do not pay for any of the infrastructure within a port. In the near continent the Government will pay not only for roads to the ports but for a large amount of their infrastructure. The cost of so doing has to be reflected in our charges here and does not have to be reflected in their charges there. This applies in some of the foreign ports to dredging, this applies in some ports to pilotage. So there is an element of difference of treatment which amounts to subsidy which other ports in the near continent have and we do not. Then there is the element of specific things like light dues and until very recently—in fact up until now—a less than fully efficient pilotage service. A lot has been said on light dues in the past and we have mentioned it in our paper but there is no doubt at all that the practice in this country of charging the so-called user the total cost of the lights instead of having the cost of the lights borne by central government does put a surcharge on the users of the ports, on the owners of the goods coming through the ports and therefore on the economy of the country directly instead of indirectly but because directly it makes our ports less attractive.

1310. Were you surprised at the very steep increase in the light dues recently imposed, in the light of the present structure of the ports and the fleet and the competitive element of our near-European neighbours?

(Sir Frederic Bolton) We were appalled rather than surprised.

(Mr Finney) Astonished, yes. Astonished because we thought the Government had recognised the inequality that applied to ships calling at United Kingdom ports in earlier statements and we had been making representations which we believed put forward a good case for avoiding an increase with certain other measures. So yes, we were rather disheartened when this near 14 per cent increase was applied. It is going to have a particularly vicious effect upon certain types of traffic, particularly the deep sea container line traffic.

1311. Did that difference make so much difference in being competitive with European ports?

(Mr Finney) Can I illustrate it by saying that for example a deep sea container line calling at a container port might well find itself faced with another £100,000 of charges purely arising out of this particular 14 per cent increase. There are other factors no doubt which lead the shipping line to maintain a regular call to the United Kingdom but it certainly begins to get alarming. I personally had one or two calls from principals of shipping lines asking whether I could give them reasons for their principals abroad why they should carry on and where it is all going to end.

1312. How near comparative costs were you with your main European competitors at that stage in general costs? Was this the straw that broke the camel's back? If by European agreement, one way or another—through

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[*Chairman Contd.*]

the EEC if the EEC means anything at all—all ports were put on a fair competitive basis with hidden subsidies swept out of the way and everybody working off level, how near were you towards that competitive situation before the additional light dues were put on? I agree that they are pretty horrendous.

(Mr Sharples) There is a very little documentary evidence of the exact difference between port charges in the UK and in Europe. That is partly because it is actually very difficult to get the information on what charges ships pay because it is commercially sensitive information. The Department of Transport did a study which was published in July 1986, partly using consultants, which suggested that on average the main European ports were charging 60 per cent less in deep sea liner trade than were their British counterparts. That was the stage before the light dues increase. Of that 60 per cent difference light dues actually accounted for one seventh. I am not quite sure what that is in percentage terms but that is the figure they put on it.

1313. Could this make the difference between a large ship going into a European port and transhipping their stuff across here in other ways.

(Sir Frederic Bolton) It would be wrong to think that even if we had total equality of costs between here and the continent that would necessarily reverse the current trend of shifting deep sea general cargo terminals, ocean terminals, from this country to the continent. The increasing size of ships has had a great deal to do with this too. The fact that more cargo is going to a continental destination than to a UK destination, with the increasing size of ship, has meant that it becomes more attractive to discharge the bulk on the continent and tranship the smaller amount of cargo to the United Kingdom than vice-versa.

1314. If the Tunnel were built would that bring to life again the West of England ports?

(Sir Frederic Bolton) At the end of the day you do get down to a question of what the relative costs are going to be. I suppose it is possible to assume a scenario that, however it comes about, with the collapse of a tunnel and a restructuring with all its debts forgiven, that the rates that the tunnel operators can charge will be so low that they would again produce a swing. On the other hand we have still got the fact that the majority of the cargo carried to Europe from abroad is going to the continent and not coming to this country and therefore it makes economic sense for the terminal to be on the continent rather than this country.

Mr Dover

1315. Could I move on to industrial relations. I believe it is true that industrial relations have improved enormously at the ports round the country. Is that so? What representations have you made to the Government in terms of whether the dock labour scheme should be abolished?

(Sir Frederic Bolton) The answer to your first question is indeed yes, industrial relations have improved and it is very gratifying in fact to be able to look around at the troubles which other countries are having when we are not; very gratifying indeed to find this so. Even though this is so, it does not mean that we are happy with the dock labour scheme, if only because the dock labour scheme is the product of history and we must keep pace with the times and we must produce something which is appropriate to 1987–88 rather than something which was perhaps—although we doubt it—appropriate in 1967, even though it was appropriate in 1947 when the scheme had its origin.

1316. So what are you saying to Government? What have you done about it?

(Sir Frederic Bolton) Broadly we are saying to the Government that this scheme as it stands at the moment is unworkable and the scheme as it stands at the moment ought to go.

(Mr Finney) We have been making representations for quite some time; I would not want to give the impression that this is some new initiative. For perhaps the last four to five years we have had regular meetings with the Department of Employment and certainly the Department of Transport and expressed our views very strongly about the need for reform of the dock labour scheme, pointing of course to the substantial cost burden that the scheme brings to bear on the industry or part of the industry. One of the great problems is that it applies to some 70 per cent of Britain's commercial ports and not to the others and therefore there is an inherent distortion to competition which we believe is brought about by these two regimes, one free and one locked into the operation of the scheme.

Mr King

1317. How do the higher costs of British ports affect the competitiveness of coastal shipping by comparison with inland alternatives like road and rail?

(Sir Frederic Bolton) I think the answer to that one almost certainly is that we have not got enough information to be able to give a definitive answer; we can only give an instinctive answer.

(Mr Sharples) I cannot give a definitive answer, no. At the end of the day the decision on which route to use to move goods depends for each operator on the costs that he is faced with. We would be able to say that in coastwise movements which are competing with road or rail transport then an operator would look at the relevant costs and some of those are port costs and some of those are higher than they need to be. Exactly how that compares for different commodities with costs of moving goods by road or rail would depend very much on the commodity itself in the sense that a lot of coastwise traffic is bulk traffic which it might not be sensible or economic to move on the roads anyway; rail may be more competitive but it has a totally different structure and we would need to compare the two in some detail.

(Mr Finney) A study was done about two years ago by the Tees port users into a RO-RO operation and the economics of a RO-RO operation coastwise down from the north coast, northern ports, down to the south. They put up the proposition that when you got a distance of about 250 miles then transfer from road to coastal shipping was a real possibility. I do not have the details of that report with me but it is perhaps worth drawing it to your attention.

1318. So it begins to become competitive the longer the distance?

(Mr Finney) Yes.

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[*Mr King Contd.*]

1319. If the British ports industry is in a parlous state—I do not know whether you would agree with that—why is it that so much new investment is being undertaken and planned, especially in the south east of the country? How does this square with the complaints of over capacity?

(Sir Frederic Bolton) I would have to take exception to "Parlous state" if it was applied to the industry as a whole. What has happened in fact is that there has been a structural change in the way that cargo is moved. Broadly speaking about much the same volume of cargo is moving now and has moved for the last 20-odd years but it is coming into the country on totally different routes. Unfortunately, but perhaps for some of the reasons we were talking about earlier, the continental ports are more attractive, possibly because of their cost advantage, possibly because of the size of ship. Unfortunately the west coast ports are becoming unattractive as deep sea ocean terminals and the south east are receiving transhipment goods from the continent. So you have an uneven pattern of dwindling use of the facilities on the west coast and a steady increase of the throughput from places like Felixstowe and my own port of Dover. We have a steady year by year increase as a result of this switch. There is some reason to believe that in some of the ports to the west all the switching that could take place has now taken place and that their traffic pattern is likely to remain fairly stable. We have been trying to get a study done with the Department of Transport for the last couple of years so that we may understand this phenomenon a little bit more clearly than we do and we have run up again against the absence of any really satisfactory statistics. Mr Sharples has been dealing with this.

(Mr Sharples) That is right, we did run up against a lack of statistics but we have cooperated with the Department of Transport and have published some statistics, some of which were included in the note we submitted to the Committee back in November on transhipments. We are still working with the Department and hoping to follow that work up with a further study on what is causing transhipment and what the effect might be and in the light of that I would hope we would be able to answer the sorts of questions you are asking in more detail.

1320. Are the various port operators trying to market their products more competitively, certainly those on the west coast, in order to attract business back? Are you aware of any underhand subsidies perhaps by local authorities in order to attract business to those particular ports? Surely they are not just blithely accepting a decline in their status without trying to fight back in Bristol, Liverpool and so on; Manchester is perhaps a peculiar case and has probably now ceased to be a competitive port.

(Sir Frederic Bolton) The answer to that is that one must not underestimate the degree of competition between port and port that always has existed. Everyone has always tried to cut each other's throat and any flow of traffic that a port has is vulnerable from the moment it first gets it and is likely to be removed by another port. We talk very happily to our competitors but we are very happy to take their business away. This has always gone on. We have no evidence at all that this is being done by any improper means such as intimated in your question. No, is the answer. There are elements of distress in some ports where a lot of money in Bristol has in the past been put up by the council—it is a municipal port—to support Bristol but there is every reason to think that that period is over and Bristol has now adapted to the brave new world and is running satisfactorily now. Yes, very competitive, but improper competitive practices, as far as we know, no.

1321. Do the shippers play one port off against another in order to receive the best treatment possible? Are they tied in any way to one port or are they in the business of shopping around?

(Sir Frederic Bolton) In the longer term they are not tied. In the shorter term they become tied with the weight of their own facilities. If you are thinking of a big container operation the operator has a very substantial capital investment in a port and he cannot readily move away. This gives the port an advantage. In the shortest possible term he can take advantage of a sloppier administration but in the longer term he becomes vulnerable because even the weight of the capital investment will not keep an operator at an inefficient port for very long.

(Mr Finney) Can we add something about the change to capital investment by users in ports. There has been quite a noticeable change in the last 10 to 5 years. Joint funding operations with users used to be quite common, where the user was putting up some of the money for a particular facility but those days are gone and the contract terms now are shorter and shorter. If you are trying to attract a user in you are going to have to put up front the investment and you will probably be lucky to get more than a year's contract; in some cases it is even shorter than that. That is quite a remarkable change and it is a result of intensive competition. The ship owner knows that he can actually go somewhere else and not have to pay so that has been a problem for us to overcome.

1322. Given the changing nature of shipping in this country—and our inquiry is looking at the future of the British aspect of it—are you optimistic about the future? We ask this of all the witnesses who come in front of us and they give us various interpretations of how they see the future. Clearly some ports are going to lose out and may go out of business altogether. What in your view is going to be the state of the industry in a few years' time? Is it in terminal decline or are there opportunities which at the moment are not being taken up?

(Sir Frederic Bolton) The industry cannot be in terminal decline because all these goods have got to come in and out of this country. The only thing that could put it into terminal decline is a scenario as a result of the operation of the tunnel. The tunnel is not a port, the tunnel would be the alternative way of getting goods in and out of the country and that is the only way in which there could be a terminal decline. No, not the only way: the other way would be a massive switch to air-freighting but we do not believe that air-freighting is going to take the place of sea-freight for the bulk of the goods that have got to come into the country unless it is through the tunnel. No, it is not a terminal decline. We shall know more when we know more about transhipment but perhaps there is still decline to come in some of the less favourably placed ports and perhaps there is still

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[*Mr King Contd.*]

growth to come not only because the general traffic to this country increases—which I suspect it will—but because there is still going to be a shift from one set of ports to others.

Mr Bevan

1323. On the tunnel is it not true that it is argued by some that the tunnel would favour certain ports, that is the western ports, Liverpool and so on.

(Sir Frederic Bolton) As an association, and not as the Port of Dover, we do not subscribe to that view.

1324. It is put by some though, is it not?

(Mr Sharples) It is put by some, certainly, and there is a study going on at the moment. The Clyde port authority and the Scottish Development Office is supervising that study. There is not actually any evidence to support it, it is based very much on a comparison of costs between a saving in steaming time on North Atlantic trade in particular—it probably would not affect any other trades—between stopping off at the Clyde or Liverpool or carrying on and going to Rotterdam. It would be fair to say that you could imagine a situation where you could say the tradeoff in that saving of time might make it worth calling at the Clyde and so on. In a general case you still have to take on board what we said earlier, that the majority of cargo from America is bound for mainland Europe and not the UK. It would probably be quite remarkable in our view if the whole of cargo from North America were landed at the Clyde or Liverpool and shipped through the Channel Tunnel. It is obviously a possibility but it seems unlikely; that is not to deny that in one or two cases it may happen.

1325. Would it not be true to say that it is time at sea which is the more expensive time in terms of freight rather than time on land in terms of cost?

(Mr Sharples) Yes. It would allow the ship owner to utilise ships which are quite a considerable capital investment much more intensively on the North Atlantic trades. Whether that cost saving is offset by the costs involved in moving cargo from the Clyde or Liverpool or Bristol through to central European destinations is an open question.

Mr Fry

1326. I am perturbed to discover that it is such an open question. I would have thought that with the tunnel now being more than a possibility someone in this country ought to be applying their mind very rapidly indeed to what advantages can be gained, particularly to the west coast ports in order to achieve just that. The tunnel effectively links us to the continent as one land communication and can be compared with any other port in north west Europe. I am somewhat depressed that there does not appear to be the kind of work going on amongst the various transport bodies in this country, be it British Rail, be it shipping, be it road haulage organisations, to see how we may take advantage. Otherwise I suspect we shall find it is going to be French road agents, French lorries taking advantage of it. Are you as an organisation doing anything to stimulate activity and thought in this direction so that we may at least take adequate advantage of this tunnel, particularly for those areas of the UK which are at the moment a long way away and see no particular advantage in it?

(Mr Finney) You must see our role in the last 18 months as being one of having to respond to a development that took place very fast without any research at all being carried out by the Government into the actual need for the tunnel. Therefore we have been petitioners in both Houses of Parliament. There have been Select Committee reports on the tunnel and on the economics of it dating back quite some time. I am sure you are much more expert at it than I and have looked at it. Indeed, you as a Committee commented on the whole question of the tunnel. We were concerned—after all the Government have the administrative responsibility for the health of Britain's ports—to tackle the Channel Tunnel Bill and to try to make sure that we got fair treatment for Britain's ports. That has taken up a great deal of our time in both Houses to petition and to make sure that we succeeded in that venture. Clearly there is going to come a time when we see whether in fact the venture is going to succeed financially through stage 3 when we shall have to re-assess the position. However, we do not think it fair really to put that question to us now; we have been concerned to limit the damage of the Channel Tunnel Bill to the ports industry in the first instance.

Chairman

1327. Looking to the future, we have been extremely disturbed by the fact that flagged out fleets are tending to go in for manning agencies which man their ships from a bodycatcher's point of view. This is having a disastrous effect on marine colleges where the intake of potential officers has dropped dramatically. As you will be the first to tell me, you look for British seamen and officers to man your ports for your pilots, your harbourmasters, your shore-based people. How disturbed are you by this particular aspect of flagging out with regard to training and how do you feel it should be tackled. Should Government help to tackle this training situation?

(Sir Frederic Bolton) Indeed we are concerned and we are concerned particularly in the longer term because there is a time window here where there will be ex-seafarers to apply for the jobs that need their skills. In the longer term it is a matter of very considerable concern to us that we might have to go not only outside this country but outside the EEC, outside Europe, in order to get the skills that we require and the experience that we require. It is not only a question of Government assistance to get people to go through the necessary nautical colleges here, it is a question of having their experience at sea. Therefore we are concerned with the health of the shipping industry as such.

1328. Provided the students come through and the officers do come through the colleges I assume that the manning agencies as such will find them and provide them for ships and ultimately they will want to come back to you. In that sense a training facility helped by Government or help towards the cost of keeping that facility going, even if lost to the industry, provides a trained individual does it not?

(Sir Frederic Bolton) Yes.

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[*Chairman Contd.*]

1329. What sort of setup, what sort of structure, what sort of pressure, how would you recommend the Committee to try to think through this short-term problem which is going to have such a large long-term effect?

(Sir Frederic Bolton) The difficulty here is really to know what the strength of the attraction of foreign manning would be to boys coming from school and going into a training college here knowing that their only way of getting employment is going to be on foreign flagged ships which have nothing to do with this country. I can fully understand——

1330. It could be the Isle of Man of course.

(Sir Frederic Bolton) I was talking about British shipping generally. I personally do not distinguish between London registered and the Isle of Man registered; one can find very easily another definition for British which will fulfil what we need from the point of view of our requirements, including home ports. I can see quite easily that British seafarers at the moment do not want to leave the sea and therefore will be looking for employment, if there is no employment in British flag ships then in non-British flag ships using all the sort of means you have been describing. But I do wonder whether there are going to be enough opportunities to get experience for boys in the future if there is no British—however defined—fleet and no European fleet. Therefore I would feel that we must look for a revival of the attraction of shipping generally to see that we get our supply of trained experienced seafarers.

1331. We need a maritime policy of some sort with that aim.

(Sir Frederic Bolton) Yes. Restoration of profitability has been suggested as one of the ways in which this might come about.

Mr Bevan

1332. Would you differentiate between the Bahamas and Britain if there is no difference between the Manx flag and the British one in your opinion? I would ask what you feel to be the situation of an increasing number of British seafarers registering at out-of-country employment agencies in Hong Kong, the Bahamas, Isle of Man and so forth, for their employment rather than at British ports and therefore receiving lower wages in the main, detaching themselves from employment responsibilities such as national insurance and that type of thing and also redundancy pay? They are doing that themselves and the trend is there. How does Sir Frederic feel that obtains to his own port and should anything be done about it?

(Sir Frederic Bolton) I have a view on this but I am not sure it is a view which I would be expressing on behalf of the British Ports Association. It refers to my rather wider feelings about the shipping industry. Do you wish me to answer the question?

Chairman

1333. By all means, and your proviso will be included in the official report.

(Sir Frederic Bolton) I would also add that I have given evidence on this sort of point before this Committee before, wearing another hat. I feel very strongly that what should be done throughout the world is to make it possible for the sort of advantages which flags of convenience ships are allegedly enjoying now to be available to operation under a national flag. It is ridiculous that there should be the sort of treatment given to seafarers and to ship owners and operators under a national flag which compels them to seek to flag out. This is an urgent matter for attention by our Government and by governments in western Europe.

1334. My second request is for a comment about what a Minister, Lord Brabazon, is reported to have said on 8 April in that the market is distorted and continental ports do not have the same commercial freedom, the freedom to compete and succeed, that British ports enjoy. He goes on to make the case that the channel way should be dredged just as a motorway is surfaced. We, however, have understood that because of various subsidies which are built into continental ports we suffer very much and not that there is an added attraction because British ports have freedom. Would you care to comment?

(Sir Frederic Bolton) I did cover some of this in the earlier part of the hearing. We are very conscious of the fact that there is difference in treatment between the allocation of costs in this country and in ports abroad. The interesting thought behind Lord Brabazon's remarks on that occasion was that there was a price to be paid for those sort of advantages and the price to be paid was a much greater degree of central control over port operations on the continent than we had here. We would most certainly not wish to find ourselves controlled—I was going to say "in that sort of way" but I am not sure we really understand what "that sort of way" is. We would not wish to invite a noose to be put round our necks but nonetheless I do not think that it is fair to suggest that they have a disadvantage which outweighs or even balances the advantage they get from not having to charge their customers the cost of a lot of these facilities.

(Mr Finney) I am sorry to return to the Channel Tunnel but one of the assurances the Government were willing to give the BPA was in fact to work with us to eliminate the distortions to competition which would be caused by state aids. To be fair, the Department of Transport and the Minister have been quite forthcoming and quite forthright in tackling the problem of state aid in the Council of Ministers only last December. One has to see perhaps Lord Brabazon's recent speech in the context of their wider support for what we have been saying about the potential distortions to competition created by state aids to European ports.

Chairman: Thank you for your cooperation and your assistance in the Committee's inquiry.

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HOUSE OF COMMONS SESSION 1987 – 88

TRANSPORT COMMITTEE

First Report

DECLINE IN THE UK-REGISTERED MERCHANT FLEET

Volume III

Minutes of Evidence, Session 1987-88, and Appendices

Ordered by The House of Commons *to be printed*
27 May 1988

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MINUTES OF EVIDENCE

TAKEN BEFORE THE TRANSPORT COMMITTEE

TUESDAY 2 FEBRUARY 1988

Members present:

Mr David Marshall, in the Chair

Mr David Gilroy Bevan	Mr Derek Conway
Mr Sydney Bidwell	Mr Terry Dicks
Mr Jim Callaghan	Mrs Gwyneth Dunwoody

Memorandum submitted by the General Council of British Shipping.

THE FUTURE OF THE BRITISH MERCHANT FLEET: AN ANALYSIS OF POLICY OPTIONS

SUMMARY

1. This paper seeks to set out the factors which bear on national decisions affecting Britain's merchant fleet and to analyse the options open to Government to influence the size, composition and commercial viability of that fleet in the future. It is not a set of demands but a contribution to public discussion.

2. The background is one of a massive reduction in the size of the British-owned fleet in the past decade and a massive change in the last two years in the ports of registry of the remaining fleet. The UK is not alone in these developments which have affected virtually all developed nations' merchant fleets, but the changes have gone further and faster with us that with most of the others.

3. The fierce international competition which has characterised the period of change and adjustment continued in 1987 as has the distortion of the market occasioned by the financial and other support given by other Governments to their national fleets. And the disparity of the cost of crews of different nationalities still bears heavily in an era of low trading returns. The British shipping industry has continued to react by removing its ships to offshore registers, often at considerable expense, in order to reduce crew costs and regain competitivity. The effect has been broadly to stabilise the size of the British owned and controlled fleet. But this is probably only a temporary respite. The ships get older and replacement by new or secondhand tonnage is far below the level needed to sustain a fleet even of the present size. It is the lack of replacements for existing tonnage, the steady erosion of the pool of trained British seafarers, and the threat to our wider maritime interests, which are the most worrying features of the situation from the national point of view.

4. Despite these massive changes most British shipping companies are profitable although a growing proportion of their income comes from activities other than the owning and operating of ships. Indeed for many profitability stems from the fact that they are moving the focus of their activity away from shipping. The key questions are whether these changes matter and, if so, what can be done about them?

5. This paper examines both questions. On the first it argues that Britain's Merchant Navy (MN) still has a vital national role to play in peace and in war. In peace it enables a measure of control over our own vital imports and exports; it makes a significant — though often underrated — contribution to our balance of payments and it acts as a vital focus for a wide range of maritime industries and services which provide employment and income going far beyond the direct contribution of the shipping companies. In war and times of tension the MN has a recognised role within NATO of direct support to the armed forces, reinforcement of the European theatre and of civilian resupply. All these roles are vitally important both in themselves and in ensuring the credibility of the NATO deterrent. And all depend for their effectiveness upon there being a UK-owned merchant fleet of considerable size together with an adequate supply of seafarers to man it. The place of the registration of the fleet is less material.

6. Even if these views are not shared it remains important that whatever size of British-owned merchant fleet continues to exist should be assured, so far as it lies in the Government's power, of a fair competitive arena in which to conduct its business. Other Governments bias the rules in favour of their national fleets. It is right that a British Government should seek to counter or offset such bias where it can. It may, of course, be that Government sees, as we do, a need to secure a merchant fleet of a size that will meet national objectives in the fields of defence, the balance of payments and trade. If so, there is a wide range of measures which could be brought into play to stimulate investment and to assist with running costs. Measures to improve the competitive climate in which British ships operate are common to both scenarios.

7. The measures we have in mind are set out in the paper. It should be emphasised again that they are not a set of demands. Instead they are a costed menu of options which we hope will aid Goverment in its difficult task of deciding where the national interest lies and how best to further it. The options fall into three groups.

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(i) *Aids for reinvestment* (paras 44-49)

An important example here would be the introduction of roll-over relief for balancing charges on new or secondhand ships. Such an arrangement, already familiar in the taxation of capital gains and widely available to our overseas competitors, would undoubtedly stimulate investment in ships. But there are others;

(ii) *Aids for running costs* (paras. 50-61)

These go further than the measures proposed in the current Merchant Shipping Bill. Possibilities include a Merchant Navy Strategic Contract for each ship or key seafarer;

(iii) *Other measures* (paras. 62-70)

There is a wide range of measures and actions which could improve the competitive environment for British shipping. Examples include improving European Port State Control over substandard competition, opening up European cabotage trades to British ships and removing restrictions on ferry companies facing competition from the Channel Tunnel.

8. In presenting these arguments the General Council of British Shipping seeks above all to ensure a clearer understanding of what is happening to British shipping in the late 1980's. The industry has put itself in good shape, at substantial cost, to compete in the world. But the crucial dimension of the strategic and economic national interest, civil as well as military, needs to be recognised. We do not doubt its importance and are confident others will share our views. If they do, the range of measures set out in this paper offers ample scope and choice for determined action by Government.

THE FUTURE OF THE BRITISH MERCHANT FLEET

INTRODUCTION

9. Each Autumn GCBS has sent to Ministers and MPs its analysis of the position of the British merchant fleet and its assessment of the measures which need to be taken by Government, normally in the context of the annual Finance Bill, to sustain a British merchant navy. GCBS believes that it is manifestly in the national interest for there to be a UK-controlled merchant fleet, although not necessarily in the commercial interests of those companies currently involved in shipping. This paper up-dates previous papers and presents a menu of measures. a selection from which, in the judgement of the shipping industry, would ensure continued British involvement in merchant shipping by bringing the commercial interests of the shipping companies into line with the country's interest *if Government were to conclude that that was in the national interest.*

10. 1987 has been a year of mixed fortunes for British merchant shipping. The year was overshadowed by the 'HERALD OF FREE ENTERPRISE' tragedy. Revenues have fluctuated with some sectors remaining depressed by an oversupply of ships, while others show signs of perhaps a fragile recovery. But the size of the fleet controlled by British shipping companies to some extent stabilised as companies continued to take the difficult decision to transfer large numbers of vessels to foreign registries in order to save costs. Only two new ships were ordered in the first nine months of the year, of 5,000 dwt. The questions to be answered are whether the existing, ageing fleet will be replaced in due time and whether it is in the national interest for our ships to be manned by an increasingly high percentage of foreign nationals and flagged out to ever more remote registers.

THE UK MERCHANT FLEET

11. During the twelve months from July, 1986 the UK-owned or controlled trading fleet (ships over 500 grt on all registers) has declined by 10%, from around 19m dwt to 17m dwt. The decline in the number and tonnage of ships on the mainland UK register has been even greater than we predicted this time last year, from 515 ships of 10.3m dwt to 400 of 6m dwt. In addition there are now some 75 ships of 3m dwt registered in the Isle of Man and the Channel Islands and 160 ships of 8m dwt registered further afield, mainly in the British Dependent Territories* but some in independent flag of convenience states (FOCs).

12. The overwhelming majority of British-owned ships registered outside the "UK mainland" are not manned with full UK national crews. And the further afield they are registered — from the Isle of Man, through a Dependent Territory to an independent FOC — the less likely it is that there will be British nationals on board. The effect of flagging out on employment is demonstrated by the 12% decline over the last 12 months in the number of British seafarers registered with the Merchant Navy Establishment (MNE) — ie resident in the UK and fully accessible in time of emergency — from 29,000 to around 25,000 officers and ratings. This compares with 50,000 less than five years ago. The decline is not nearly bridged by the estimated 7,000 unregistered British seafarers serving on UK owned ships outside the ambit of the MNE.

13. The overall decline in the UK controlled fleet and the displacement of UK owned ships from the UK mainland register is shown in the table at Annex A.

*The British Dependent Territories (BDTs) with shipping registers are Anguilla, Bermuda, British Virgin Islands, Cayman Islands, Falkland Islands, Gibraltar, Hong Kong, Montserrat, St. Helena and Turks & Caicos Islands.

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14. The most alarming development is the almost total absence of any orders for new buildings. Even when market conditions are depressed over a lengthy period, ships fall due for replacement. Ships are on order for other countries in considerably greater numbers than for the UK registry. The position at the end of June 1987 showed the UK 39th in the world order book league table (Annex B). It will be seen that amongst our EEC partners, the order books of Denmark (27x), Italy (27x), Greece (12.5x), Spain (4x) and Germany (3.5x) are very substantially larger than that of the UK fleet. (As far as GCBS is aware no new ships are on order for UK owners for registry outside the UK.) No ships at all were ordered from August 1986 until September 1987, when one ship was ordered. New ships will certainly be ordered by UK owners from time to time — even for mainland registry — but the trend is a stark one.

15. By contrast in 1983, the last complete year before the 1984 Budget withdrew the previous fiscal regime for shipping, which provided assistance broadly equivalent to the support measures given by other Governments to their merchant fleets, orders for UK registry were of 363,000 dwt. Secondhand ships have been bought in 1984-87 as in earlier periods, but these purchases have not been sufficient to offset the reduction in orders for new ships.

16. The position then is of a still large but ageing merchant fleet — average age of the whole fleet is 11.4 years, of container ships 12.9 years — increasingly registered outside mainland UK and manned with foreigners. Replacement investment has almost vanished. New ships ordered within the last three years have either been ferries — many of which will inevitably be affected radically by the completion of the Channel Tunnel, possibly in 1993 — or specialist ships for specialist trades, such as nuclear fuel carriers, single well oil production tankers, or large bulk carriers tied to British Steel's trade. Reinvestment in general trading bulk carriers and tankers, or in containerships, has been almost entirely absent. Dramatic changes are therefore needed if these types of ships are not to vanish from the British controlled merchant fleet as existing vessels reach the end of their economic life. This is generally reckoned to be 15-20 years.

THE NATIONAL INTEREST

17. GCBS recognises that there is a *considerable difference* between the *fundamental interest* of individual British *shipping companies* and those *of the nation as a whole*. Shipping companies have taken decisions which will enable them to survive. They have sold a great deal of uneconomic tonnage: they have transferred other ships from the mainland register to save costs and they have diversified into other industries. For example, more than 80% of the ships entered in GCBS are now owned either by companies who derive a significant part of their turnover from other activities — shore-based distribution, insurance broking, engineering, etc — or are large industrial conglomerates. This is in contrast to some less cautious, foreign owners who have over-burdened themselves with tonnage at the wrong time and, together with their bankers, paid the penalty of insolvency. The major question that faces all companies is whether to reinvest in shipping or adopt some other strategy. Companies only buy ships to make profits. Many existing ships for some time have not been generating sufficient profits to finance their replacement costs. And of course Company Directors have an obligation to their shareholders to invest not only in activities which are profitable, but in those which will provide the best return on their capital, taking one year with another. So *one option* must be reinvestment outside shipping, where most diversified companies have ample opportunity to earn good projected rates of return.

18. And there is always a *second option* for shipping companies to continue operations but using chartered-in tonnage with well trained crews available from the Third World and elsewhere. This must remain a viable alternative to ownership. Chartering has long been a pattern of the tanker trades and has increasingly become a viable option for containership operators. Many of the ships which are available for charter have been the beneficiaries of subsidies from their flag state Governments.

19. The conclusion many companies may reach is that owning ships is *not* essential to — or even compatible with — their commercial prosperity. GCBS believes that ship-owning is vital to the *national interest*. There are a number of reasons why we believe this to be the case.

(a) *National security*

20. The merchant navies of Britain and the member countries of NATO have a vital role to play in any period of tension or war in which the Alliance may become involved. Their task is threefold: to provide direct support to the armed forces (oilers, tugs, minesweepers, etc); to provide ships to bring military reinforcements and equipment to continental Europe across the Atlantic and the North Sea ("Sealift"); and to provide the ocean transport needed to keep the economies of NATO members functioning during the emergency ("Civil re-supply"). Until quite recently the Alliance has been able to assume that the maritime resources of its member countries would provide an adequate supply both of ships and of the crews to man them, and that local mismatches of demand and supply could be overcome by pooling those resources (the "NATO pool").

21. The drastic reduction in the size of NATO merchant fleets in recent years has thrown doubt on these assumptions and NATO is expected shortly to embark on a study of the situation. Annex C shows the

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total tonnage available under NATO flags (including the Hong Kong and other British Dependent Territories' tonnage).

22. It will be seen that the total NATO flag tonnage has declined from 153m grt to 102m grt — or by one-third — in the last 5 years. Even taking into account the tonnage on the main FOC registers — Liberia, Panama, Cyprus, Bahamas and Singapore — much but far from all of which is controlled in NATO countries, the total tonnage is down by 15%. And not all NATO Governments have the powers to requisition FOC tonnage owned by their nationals nor have all the flag stages all agreed that their ships be available in time of emergency. And many of these vessels will be manned entirely by non-NATO nationals who might not wish to become embroiled in hostilities.

23. It is not for GCBS to suggest what NATO's role should be. But if it is to deter aggression by conventional as well as nuclear means, NATO's ability to sustain a prolonged conventional campaign must appear credible in peacetime. Central to that capability is a massive requirement for merchant shipping. *GCBS believes that adequate shipping must be seen in peacetime to be available to NATO powers if the organisation is to continue to be an effective deterrent.*

(b) *Control over our own trade*

24. Britain continues to export goods — particularly manufactured goods — to the value of some 22% of its Gross National Product, one of the highest proportions of any developed country. UK registered ships — mainland and Isle of Man — currently still carry 36% of that trade by value. British controlled vessels must carry considerably more than this because the Customs statistics upon which this figure is based can only take account of flag, not of the country of ultimate control. So the UK maintains a substantial degree of control over, in particular, the vital liner shipping services that support its trading effort. Ultimately British shipowners are under the control of the UK Government and they can be and are responsive to the needs of British exporters and importers. By their very existence they provide the competition necessary to ensure that the foreign shipping interests are also responsive to British needs. *If British-controlled ships were to cease to exist the country would lose control over its vital lifeline,* in peace as well as in war.

(c) *Balance of payments*

25. The net direct contribution of UK owned ships to the UK balance of payments in 1986 was £979m, with further gross import savings of £673 million. Although these are considerable sums the overall balance on the sea transport account in 1986 was negative to the massive extent of £937m, compared with a rough balance prior to 1981. The Government argues (memorandum submitted by the Department of Transport to the House of Commons Select Committee on Transport, 25 February 1987) that this does not matter. That memorandum claims that withdrawal of resources from shipping would, after initial adverse economic effects on the shipping sector, be offset by economic adjustments elsewhere in the economy which would leave the overall balance of payments largely unaffected.

26. This argument ignores the special feature of shipping that it contributes directly and immediately to the balance of payments whereas most other industries do so by a chain of substitutions, with many opportunities for leakage. Indeed, the DTp reasoning is based on most dubious assumptions, namely:

(i) that reinvestment out of shipping will be into industries of balance of payments consequence — instead of, say, into domestic service industries;

(ii) that there are profitable opportunities for investment in the economy which are currently not going ahead because of a shortage of finance. This is not realistic. If profitable opportunities for investment exist they can be, and are, already financed without the need for disinvestment in other activities;

(iii) shipping company managements and trained seafarers will be as effective and productive redeployed to other industries. We do not doubt that skilled employees released from the shipping industry — and trained ships' officers, for example, are highly skilled — could find alternative employment. But again it would be wrong to assume that their release from employment in shipping would remove a constraint on profitable developments elsewhere in the economy;

(iv) that no regard need be had to the unproductive payments — such as redundancy payments — that are a consequence of liquidating an investment in an industry and starting afresh.

27. The existence of a British-owned merchant fleet is acknowledged to be a necessary precondition for the health of many UK manufacturing and service industries operating in the maritime field. The contribution of these — shipbuilding, marine equipment, shipbroking, marine insurance, etc. — to the economy as a whole is immense. Precise figures of their combined contribution to the balance of payments are not available but such evidence as we have suggests that between them they probably contribute something like half a billion pounds a year in foreign earnings to the UK economy. Taken together with the net earnings and import savings of UK shipping companies, the maritime sector as a whole probably earns this country over £2 billion in foreign exchange a year. This is equal to about one-quarter of our nation's net invisible earnings and offsets as much as one-third of our deficit on visible account.

28. There is a direct correlation between the size of the UK owned and registered fleet and the contribution the industry makes to the country's balance of payments. This is shown in Annex D. It seems to the industry to be highly dubious to write off £2 billion of earnings as if they were of no consequence and

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could readily be replaced. At the margin surpluses of this kind can have a major impact on the health of sterling and thus on inflation. *These benefits must be taken into account when assessing the cost of supporting a British merchant fleet* to obtain other objectives.

(d) *Employment*

29. As indicated above, 25,000 officers and ratings are still employed on UK registered ships and perhaps a further 7,000 on British controlled ships under foreign registers. Many more work in shipping company head offices. But all these are only the tip of the iceberg. There are many UK based industries — for example, shipbroking, marine insurance, loss adjusting, arbitration, shipbuilding, the manufacture of marine equipment — which grew up on the back of a large and dominant British shipping industry. Precise figures of total shipping-related employment in the UK are not available, but an informed guess is that the total number of UK citizens whose employment derives from maritime-related activities is about 300,000. The continued prosperity of these activities of course depends to a considerable extent on their own merits, but the continued dominance of the UK in many of these fields depends on a continuing high level of domestic shipping activity. Many of them rely on the Merchant Navy as a source of supply of technically qualified middle management who have had considerable first-hand experience of running ships.

30. As the British shipping industry declines so will the supply of ex-seafarers and the demand for the services of these industries. It must be expected that these industries will move to where the central gravity of shipping has moved if the domestic industry declines to a negligible size. Certainly this was one of the major motives of the Norwegian Government when it created the Norwegian International Ship Register. They feared that comparable industries in Norway would vanish if their fleet dwindled away. If the British shipping industry were to disappear, perhaps one-third of the shipping-related jobs in the UK — say 100,000 — would be at risk initially, followed by many more as the centre of maritime activity shifted from the UK to overseas centres.

31. A national cadre of trained seafarers cannot be rebuilt in a hurry. It takes 7 to 10 years for a cadet to obtain a Master's or a Chief Engineer's certificate of competency. To obtain the necessary sea-experience there must be ships to serve on and qualified officers to supervise the trainee. Already many of Britain's maritime colleges have closed down. Local Authorities are facing increasing difficulties justifying allocating scarce resources to those that remain for only a handful of trainees. But above all a merchant fleet needs a supply of willing recruits prepared to go to sea and to undertake the lengthy training. British shipping companies are finding it hard to recruit even the limited number of good quality cadets and trainee ratings that they now require. Parents and careers teachers cannot be blamed for steering youngsters away from a career in an industry in obvious decline. And shipping companies are now even beginning to find it difficult to recruit high quality graduates as management trainees for a career on shore. The pace of decline is already alarming and if remedial action is not taken it must be only a matter of time before a career in shipping, either at sea or on shore, becomes as alien to the Briton as it is to the average Swiss or Austrian.

(e) *Comparison with other UK industries*

32. The impression is sometimes given that the UK shipping industry is perceived to be seeking special favours. This is not the case. The plain fact is that the UK shipping industry, far from being pampered, is almost alone among British industries in its full exposure to foreign, and often unfair, competition. UK manufacturing industry, for example, operates behind the Common External Tariff of the EEC which averages about 10% and which, allied to the cost of transport, gives it perhaps a 20% edge on its non-EEC competition. UK agriculture enjoys the support of the Common Agricultural Policy — which is still massive despite the attempts of the British Government to achieve substantial reform. Our sister international transport industry — Civil Aviation — is defended by Government agreements. Shipbuilding receives subsidies equivalent to 28% of the cost of any orders in order to match Far-Eastern competition.

33. We note, too, that manufacturing industry, with whom our taxation arrangements are now almost identical, also has available to it a range of investment incentives such as Regional Development Grants, for example, from which we are excluded. We do not object to these arrangements. We merely note that there is no pure national doctrine of free and unfettered competition for capital which can be prayed in aid by Government to our specific disadvantage.

WHAT THE GOVERNMENT COULD DO

The action needed

34. GCBS readily acknowledges that this Government has taken action of benefit to shipping. Political action against the tide of protectionism and useful agreements negotiated within the European Community have been helpful. So is the "Moore package" of aid for training and repatriation, even though this is small and yet to be put into force.

35. But the Government also dealt a blow to investment in shipping in the 1984 Budget when it withdrew the previous tax allowances for investment in shipping. These were but the latest in a range of measures that for more than 30 years had recognised that shipping was a vital industry for Britain that needed and deserved a modest degree of support over and above that provided to the generality of industrial and commercial activity. The lower rate of corporation tax, the universal 25% writing-down allowances and their subsequent extension to secondhand ships and the extension of the BES scheme to investment in ships, have not

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adequately compensated for the damage done in 1984. Further action is needed if the Government concludes that it needs a British shipping industry. Annex E shows in constant money terms investment by UK owners in new and secondhand ships over the last 10 years. 1984 was the last year in which deliveries were entirely unaffected by the budget changes but even in 1986 some of the expenditure was on ships ordered under the old regime. Yet by 1986 expenditure had already fallen to less than 40% of the average expenditure between 1977 and 1984, and to less than half of 1984 expenditure, which was a year heavily affected by trade recession and over-capacity.

36. Many other "market economy" governments are far more active than HMG in promoting their merchant navies, which thus have a significant advantage over the British shipping industry. Attached at Annex F is a note of the measures taken by some of them to support their shipping industries. It will be seen that all the other EEC governments are prepared to give substantial help to their shipping industries. The Commission is even now preparing proposals for measures to improve the competitiveness of Community shipping. HMG is virtually alone in Europe in regarding the health of its shipping industry as a matter to be left substantially to market forces.

37. GCBS believes that there is a wide range of measures which the British Government could take which would promote the British shipping industry. Not all of these need to be taken in order to achieve a healthy industry. Not all types of assistance are even needed by every sector of the industry. But overall, action is needed on three fronts:

(a) to tilt the balance in favour of *reinvestment* in new and good quality secondhand ships as opposed to investment in some other industry of lesser national importance but higher rate of return;

(b) to bridge the gap between the *cost of running a ship* with a British crew and the cost of running a ship with one of the foreign crews readily available on the market; and

(c) to improve the *trading prospects* of British ships and to *reduce other, Government imposed, costs* of operation.

Paragraphs 44-70 describe a menu of measures from which a selection could be drawn which would achieve the above objectives in the opinion of the GCBS.

THE COST

38. The cost of these measures obviously depends on the size of fleet that it is decided that the UK ought to have. For the purposes of the arithmetic only we have taken as a convenient benchmark the current British controlled fleet of some 640 trading vessels of more than 500 grt and based our calculations on the assumptions shown in Annex G. But we accept that the current fleet may not be the optimum one in the national interest — it may be too big or it may be too small. So this paper presents our estimate of costs in terms of the amount of expenditure we believe would be necessary for every 100 ships that it is concluded that the nation needs. Further, we have necessarily assumed, for reasons of simplicity, that the economic position of all types of ship is the same. This is obviously an over-simplification, particularly in respect of crew costs, which are more significant to some categories of operation than to others. And some sectors — particularly those operating short sea ships entirely within the EEC — might be better served in the longer term by a Community-wide agreement that there should be no subsidies for their type of ship rather than by more cash assistance provided that they were protected from subsidised competition from outside.

39. Precision in the amount of support needed to stimulate *investment* in shipping is not possible. However, two good indications of the level of support needed are available:

(a) *The pre-1984 fiscal regime*
From 1971 to 1984 a regime of special tax allowances for investment in shipping was in place. In 1975 the UK owned and registered fleet peaked at 50m dwt and although the fleet reduced in size by some 60% — due to a combination of the world oil recession and the containerisation of the liner trades — between 1975 and 1984, some 12m dwt of new ships were ordered by British owners. The fleet was modernised despite the market upheavals of the time. *Those incentives worked very well!* We calculate that, for every 100 ships which it is desired to see in the fleet, the 1984 tax incentives, at the then rate of Corporation Tax, would have provided about £40m per annum *more* to the industry than today's tax incentives. Taking account of the one-third reduction in the rate of Corporation Tax which has occurred since 1984 — which leaves more money in the pockets of profitable companies — rough equivalence with 1984 would require some £25m in tax relief or other aids to investment over and above those currently available, for every 100 ships in the merchant fleet.

(b) *German and Dutch experience*
Information from various studies suggest that if UK owners were to receive the same benefits (investment grants plus accelerated depreciation) as are currently enjoyed by our German colleagues they would obtain some £30m a year more than is currently available in the UK for the investment programme needed to sustain a 100 ship fleet. Dutch incentives would give roughly the same answer. These incentives too seem to work. The June, 1987 order book for the German registry was 180,000 dwt (15 ships) and for Dutch registration 100,000 dwt (19 ships) compared with only 50,000 dwt (5 ships) for UK ownership and registration.

40. In bald terms, therefore, the target is about *£25m a year of aids to investment*, over and above those currently available, for every 100 ships that the Government decides are needed in a British merchant fleet.

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41. The key variable in *running costs* is the cost of crew. It is this above all which determines flag, particularly for as long as the UK Government maintains its current officer nationality requirements. The bench marks are:-

(i) *Third World/Polish crews* — saving per annum for every 100 ships as against UK mainland costs — £30m.

(ii) *Isle of Man terms* — saving per annum for every 100 ships as against UK mainland costs — £15m.

42. Thus if the Government wanted UK owners to keep their ships on the UK mainland register they would need to pay perhaps £30m per annum for every 100 ships to match Third World costs or *£15m to keep them on the Isle of Man or a British Dependent Territory Register*. This latter represents the difference between "Isle of Man" and Third World crew costs.

43. The distinction between aids to capital and to running costs is not vital to the shipowner — it is the overall effect on the Balance Sheet which matters. If the Government were to adopt the objective of keeping a decent sized British owned merchant fleet on readily accessible registers with at least partial British crews, we estimate that it would cost *in total something like £40m a year* in aids to the industry's capital and running costs *for every 100 ships* that they decided to support. If, say, the equivalent of half the current fleet of 640 ships needed support at this level to remain in profitable service on a British or other readily accessible register, the cost would thus be something like £130m a year. To put this sum in perspective by comparing it with the Government's subsidies to another transport mode, it would represent half of the Department of Transport's proposed subvention to London Regional Transport for 1988.

MEASURES TO AID REINVESTMENT

44. How could this be achieved? GCBS believes that there are a number of options open to a Government which decided to take action. One measure that GCBS has put forward for several years is for *roll-over relief for balancing charges*; ie, for the Treasury to forego the repayments of tax on the excess of the sale value of a ship over its written-down value, provided that the receipts were reinvested in a new or secondhand ship acquired within, say, three years of the disposal of the old one. Besides targetting precisely the objective of renewing and updating the fleet, the measure would be in line with the existing roll-over relief given in respect of capital gains tax on, say, property disposal and purchase, and would mirror the current practice in Japan, Spain, the Federal Republic of Germany, Netherlands, Norway and Sweden. An additional advantage to the Exchequer would be that, unlike general tax allowances, roll-over relief of this kind would carry little risk of leakage of allowances to other activities within a company group structure.

45. It is impossible to calculate precisely the relevant costs and benefits — much will depend on developments in the market for secondhand ships — but there is no doubt that roll-over relief would tend to equalize the potential return on investment in ships as against other capital goods. This would be of particular help in the years immediately ahead when the industry is faced with a concentration of replacement decisions whose resolution will effectively determine the size and composition of the fleet in the 1990's.

46. In the industry's view roll-over relief would be the most useful single early measure Government could take to assist the shipping industry. Costing here is very difficult but on the theoretical assumptions in Appendix G the benefit would be of the order of £21m for every 100 ships.

47. Ever since the 1984 budget GCBS has argued for a 50% ship allowance as an incentive for investment in new or secondhand ships. This would enable front-end loading, which is so important to the shipping industry, whose investment is neccessarily discrete and lumpy. GCBS has long argued that this would be a most beneficial measure, permitting shipping companies to tap the profits of other businesses, or of other acitivities within their groups, to restore investment to appropriate levels. It would also be a highly efficient way of providing support. The *value to the industry* of the lower tax payments — discounted to allow for 5% inflation and 15% return on funds — would be of the order of £15m per annum for every 100 ships in the fleet. Yet the *cost to Government,* after an initial high cost of £30m, if there was a quick start to re-ordering, would be only £8½m p.a. (or some £55m p.a. to sustain a fleet of the current size).

48. However, GCBS is told that to introduce such a measure for shipping would represent a significant breach in the new structure of corporate taxation that was introduced by the 1984 Finance Act. We believe that argument is mistaken but it is clear that such a scheme also would have to apply across the industry and could not be tailored to the size of the fleet that the Government decided to support.

49. GCBS believes that either of the above fiscal measures are preferable to grants for assisting with capital investment. Together they would meet the industry's needs. However it should not be ignored that the *Industry Act 1972* contains powers which would permit grants to be tailored to match the Government's requirements. No doubt if the Government were to provide a "*Merchant Navy Strategic Investment*

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Grant", it would be appropriate for conditions to be imposed concerning flag and hence the nationality of at least the senior officers of grant aided ships. Further, the Balance of Payments test that was somewhat belatedly introduced when investment grants were last available for shipping — up until 1970 — would again be needed to prevent aid "leaking" to foreign interests. We also accept that there would need to be a mechanism for clawing back if the ships concerned were subsequently sold within whatever period of commitment attached to the grant. However, it would be important that any conditions did not:—

(a) require registry on the mainland UK register (unless further support was envisaged to enable the shipowner to meet that level of operating costs);

(b) rule out investment in good quality secondhand as well as new ships;

(c) limit the freedom to build new ships anywhere in the world.

MEASURES TO ASSIST RUNNING COSTS

50. There are a number of possible ways in which a Government could, if it were so minded, so assist with *running costs* as to make operation under a British registry competitive with world markets.

51. It must be said that the "Moore package" of measures to assist the shipping industry, welcome though it is, does not go very far to bridge this gap. *Aid for training costs* is indeed vital, because without it British seafarers may not be available for employment in the future. But the immediate gap that has to be bridged is that in direct employment costs, on the assumption that trained seafarers are readily available on the open market. And for many nationalities, Government subsidies have already ensured that fully trained officers and ratings are available. *Aid to Repatriation costs* is a real and welcome contribution to direct employment costs to those who employ UK nationals on qualifying ships. Both forms of aid will only be possible when the Merchant Shipping Bill has received the approval of Parliament. But the amounts which will be made available — £3½m p.a. for training and £5m p.a. for repatriation — will not make a major impact on the problem of competitiveness.

52. *Income tax and social security charges* provide the real disincentive to the employment of Western European crews. The current annual wage and related costs for vessels on the UK register is around £440m a year. Of this sum about £70m represents income tax payable by seafarers, £50m the joint employer/employee national insurance contribution and another £65m the employer/employee contributions to pension funds. There is thus a 40% differential between what the employer pays gross for labour and what the seafarer receives net. It is startling to realise that these on-costs represent over three-quarters of the difference between the cost of employing a UK crew on a UK registered ship and the cost of crewing that ship with Far Eastern crews.

53. It would be unrealistic to assume that all of these costs could be eliminated for UK seafarers. Pension costs are a real part of a seafarer's income and have to be reflected in wage costs, whether paid by the employer or by the employee from an upstanding wage. But income tax and social security contributions are an impost of Government and could be modified by them.

54. The combined employer/employee *contributions to National Insurance* are about 13% of the wage bill. These payments are already abated marginally to reflect the industry's collective redundancy payment system. A further reduction of 50% in the employers' contribution would represent nearly £2m per annum to the industry for every 100 ships in the fleet that the Government decided to support.

55. The elimination of *income tax* on UK seafarer's earnings would remove two-thirds of the cost advantage of the Isle of Man and similar registers. But a mechanism would be needed to ensure that the benefit were reflected in company accounts. The Finnish Government and shipowners recently contemplated a system whereby 75% of the total yield of income tax paid by Finnish seafarers would be returned to the shipping companies. This proposal foundered on the refusal of Finnish Seamen's Union to contemplate reductions in manning which would have made the Finnish register competitive even under those circumstances. But the idea is worthy of consideration. A *75% remission of income tax* would yield to companies over £7½m for every 100 UK manned ships in the fleet.

56. The EEC Commission is giving serious consideration to measures of this kind in its work on the second stage of the Community's shipping policy. At the very least HMG should support EEC-wide measures of this nature, and it would give these concepts considerable impetus if they were to be introduced in the UK in the meantime.

57. More direct methods of support would be possible. One would be a *Merchant Navy Strategic Reserve Contract* entered into in respect of each UK owned ship kept on a UK or designated register, in recognition of its availability to HMG in times of emergency. To yield the £15m per 100 ships which is the difference between Isle of Man and cheapest crewing it would have to be set at an average of about £150,000 per annum per ship for full UK crews. In practice a more sophisticated basis of calculation would need to be adopted to reflect the difference in cost structures of various sizes and classes of ship. The arrangement would need

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to be contractual so that if a ship moved off a qualifying register or ceased to employ the required numbers of UK citizens, the payment would cease. And the more stringent the qualifications concerning the nationality of all or some of the crew, the larger the bounty that would be required.

58. An alternative would be a *crew-related allowance*, payable in respect of each British seafarer employed by UK owners on their ships, irrespective of flag. This would give meaning to the Merchant Navy Reserve for which provision is made in the current Merchant Shipping Bill. Instead of a register of retired ex-seafarers, whose skills must inevitably become less useful with lack of use and increasing age, a Merchant Navy Reserve Allowance would ensure the continued seagoing employment of active mariners. But inevitably it would be more expensive. A payment set at £5,000 per head per annum for five senior officers and £2,500 per annum for five junior officers per ship would yield some £4m per annum for each 100 ships in the merchant fleet the Government decided to support.

59. If a scheme were introduced combining Contract payments in respect of ships with Reserve Allowances for men, the gap between Isle of Man and Third World crew costs could be bridged by a Merchant Navy Strategic Reserve Contract payment averaging £75,000 per ship per annum and the level of crew bounty described above. Any effective concession on income tax and social security costs would of course enable these payments to be set at a lower level.

60. There is, of course, a direct link between the nationality of crew and the degree of support needed to keep the average ship competitive. British owners have transferred ships to the Isle of Man and British Dependent Territory registers to enable them to re-negotiate the terms of employment of their predominantly British crews. As Annex G indicates, this still leaves costs 40% above world market levels. Ships which cannot bear this differential can be manned with non-British ratings, but not by non-British officers and remain on these British registers. Indeed HMG has recently encouraged the BDT administrations to *increase* their requirements for British officers to the UK mainland standards.

61. British owners, wherever economically possible, would prefer to employ British officers. Yet large numbers of highly competent, well trained officers are available, with internationally recognised certificates of competency, from the Far East who cannot be employed on any British registered ship. Some minimal national presence on board is clearly desirable for defence purposes. For example, the new Norwegian International Ship-register (NIS) requires the Master to be a Norwegian national (and it is understood that even this requirement can be waived if that is needed to attract a ship to the register). But there is a price to be paid for a national presence as this note indicates. A reduction of nationality requirements to NIS levels would obviously greatly reduce that price.

MEASURES TO IMPROVE TRADING PROSPECTS AND REDUCE COSTS

62. There are a number of miscellaneous measures which HMG could take which, while in no way a substitute for the financial support mentioned above, could *help* to restore the competitiveness of UK-owned ships. Costs could be minimal.

63. *International safety standards.* GCBS member companies are as anxious as anyone to see their ships operated safely and in full conformity with all generally accepted international laws and regulations. And with IMO looking after the physical condition of the ship and ILO responsible for conditions of employment there is a comprehensive corpus of international law. Yet the British Government continues to insist on putting its own gloss on international regulations, placing British shipowners at a competitive disadvantage in order to comply with them. It has been calculated that an additional 2% is added to the cost of a new or secondhand ship to comply with British requirements that go beyond international standards. This is a burden which should be removed.

64. An allied point is the need to ensure that any additional safety measures applied to UK ferries in the aftermath of the "Herald of Free Enterprise" tragedy, must be applied equally to foreign competitors. Not only must the economic burden of compliance not put UK ferries at a disadvantage, but the whole purpose of any changes would be lost if foreign companies could operate ships in the same trades which did not meet the new requirements. The foreign companies would be able to charge lower fares and attract all the passengers.

65. *Delegation of surveys to classification societies.* Existing duplication of hull and machinery surveys of passenger ships represents a significant and unnecessary burden on British companies, particularly where such surveys are carried out at ports outside the UK. GCBS continues to urge DTp to accept such surveys carried out by the major classification societies as most of our competitors do.

66. *Port State Control.* The existing European system of Port State Control is a valuable instrument for improving the standards of vessels trading in European waters. But it would be a more efficient mechanism for eliminating the sub-standard — and therefore unfairly cut-price — competition to UK controlled ships if:

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(i) all member states increased their inspections to the agreed level;

(ii) publicity was given to those ships which are detained as sub-standard;

(iii) surveyors concentrated on ships flying the flags of distant countries with minimal administrations rather than (very humanly) on British ships where they can expect a civil welcome.

Action by HMG to achieve these ends would be useful.

67. *Action within the EEC.* GCBS readily acknowledges that the Government has already done much within the Community to help shipping. A wide range of further measures, if promoted vigorously by HMG, could also be beneficial to the shipping industry. Positive measures would be:

(i) to allow the unimpeded transfer of ships that meet internationally accepted standards onto the British register if they have previously been acceptable to any other EEC administration;

(ii) to accept for all positions on board ship any EEC national who has an appropriate certificate of competency issued by an EEC member state;

(iii) vigorous action to implement the shipping provisions of the Lome Convention, which call for free shipping relations as between the EEC and the Lome states. These are flouted by many Lome states which are nevertheless fully prepared to enjoy the benefits the Convention gives;

(iv) elimination of cabotage restrictions of many other EEC states. It is intolerable that British ships are excluded from the coastal trades of five of its Community partners, whilst any ship can trade around our coasts regardless of whether it benefits from domestic protection or unfair government subsidy;

(v) rapid negotiation of the Stage II of the EEC shipping policy, which is intended to improve the competitive position of EEC shipowners vis-a-vis their non-EEC competitors.

68. Equally, defensive action is needed:

(i) to challenge the intention of the Commission to remove the VAT exemption for passenger fares, both within and between EEC counties, and to ensure that the proposed imposition of VAT on all expenditure needed to operate a passenger or cargo ship will not increase operating costs of companies whether by net VAT payments or excessive administrative costs;

(ii) to retain duty-free sales until the last moment when the harmonisation of EEC taxes and duties is achieved. Although arguably anachronistic if harmonisation is achieved in due course, these sales effectively subsidise passenger and freight traffic and if lost would necessitate increases in fares and tariffs of the order of 25% to maintain the present quality of service.

69. *Reform of the Merchant Shipping Act.* It would place shipowners in the same position as other employers if Section 42(2) of the Merchant Shipping Act, 1970 were to be repealed. This at present can permit the seafarers' unions to evade the requirement of the Trade Union Act, 1984 to hold a ballot before calling members out on strike.

70. *Channel Tunnel.* Action is needed to ensure that ferry companies are enabled to compete with the Tunnel when it is completed. In particular, the Tunnel will provide such competition as to render irrelevant the current OFT restrictions on the ferry companies' ability to rationalise services. The operators must be allowed to co-operate, which would merely put them in exactly the same position as liner companies in all other trades, who are free to operate within a conference provided that they meet the requirements of the EEC Competition Regulation. This provides very adequate safeguards for the consumer. Customs and other procedures must also be the same if there is to be fair competition and passengers and shippers are to be given a choice of transport mode.

CONCLUSION

71. Britain's Merchant Navy has a vital role to play in peace and in war. In peace it enables a measure of control over our own vital imports and exports; it makes a significant — though sadly underrated— contribution to our balance of payments and provides employment for many, both directly and indirectly. In war it has a role in direct support of the Royal Navy, in reinforcement of the European theatre and in civilian resupply. GCBS believes that these roles are utterly interdependent and vitally important and depend upon there being a British owned merchant fleet.

72. Of course British shipping companies will continue to compete vigorously in the international market — albeit against shipowners that often enjoy significantly more support from their governments — for as long as they remain involved in shipping. But shipping is almost uniquely exposed to international competition and is not and seldom has been highly profitable over the long term. The question is whether companies will re-invest in new ships when the present fleet has to be replaced and, if they do, whether in British-registered ships employing at least some British seafarers. But the problem is a national one not a commercial one. The decision on action lies with Government and Parliament.

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ANNEX A

UK OWNED TRADING FLEET

		31.12.82		31.8.85		31.8.86		31.8.87	
		m dwt	(no)	m dwt	(no)	m dwt	(no)	m dwt	(no)
(a)	UK-owned and UK mainland registered	24.8	(868)	16.0	(640)	10.3	(515)	5.9	(400)
(b)	UK-owned and Isle of Man/Channel Islands registered	Included in (a) but negligible.		Included in (a) but negligible		0.5	(37)	3.2	(75)
(c)*	UK-owned and registered in BDTs	1.2	(50)	1.0	(45)	5.2	(70)	6.2	(85)
(d)*	UK-owned and foreign registered	2.8	(145)	2.3	(100)	2.6	(85)	1.6	(75)
	Total	28.8	(1063)	19.3	(785)	18.6	(707)	16.9	(635)

* Partially estimated and based on Lloyd's Register figures.
BDT = British Dependent Territory.

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ANNEX B

TOTAL OF PRINCIPAL TRADING TYPES IN THE WORLD ORDER BOOK.
30th JUNE 1987

COUNTRY OF REGISTRATION	NO.	DWT
LIBERIA	79	4,986,409
PANAMA	62	4,600,452
JAPAN	116	3,829,988
DENMARK	64	1,365,580
ITALY	58	1,355,581
BRAZIL	34	1,288,115
ROMANIA	23	1,084,950
KOREA (SOUTH)	23	1,043,454
BAHAMAS	12	854,430
CHINA, PEOPLE'S REPUBLIC OF	42	799,449
INDIA	27	796,230
POLAND	39	677,050
GREECE	26	638,640
U.S.S.R.	88	579,621
SINGAPORE	12	579,300
TAIWAN, PROVINCE OF	11	413,050
KUWAIT	6	380,000
UNITED STATES OF AMERICA	13	372,958
NORWAY	20	343,524
MEXICO	15	287,573
ARGENTINA	8	239,020
TURKEY	46	231,315
SPAIN	15	218,305
MALAYSIA	7	190,871
GERMANY, FEDERAL REPUBLIC OF	15	181,403
CZECHOSLOVAKIA	8	169,820
AUSTRALIA	10	162,155
NETHERLANDS	19	101,420
GERMAN DEMOCRATIC REPUBLIC	6	97,880
BELGIUM	4	96,900
PORTUGAL	3	89,073
CYPRUS	3	78,918
SWEDEN	9	78,895
YUGOSLAVIA	5	72,660
UNITED ARAB EMIRATES	2	68,200
SWITZERLAND	1	63,700
BULGARIA	5	58,300
FINLAND	6	53,960
UNITED KINGDOM	5	51,011
WORLD TOTALS	947	28,580,160

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ANNEX C

TRADING VESSELS ON NATO, BRITISH DEPENDENT TERRITORIES AND FLAG OF CONVENIENCE REGISTRIES. VESSELS 100 GRT & OVER

	Mid 1982		Mid 1987	
NATO				
COUNTRY	NO.	GRT	NO.	GRT
BELGIUM	105	2,140,486	101	2,092,741
CANADA	189	827,810	163	714,400
DENMARK	632	5,052,648	513	4,551,896
FRANCE	365	10,355,062	237	4,870,405
FRG	1,304	7,397,357	1,003	4,075,916
GREECE	3,122	39,881,293	1,512	23,330,394
ICELAND	52	76,103	40	61,716
ITALY	932	10,108,693	807	7,509,288
NETHERLANDS	555	3,301,371	563	2,999,348
NORWAY	1,169	21,296,130	763	5,698,059
PORTUGAL	99	1,245,145	65	903,651
SPAIN	722	7,456,685	557	4,282,292
TURKEY	484	2,058,877	665	3,253,892
UK	1,425	21,522,018	846	7,490,096
BRITISH OVERSEAS TERRITORIES	412	4,209,609	657	13,331,625
USA	931	15,858,859	863	17,046,042
TOTAL	12,498	152,788,146	9,355	102,211,761
FLAG OF CONVENIENCE				
COUNTRY	NO.	GRT	NO.	GRT
BAHAMAS	59	387,346	375	8,990,075
CYPRUS	529	2,135,010	1,301	15,633,675
LIBERIA	2,112	70,588,746	1,493	51,205,159
PANAMA	3,848	31,605,205	3,873	42,230,526
SINGAPORE	641	7,106,939	486	7,018,735
TOTAL	7,189	111,823,246	7,528	125,078,170

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ANNEX D

UK BALANCE OF PAYMENTS: UK OWNED AND REGISTERED SHIPS

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ANNEX E

EXPENDITURE ON NEW AND SECOND-HAND SHIPS, 1977-86

Year	New Ships (£mn)	Second-hand ships (£mn)	Total (£mn)	Total (1977) Prices (£mn)
1977	611	39	650	650
1978	657	28	685	633
1979	469	97	566	461
1980	331	72	403	278
1981	322	109	431	266
1982	525	99	624	354
1983	365	139	504	274
1984	554	91	645	334
1985	268	94	362	177
1986	221	122	343	162

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ANNEX F

MEASURES TAKEN BY OTHER GOVERNMENTS TO SUPPORT THEIR SHIPPING INDUSTRIES

COUNTRY	HOME CREDIT SCHEME			SUBSIDIES	TAX-FREE RESERVE	OTHER
	% of Cost	Interest Rate %	Repay-ment Period Grace-Period In ( )			
BELGIUM	70	4-5	15 years			
DENMARK	80	8	12 (2) [a]		Companies: 25% of taxable income for new investment.	(i) Guarantees of loans for smaller cargo ships. (ii) Special rates of tax for seafarers.
FINLAND	70-80	10-10.5	7-12 normally 8 or 10		Book profits resulting from the sale or loss of a vessel as a reserve for future purchase of a vessel.	
FRANCE	80	8	8½	Government will offer exceptional grants to shipping companies carrying out restructuring operations aimed at improving their competitivity. New vessels: 7½-10% of investment. Second-hand vessels: 5-10% of cost of vessel or a subsidised loan.	(i) To cover salary element resulting from expansion. (ii) Re-evaluation of assets.	Investment aid now available for the purchase of ships up to 8 years old and will also be offered to owners carrying out modernisation work on ships bought second-hand. Professional tax obligations of French companies to be reduced by 66% for 1987 and 1988.
GREECE	30	14	4		Proceeds received from the sale of ships are exempted unconditionally from tax.	

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MEASURES TAKEN BY OTHER GOVERNMENTS TO SUPPORT THEIR SHIPPING INDUSTRIES (continued)

COUNTRY	HOME CREDIT SCHEME			SUBSIDIES	TAX-FREE RESERVE	OTHER
	% of Cost	Interest Rate %	Repay-ment Period Grace-Period In ( )			
JAPAN	60 50	7.3 7.3	13 (3) [d] 13 (3) [e]	1979-81: 89.7 bn Yen Government-sponsored ship-building programme (payment delayed: interest on 1987-1991 loans on ship-building frozen).	(i) Replacement of business assets. (ii) Special repairs of ships. (iii) Special depreciation. (iv) Unusual rise in war risks premiums.	Coastal vessels may be scrapped and new ones built for joint ownership with two Maritime Credit organisations.
KOREA	90	10	8 (2½)	Operating subsidies to liner shipping companies who make a significant contribution to earning foreign exchange.		
NETHERLANDS				1.5% for new ships and second-hand ships less than 5 years old.	Book profits from sale of vessel.	Investment tax deductions of 12% [f]. Marine Investment scheme, allowing for a payment of 2.3% of the value of a new vessel in each of the first five years after purchase.
NORWAY	80	8	8 (2)	Subsidies are available in place of the credit scheme for shipowners financing projects themselves.	(i) Investment reserves including book profits resulting from sale loss of an asset. (ii) Reserves for consolidation limited to 10% of net income.	(i) State credit guarantees available to Norwegian shipowners. (ii) Seafarers are paid 50% returning home expenses and are subject to a special income tax.
SPAIN	85	8	12 (2)	5.5% plus additional subsidy up to 9.5% according to type of ship. Operating subsidies for shipping companies operating in national interest and for making up losses incurred in the coastal trade.	(a) Book profits. (b) 50% of undistributed profits. Gains from the sale of most tangible fixed company assets reinvested in next two years.	Loans for conversions and major repairs: 60% of cost at 8% interest repayable over 5 years with 1 year's grace period.

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MEASURES TAKEN BY OTHER GOVERNMENTS TO SUPPORT THEIR SHIPPING INDUSTRIES (continued)

COUNTRY	HOME CREDIT SCHEME			SUBSIDIES	TAX-FREE RESERVE	OTHER
	% of Cost	Interest Rate %	Repay-ment Period Grace-Period In ( )			
FR GERMANY	80	8	12 [b]	12½% for new ships [c] 20% for conversions.	80% of book profits from sale of vessel.	Foreign Income Relief. If 80% or more of profits arise exclusively from operations overseas, then the rate of taxation is halved for the first 80% of profits. Roll-over Relief. Accelerated depreciation available — allowance up to 40% of the after-subsidy price, spread over the year of acquisition and the following four years.
IRELAND	As agreed in the OECD			Investment grants of up to 25% towards acquisition of new ships and second-hand ships less than five years old.		Corporations profit tax on shipping profits reduced from 50% to 10%.
ITALY				5½% for new ships and second-hand ships less than 10 years old. 6.4% for ships less than 5,000 grt transporting liquid or gas, or less than 3,000 grt for others. Subsidy for shipping companies to launch shipping lines.		

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MEASURES TAKEN BY OTHER GOVERNMENTS TO SUPPORT THEIR SHIPPING INDUSTRIES (continued)

COUNTRY	HOME CREDIT SCHEME			SUBSIDIES	TAX-FREE RESERVE	OTHER
	% of Cost	Interest Rate %	Repay-ment Period Grace-Period In ( )			
SWEDEN	90	9.65 (US$)	12 [i]		(a) Reserves for replacement. (b) Allocations to investment funds for economic stabilisation.	
U.S.A.				Construction Differentials Subsidy to enable US Shipyards to reduce prices to world levels. Operating Differentials Subsidy to cover the higher cost of US lines operating in certain trades. [j]	Capital Construction fund.	Guarantees available for 25 years for up to 75% of the cost of a vessel at a low fixed interest rate.

NOTES:
[a] Available for ships built in any EC Shipyard.
[b] Available only from Coastal States of Hamburg, Bremen, Niederschsen and Schleswig-Holstein.
[c] Available for ships built in foreign shipyards but to date only ships built in German Shipyards have received this subsidy.
[d] For containerships and LNG carriers.
[e] For other ships.
[f] In principle available for ships built in foreign shipyards.
[g] Various alternative interest rates and repayment periods are available giving the same overall benefit.
[h] Available under Special Circumstances.
[i] This is in the form of a guarantee.
[j] No new CDS or ODS contract has been entered into by the Reagan Administration.

SOURCE: DEPARTMENT OF TRANSPORT

[Continued

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ANNEX G

ASSUMPTIONS USED IN COSTING OPTIONS

1. A UK-owned fleet of 640 trading ships over 500 grt.
2. 15-year economic life for all these ships, leading to requirement for 45 new ships p.a.
3. Average cost over the fleet of £30m per ship joining.
4. Average sale price over the fleet of £5m per ship leaving.
5. Vessels sold all received pre-1984 100% tax allowances.
6. Average inflation — 5% p.a.
7. Assumed return on capital — 15% p.a.
8. Average crew cost per UK-registered ship in mid-1987, is US $1,000,000 p.a. (this disregards the costs of multi-crewed ferries) or £625,000 (at £1 = $1.60).
9. Crew cost saving per ship of Far East/Polish crews is US $550,000; or £330,000 p.a.
10. Crew cost saving per ship of applying "Isle of Man" terms is 25% of total UK employment costs; or £155,000 per annum.

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Examination of witnesses

MR K ST JOHNSTON, PRESIDENT (CHAIRMAN, OCL), MR I DENHOLM, Vice-President (Chairman, Denholms), MR P LE CHEMINANT, Director-General, and MR J LUSTED, Deputy Director-General, General Council of British Shipping, called in and examined.

Chairman

1335. Good afternoon, Mr St Johnston, could I welcome you to this the first public meeting of the new Select Committee. Could I also ask you to introduce your colleagues and yourself for the purposes of the official report, please.

(Mr St Johnston) Thank you. We are very pleased to be here — I think! I am President of the General Council of British Shipping this year and Ian Denholm is my Vice-President; he has been here before. He was President in 1974 and is taking a second term. Mr Peter Le Cheminant is Director-General of the General Council of British Shipping, which is effectively a trade association, and Mr Lusted is Deputy Director-General, and we are the team who will do our best to answer your questions.

1336. Thank you. I hope that when we have finished you will still be pleased to have been here because I can assure you there are a vast number of questions which the Committee would like to ask. Is there anything you would like to add at this stage to the two papers which you have already submitted to us?

(Mr St Johnston) It is possible to be mercifully brief because of those documents, which represent obviously quite a lot of work, although they were not solely designed for the purpose of this Committee, but conveniently do set out our strategy. I think you have had a copy of the main document, which was, "The Future of the British Merchant Fleet — An Analysis of its Policy Options." I am not, therefore, going to bang a whole lot of statistics around because they are there on the record and it would be absolutely superfluous to repeat them except to give you the general perspective, which is fairly dramatic and which is that, whereas five years ago we had 1,000 ships of about 29 million tonnes, of which most, namely, 25 million tonnes, were on the UK mainland register, we now have 635 ships of 17 million tonnes but of that 17 million tonnes only 6 are on the UK mainland register, which tells its own story, that, given the situation externally and internally, the industry had to modernise itself in order to remain competitive. In many classes of ship, particularly bulkers and tankers, that meant reducing operating costs by flagging out to cheaper registers, often very reluctantly and at a huge cost of, as we say in the paper, around £200 million in redundancy costs and, of course, even larger costs in terms of human jobs — a great reduction in truly British job opportunities. So the message in our paper is that companies that engage in shipping have done what is necessary to make themselves competitive in the short term. By and large the companies are doing quite well; they are profitable, not necessarily exclusively from shipping, to which I will allude later this afternoon, but nevertheless they have administered the medicine that has been necessary and have taken it and are all right in the short term. But really what that paper is saying is that that is the short term but it is the long term that we should be thinking about and the key question is, of course, re-investment. We have an ageing fleet, which is not in itself a bad thing. There has been a period of considerable overcapacity and the last thing we want to do is build gratuitous ships in a period of overcapacity but ships do come to the end of their natural life. In my company's segment of the industry over half of our container ships are over 15 years old and in many cases we have re-engined them and they will last longer, but the decision will have to be made in the next five to seven years whether we do re-invest. To give another quick perspective, which again was in the paper, it is clear that whereas before 1984 when fiscal incentives were withdrawn from shipping, in a normal year about 1¼ million g.r.t. of new ships would be ordered in each year, in the last two years, i.e. in the couple of years after 1984, a total of 15,000 g.r.t. of new ships were ordered over a two-year period. So the question we pose in our policy paper is not that the shipping companies are in decline but rather that the "Britishness" of those companies is in jeopardy and, indeed, in re-investment terms whether re-investment will be in ships at all and, if it is in ships, whether those ships will be on the British or some other register. In short, we are not by any means a lame duck industry and a lot of modern British shipping companies are extremely efficient by international standards and are fully competitive in the short term, although many of them have diversified in part into other businesses. Indeed, some are part of wider groupings, not pure shipping companies. The key question — and I make no apology for coming back to this — is whether the priority for capital when the time comes for re-investment will dictate that that scarce commodity of capital will be put back into ships and, if so, whether they will be British ships or foreign ships. This, we say — and I certainly say — is where the strategic element for the country comes in. Do we actually need as a country a merchant fleet that is of a certain size and that is ours? The two reasons for this, which scarcely need saying, are, on the one hand, national security and, on the other, in peacetime terms the ability to control our own trade and to contribute to the balance of payments as well as the employment that it provides, not just to ourselves but to marine-related industries. That is why in our paper we set out what you might call a menu of ways in which the government of the day and Parliament could, if they so wished, help the industry and there is a wide variety of methods if the will or the need is recognised. What we have done in our necessarily rather broad-brush way is to indicate the sort of sums of money that could, in the perspective of what happens in other of our neighbouring European countries, be the case in terms of sustaining a fleet of a certain size for a certain annual cost. We talk about the perspective and the sum of money to keep the fleet at its present size of 635 ships, which was purely arbitrary, would be a couple of hundred million pounds a year, which is about what the subvention is annually from the Department of Transport to

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[**Chairman** *Contd*]
London Regional Transport. As I say, I do not intend to repeat *in extenso* what is in the report. That is the essence of it, as briefly as I can put it, but I am quite sure that the most profitable part of the proceedings will be for us to try and answer the range of questions which you may have for us, sir.

1337 .Could I thank you for your very brief additional statement. Many of the points you made will be covered by our subsequent questions. Could I start by quoting from the GCBS's original evidence, in which you said: "The fundamental changes that have either lowered the world demand for ships of a particular type or the price of shipping services include: (a) changes in trade patterns; (b) technological advances; (c) a gross over-supply of ships affecting almost all sectors of the industry." More recently it was observed that some "signs of perhaps a fragile recovery" were taking place in certain sectors. Does the GCBS consider that this "fragile recovery" is continuing and strengthening?

(Mr St Johnston) Yes, without any doubt, thank goodness. As a Trade Association we cover a very wide spectrum of segments of our industry and it is necessary therefore to qualify somewhat that assertive "yes". In the world of tankers there is still a surplus; a lot of ships have been tied up for years and a lot of them are beginning to go to the breakers. There is evidence in the medium-sized tankers that demand is beginning to pick up hesistantly again. I might ask my Vice President to add to that in a moment. That same is true in the bulk carrier sector — again, the medium and handysized bulk carriers. In my own field of container ships we had an appalling bout of over-supply in the early eighties which caused some spectacular bankruptcies — thank God not many amongst the British operators who I think were fairly provident in anticipating this event, and the worst of that seems to be over. In general terms I think that what could be said to be most salutory about the appalling carnage of the early eighties has been a greater awareness on the part of banks, let alone the shipping companies themselves, of the unwisdom of just lending endless money to fuel an over-supply situation. I think that is the best answer I can give to that frightfully important environmental question, but I would ask Mr Denholm if he would like to add anything on the bulk and container side.

(Mr Denholm) Not a great deal, President. On the bulk side, which is the one I am particularly involved in, the recovery has strengthened and is at the moment quite strong. The rate of return on the ships is still far from adequate, but if I could give an example in my own company, we made a profit on a P & L account basis in August 1987 for the first time since 1980, and that has continued. The ships are now trading and showing a P & L account profit. The rate of return is far below what is needed to justify the investment in them, but it is true there is a feeling of optimism that there has not been for years.

Mr Dicks

1338. Can I ask Mr St Johnston, you did say just now banks are alive to the mistake of investing when there is over-supply of ships. If that is the case, why should the Government be investing in a way that might directly or indirectly lead to a continuation of that over-supply?

(Mr St Johnston) Please do not misunderstand what I am saying. There is a very big difference between reinvestment in ships for which there is proven business and a speculative investment in ships just because it seems like this week's good idea. The problem of the early eighties was that shipping was fashionable amongst international bankers. I will not give you my celebrated lecture on that subject at all, but if you take, for example, a cargo liner shipping company like my own, we will have X ships engaged in a certain trade in order to carry what we think we are going to be able to get of the general cargo trade moving. Ideally when one of those ships gets towards the end of its natural life we will be seeking to replace that. By replacing it we are not adding to over-supply; the old one goes to a decent burial and the new ship comes in, providing we are brave enough to take the investment ourselves. That is quite different from the situation which resulted in this chronic over-supply where everybody seemed to think that the humorous thing to do was to invest in ships, be they ship-owners or be they bankers. In answering your Chairman's first question I was addressing what you might call the irresponsible over-supply situation rather than the people who are taking investment decisions to regenerate their existing businesses. There is actually a very large distinction and that is why the two things rest on separate plans.

Mr Bidwell

1339. Does that affect the size of the ship? Replacements might not necessarily be of the same tonnage.

(Mr St Johnston) When reading out the original GCBS evidence you make the point, sir, that of course technology is changing, and by and large the economic ship unit tends to be the largest ship unit that you can profitably employ on that activity. They will never necessarily be absolute replicas of the previous vessel, although in certain segments of the industry there is no point in building a leviathan if it is only going to be half-full. So there is always a trade-off as to size versus the business to be gained. By and large numbers of ships are, therefore, a little misleading because 20 years ago you would have five or six cargo ships — conventional ships — and now five or six of those ships would be represented by one much more efficient huge container ship. So head count is not the answer because technology is indeed moving.

Mr Callaghan

1340. As I understand it, sir, you did mention the fact that the lives of some of the older ships were increased by putting new engines in.

(Mr St Johnson) Yes.

1341. Can you give the Committee an idea of how many ships have had new engines, and could you tell the Committee where those new engines come from? You also mention the fact that you will be ordering new ships, but I was not quite sure as to how

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[**Mr Callaghan** *Contd*]
you were thinking as to where those ships were to be ordered. Again, could you give the Committee some indication of where you think you will be putting those orders?

(Mr St Johnston) Yes. Forgive me if I particularise because I am not as knowledgeable about the tanker and bulker end of the industry perhaps as some. Re-engining is only worthwhile in a highly sophisticated, expensive ship. It would rarely be worth putting it into a tanker or bulker. In the container industry very few people, except the British, took the risk of spending £7 to £10 million to save fuel (which is what the British container companies did in the late seventies and early eighties) thinking that thereby they would save enough on their fuel bills to justify the extra capital investment. It was actually a very clever decision (which, incidentally, I had nothing to do with because I was away from the industry at the time) because not only did it make the savings in fuel to justify the capital investment but, in the process, it prolonged the lives of the ships because, if you think about it, the part of ships that wear out are the moving parts rather than the hull. Therefore the engineers started to realise after they had done it that they would probably get six, seven or eight extra years out of those ships. The cost of it was quite considerable and in nearly every case — *nearly* every case — Far Eastern yards were the most competitive in terms of the time that they would take to do it as distinct from just the pure cost of the engine that was going to be put in. On the second part of your question, sir — if ships are being built at the moment where they are being built — very few ships are being built at the moment, but those people who are looking at new tonnage are bound to look worldwide, on the basis that it is an international industry where you compete internationally and we want to know where the best buy is. As usual there are three elements in it: there is the quality and timeliness of the shipyard; there is the price at which they will sell you a ship and, of course, there is the financing terms that are available for the purchase of that ship, linked to the currency in which those ships are available to be built. It is, therefore, a much more complex decision as to what will make shipowner A decide to build in Britain or in Germany or in Korea or Japan. I would say from my own experience — because you are obviously seeking a bit of flavour here — certainly for the complicated ships the Far East is the most competitive place in all those elements that I have just mentioned. That is not to say that British yards are, as a result of that, uncompetitive, fullstop. It may well mean that they have chosen not to compete in that particular class of ship which is highly complicated and not necessarily in keeping with the guidelines that they have set themselves. If you think back 20 years to the first container ships that were built, all of them were built in Germany, which at the time had the technological lead, except for one or two that were built here, in some cases for the wrong reasons. Latterly the Japanese took over the German lead and right now my reading of the position — and it is a highly personal remark — is that the Japanese in their extraordinarily relentless fashion are overcoming the strength of their currency better than the Germans and that is reflected in the prices they are prepared to quote for complicated ships. I do not know whether that reflects through into what you might call the more straightforward ships, such as a straightforward, medium-size bulk carrier.

(Mr Denholm) Very few medium-sized bulk carriers are being ordered just now but of those that are, a number are being ordered in Korea and a number in the People's Republic of China and the remarks the President makes about the need to build the ship where it can be delivered at the cheapest price and the best finance apply equally to simple ships as to complicated ones but because they are simple they are likely to be able to be built competitively by less sophisticated nations.

Mr Bevan

1342. Mr St Johnston, I would very much like to go further into this to try and elicit from you reasons why we might not be winning, even in view of your signs of a fragile recovery. In your press release of 17 December 1987, you go into the question of the ageing fleet and say that investment opportunities may progressively look more attractive and that the overall size of the fleet will progressively dwindle, and you have gone into the technical reasons for that. You also say that British companies are in good shape as companies and need a fair commercial environment. You emphasise in that the essentiality to the nation of the British fleet and I want to question you on this because I feel that your answers might well take account of an international argument which runs as I will enumerate and which will positively ensure that the British do not take part in this recovery unless we are very careful. The argument goes like this: that the international shipping business is a highly competitive and highly capital-intensive business; there has been a heavy oversupply of tonnage in many sectors of the fleet, with very low freight rates emerging; owners have even had to struggle to recover net operating costs; traditional financing institutions have, as you have said, tried to reduce their exposure; the fleets, therefore, are becoming progressively older and inefficient and major fleet replacements in terms of new ships will be required. In parallel with this, the world economy is emerging from this long period of recession which it has been going through and the industrialised economies that specialise in the manufacture of the shipping are, therefore, healthier. Is it accepted, therefore, that the rate of growth of world or foreign trade is going to increase substantially? We — or rather those in the shipbuilding industry — may have suffered an order famine in the last few year because of the advent of short-term contracts and the operation of inefficient older vessels. Few contracts have been snapped up and those that have, have been at a loss-making level, but the market is changing and changing appreciably and I would like you to comment on that. Is it that the market is seeing an ageing world fleet with a positive need for new ships very quickly and, therefore, will prices in the new field internationally start to increase dramatically? Finally on these points, the many end users of sea transportation are accu-

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[**Mr Bevan** *Contd*]

stomed to taking their pick of the shipowners' best offers. As the tonnage surplus reduces they can see that the freight rates will move against them and this would be part of a recovery in rates. Some are preparing for this eventually by negotiating long contracts for hire — would that be right? — and others are debating whether to own the vessels or lease the vessels themselves, and if they took this course they would naturally buy in yards abroad at the moment?

(Mr St Johnston) Wow! You have asked me a lot of questions and I will do my best not to forget any but please pull me up if I do. Overhanging the whole of this is something that none of us can dictate and that is whether the United States slips into recession or not and, if so, how deeply. It is an uncomfortable fact that in world trade terms, which I think was central to the raft of questions you asked me, all economies respond to the health or lack of health of the United States economy. It flows through very quickly to all the Asian economies because of the nature of the things that the Asians make. It flows through a little less quickly into Europe because of the nature of the things that we make here. Within six to twelve months a major turn either way in the American economy affects world trade. It is not a very palatable fact, it is true.

The second thing, of course, that affects shipping because of the historical quirk that really everything to do with shipping tends to be quoted in dollars is that the health of the dollar affects the health of all sorts of aspects of shipping which are dollar-denominated, and my personal bet at the moment (if that is of the remotest interest) is that we must see certain recessionary characteristics in the United States which may be a dampener upon world trade on the most important routes over the next 12 to 18 months. However, we think that there should be growth in world trade; there nearly always is. It has to be a very serious turn of events for there to be no growth, but one is talking about 3 or 4 per cent only. Just assume, for the purpose of now trying to answer your other question, that that were to be the case, then I think that several things would happen in the purely shipping sector. Shipowners themselves around the world, having had a real battering over the last several years, are very much in the mood to be a little bit more sensible than in recent times and, therefore, I would expect the fragile recovery to continue but it would remain fragile for these external reasons of an unforeseen dip in the health of the world trade movements.

That ought to be accompanied by a hardening of freight rates; whatever the growth of trade that you are talking about ought to result in that. It also ought to result in a boost to the confidence of shipowners to reinvest but probably not to do so speculatively (referring back to the answer to the last question). I think banks will be cautious. All banks are sometimes terribly fashion-conscious and indeed foolish in the way that shipowners are in believing in a false dawn, but I cannot tell whether there will be another fashion for further investment in shipping. I believe not and I certainly hope not. Against that background there must be opportunities for shipyards to benefit from the increased optimism of shipowners at the renewal of orders, particularly as the shipbuilding industries of most Western countries have been through a rapid period of Draconian rationalisation, notably Japan and most European countries, through force of necessity, however politically and socially unacceptable that process may have been. Notable exceptions to them are South Korea and Taiwan, who have continued to build unabated whether they have orders or not, and that is a world problem. I think that prices are hardening in shipyards. My company is looking around for a ship at the moment and without doubt people are less sacrificial in what they will offer. Therefore I would have thought there is likely to be some profit available in shipbuilding contracts, providing the yard is efficient and irrespective of whether it gets any Government assistance or not. Whether this situation will go so far as to cause people to switch from being charterers to owners is, really, a matter of their individual confidence and financial strength and I do not think one can make a prediction on that. As to the other question, I think that there will always be people who will prefer to go for long contracts at a lower rate of affreightment rather than building for the spot market. As I say, I am not in the tanker business, but certainly the people who have strengthened and made money over the years are the ones who got the balance between long-term contracts and a proportion of spot, and the people, by and large, who have come a cropper are the people who have played a bull market unwisely and only had a small proportion of fixed. For quite a few years to come people will be going fairly long.

(Mr Denholm) I think to answer your question, because shipowners will be cautious about building ships, shippers who want ships will have to offer long-term contracts.

(Mr St Jonston) It is the other side of the coin, yes.

(Mr Denholm) That means that the shipper will have some say in where these ships are built, and as Japan I think is the biggest importer of bulk commodities in that field I would expect there to be some bias towards ships being built in Japan.

1343. Thank you for those most excellent answers. one final question: I know you want to address the other issue where they might well be built and not leased. I think you are still looking at it.

(Mr St Johnston) You mean leased or chartered? Do you mean financially leased?

1344. Where they would be built at the moment.

(Mr St Johnston) I did try to answer that question in the context of the type of ship that I am predominately involved in. You must, as I say, I think, realise that there are certain countries who would specialise, shall we say, in bulk carriers because, as the Vice President said, they fit their sort of building capabilities and requirements and so forth. I fear that at the moment the seesaw tips very heavily indeed in the direction of Asia.

Mr Bevan: Thank you very much.

Mrs Dunwoody

1345. I have been trying very hard to follow your

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[**Mrs Dunwoody** *Contd*]
arguments. I wonder if I could perhaps ask you to qualify some things. Firstly, it seems to me you are saying "by a combination of methods we have gone through a difficult period and no matter what the sectors are (and you have differentiated very carefully between the different sectors) we have managed to make ourselves profitable. It is a fragile recovery but we have done that by a combination of factors". Some of them, I assume, are flagging-out and some of them, you have made clear, are because companies are themselves not only involved in shipping but are, in effect, cross-subsidising across the company, if not across the product. I wonder if you could put to me, because I am obviously not very clear about it, what arguments would I use to a Conservative Government that would convince them of the need to maintain a British fleet. Let me put it to you like this: you appear to be saying that in the long-term the only way that you will rebuild a fleet of the size that is viable — and I am not sure what that is because you do not seem to have given us an idea of what you would regard as suitable tonnage. Indeed, in some of your own evidence you have said (and I have forgotten the quote) in effect that your business judgment would be such that there is a zero level which you would put forward. What is the size that you would regard as viable? What persuasion would you use — if those ships are being built outside Britain and are, therefore, not contributing to jobs here but are being built simply on the basis of good business investment — as to why the Government should put up any subsidy towards it? Thirdly, if there is an increase in the amount of flagging-out in British dependent territories, although not within Britain (and some of the reasons for that seem to be in your evidence, because at one point you complain about the British Government's insistence on safety measures) what arguments am I to use to the Government to put forward the need to invest in a British fleet? How will we define British fleet, given those circumstances? What size is it? Why should the taxpayer's money be used for it? Where, if you are using your normal commercial judgment, do you intend that fleet to be built? If it is to be done on that basis, then will you please explain to me what the benefit is to Britain of maintaining a fleet which, in the final analysis, may be owned by companies who are themselves multi-national companies and therefore (although they may be British companies within the meaning of company law) they will themselves have a degree of internal organisation which will mean that a lot of their policy decisions will be taken almost automatically in relation to other countries as well? I hope that is not an unfair series of questions.

(*Mr St Johnston*) It is a jolly difficult one. I will do my best to answer it. If I can knock off a couple of the points along the way and then come back to why should a Government or a national want to do it. I think I would like, therefore, to start by the linkage to British construction. We, as an international business, have always said we must be allowed to build where it is most competitive to build because, at the end of the day, we compete with people who are also in that position. Any British owner would prefer to build — in a perfect world, with the British flag in his hand — in Britain if the ship could be procured at the right price, the right time and the right quality. If, on the other hand, you cannot, it is a self-defeating equasion: you get some money from the Government if you build in Britain, but if the ship that you buy is not competitive there is no point in getting the money from the Government in the first place. We therefore do believe that there is a clear division. On financial terms the Government is bound to be interested in the future of its shipbuilding industry just as it may be in the shipping industry, but to link the two together inextricably can turn out to be a self-defeating result. The ideal size of fleet is an impossible question to answer because there are two dimensions. One is the peacetime dimensions of the trading fleet that it is desirable to sustain so that you are not at the mercy of your trading competitors and so that you can make a decent contribution to the balance of payments which, even though it is only a couple of billion pounds, is still a couple of billion pounds. That suggests what the present Prime Minister called a merchant fleet of a substantial size. Call it the size that it is now, which is much smaller then it used to be but it is quite healthy and it is around 600 ships. Once you get into the field of the strategic defence argument then that is not a question which we are in a position to answer. That is a question for the Ministry of Defence or the NATO commanders or whatever it is. However, there again it is not just a headcount; it is a count of the specific types of ships that are needed for those sorts of circumstances and whether they are available to Britain and, indeed, to NATO allies at large or whether there is a shortage. So the all-important defence strategic argument is a different one numerically and qualitatively from the peacetime one of generating trade and money for the country. In wartime, as I say, it is what the Navy and NATO may need to service themselves and to keep the country fed. Via that you also get to the point you made about the dependencies registers. The point about dependencies like, not only the Isle of Man but Bermuda or Hong Kong under British ownership is that the ships of those registers are retrievable in the event of emergency. Depending on how they are manned, some of their crews are also retrievable in an emergency, that is to say, in an emergency there are two assets you need: one is the ships and the other is the crews to man them. The moment you get beyond the dependencies to Liberia, Monrovia or Panama there may be no British content whatever in the manning of those ships and because the ships are under a totally different flag they may be more difficult to retrieve to the flag in the event of necessity. We therefore feel that as a halfway house flagging-out to the Isle of Man or, indeed, to a dependent registry is better than flagging right out. And this has nothing to do with safety standards; it is to do with the ability to man according to how you wish to. It is, as I say, a genuine halfway house. I personally believe it would be far better to create the environment in which that street — which is actually a one-way street because once you have gone offshore it is very hard to take the step back — was not an attractive one to go down. That is why we say there is a case for considering whether there would

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[Mrs Dunwoody *Contd*]

not be ways of reducing the overhead cost of retaining British seamen because that is really the difference in many cases on the manning cost side. It is not so much the amount a bosun is paid; it is the additional on-cost of social security and so forth which makes it quite an expensive thing for certain classes of ship to retain, hence the flagging-out. This therefore comes back to your central question, Mrs Dunwoody, about what you could say to the government. What we say in our paper is that we as companies, whether we are dedicated, pure shipping companies or whether we are part of wider groupings — and I will come to your multinational point in a second, if I may — are all right in the short term by virtue of the various methods and diversifications we have done. Re-investment is the crucial thing. For the country as opposed to the companies we believe quite strongly, and I certainly believe very clearly myself, that there is an equally good peacetime argument. We are an island nation; we are a trading nation and we would, I think, place ourselves at the mercy of our trade competitors very dangerously if we effectively did not have a decent sized merchant fleet of our own to set standards of service as well as price. Then, of course, there is the balance of payments argument of our industry and the marine-related industries which surround a healthy British merchant marine. In wartime terms then I think the trouble has been in the past that it has been easy, and probably correct, to say, "Listen. Do not worry too much, merchant shipowners. We know what we want for our own Naval purposes and anyway there will be ships there amongst our NATO allies to make good any deficiencies that may emerge." We believe — and this is what we also hear in Brussels in the EEC — that people are beginning to realise that this may no longer be the case and that there may actually be a NATO shortage of certain very important classes of ship for the three well-known functions of aid to the military, rapid resupply of Europe and civil resupply of the local populations. We are, therefore, extremely relieved that a NATO study, inspired, I think, by our Government here, is now being commissioned to consider the demand that NATO would have in these three sectors. That will be prospective as well as retrospective because it is what is going to be here in five years' time that the planners really need to be thinking of, not what today's snapshot says. We can point to certain classes of ship where we are certain that any government in any NATO country, not just ourselves, ought to be having concerns but we recognise that that is their prerogative to judge and we are merely saying, "Do be careful that the size and the pool of available ships is not short to the point where you discover too late that there are not enough ships and, of course, by definition also that there are not enough crews to man them."

Mr Conway

1346. Could I ask about that particular aspect because the Secretary of State for Transport, writing in our own House magazine which was published on 29 January, said: "It is sometimes suggested, that as a result of the decline in numbers of the UK fleet we could no longer mount the Falklands operation. This is not true. Although the choice of ships is more limited now than in 1982, we believe we could still provide the necessary merchant navy support for an operation of similar scale and duration to the Falklands campaign. We have enough ships to support any likely operation outside the NATO area. There are sufficient vessels on the UK and dependent territory registers to meet the planned needs of the armed forces in tension and in war." As I understand it, Mr Chairman, that planned need relates specifically to our NATO demand in so far as the Ministry of Defence is concerned, so do our witnesses basically think the Secretary of State is wrong or perhaps he is not putting a specific timescale to the commitment?

(*Mr St Johnston*) I personally was not talking about another Falklands because I think the chances of that are remote enough to be discarded, but concentrating instead on what you might call a major tension between the superpowers. I do not have access to the same sources of knowledge as the Minister, nor would you expect me to. Right now, sitting here, it is encouraging that he is still writing that on the NATO point. However, if you participate in NATO planning, which some of us as individuals do, you realise they are looking really quite a long time ahead because it is their job to do so.

What we are saying politely but forcibly is "Please do not leave it too late because it is very hard to retrieve a situation if there is a chronic shortage of ship type X." Therefore, if you are talking about strategy, by definition you are talking in planning terms. As I say, if the Minister is saying that there are enough ships, then good show; our concern is lest, so to speak, inadvertently we allow a situation to develop (and this does not just apply to Britain but to France, Germany and other leading NATO countries) where we have no access to important types of ships when we need them. I cannot remember whether you did ask the question but it was inherent in either yours or Mr Gilroy Bevan's question, you could see a situation where the proper British fleet — UK owned, UK flagged and manned by British officers and ratings — dwindles progressively by the mid-nineties to 100 or so ships, because there will genuinely be companies for whom it is totally and overridingly required to retain the Britishness of their crews and, indeed, cargo if they possibly can. Long may that remain. Just assume that that remark were to prove to be the event, and we were sitting here in 1995 considering what implications there were in those circumstances for NATO. We are suggesting we might have a very much more worrying discussion than we are having today, by which time it is too late because the ships have gone into other ownership and have not been replaced and the shipping companies are building supermarkets instead. May I ask Mr Le Cheminant if he would like to add something there?

(*Mr Le Cheminant*) I do not think so, President; you have said it all. The important thing is that I think NATO is now beginning to wake up, at least to the possibility that they ought to be worried. While we may not be able to wait for the end of the study for action, because these things take a long time, at

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[**Mr Conway** *Contd*]
least the question is now being addressed.

(Mr St Johnston) I think it is relevant, Chairman, to add to that that whilst the EEC has no brief for NATO, we do a periodical visit to Brussels to talk to all the various directorates and we have just done one. It is quite clear that the EEC Commission and the European Parliament are giving a great deal of thought to the other half of the equation, which is the peacetime half of the equation, the means to retain an EEC cargo fleet of a certain size in order to preserve the trading strength of the EEC bloc versus the other blocs. We are a microcosm of that situation, in our opinion.

Mr Conway: A sort of floating cap.

Mrs Dunwoody

1347. I hope I am not misrepresenting what you say, but you seem to be saying that, firstly, we should consider the defence involvement, and that is the way that even the EEC is now beginning to look at it. That may be a very good case for subsidy at EEC level, which of course would go to all the other European shipping interests in exactly the same way, but that is not what we are talking about here. It is certainly not what concerns me. If you will forgive me just taking a second bite: I can see a point in having a policy of scope which is subsidised by the taxpayer which creates jobs in British shipyards, which goes in for very high quality, high-tech ships which, in their turn, are crewed by British crews and owned by British owners. I can see the logic in that. If the definition which you put forward of "national interest" is the same as mine then I can see some logic in it. My problem arises with some of the points that you yourself have made. Firstly, about your proposals on cost, because you appear to be saying (unless I am wrong) that before 1984 when you had tax concessions you were able to do certain things which you are not able to do now. Are you suggesting that we should go backwards to exactly that same kind of scheme? If so, was it the most effective way of doing it or not? What preference should we give to it at this point? I will bring you back, if I may, once more, to the whole question of flagging-out. How could I justify to a Conservative Government (because, after all, you are not having to persuade me; my arguments would be different ones) that says each industry must look to its own financing and must look to its own viability; if there is a rise in the number of ships that are being flagged-out which do not carry British seamen, to which the rules that we want to see applied to our ships do not apply, except in the most minimal ways, how do I persuade this present Government to go back to a system where your long-term taxation situation is looked at as a means of subsidising the future building of ships? Because so far your arguments seem to have related to, firstly, the Britishness, which you define in a different way from me; secondly, to the fact that NATO has now woken up to this and the EEC are concerned about it, and, thirdly, that although there is a recovery it is a fragile economic recovery. I would also like to ask you why you think the British suffer particularly under cabotage when, if these changes are made, other European firms would still be presumably in the same situation?

(Mr St Johnston) I follow the family of questions that you have asked. First of all, we have never said anything about the subsidising of shipbuilding. That is a separate issue. There is a subsidy for shipbuilding in various parts of the world. I think that the key question is jobbing back, we are not asking for a subsidy for building; what we are saying is the incentive to our investment, which has a fiscal one prior to 1984, seems to have worked pretty well from all the evidence and all the knowledge that we have.

1348. In terms of numbers?

(Mr St Johnston) Yes, and tonnage. For perfectly well understood reasons there was a change in the policy towards corporation tax. Everybody understands — whether they agree with it or not — the thrust of that. To have made an exception in the case of the shipping industry in relation to investment allowances and free appreciation and so forth would have been very difficult to justify without creating a queue of other people saying "We would like that". Therefore we understand why that privilege, that incentive, was withdrawn.

We now look at the statistics since, which do make us believe that it has turned out to be a positive disincentive to re-invest, particularly when taken in relation to some of our European neighbours like the Germans and the Dutch, who have continued building at an infinitely greater rate than we have. The statistics on that are in the blue book. However, I do not believe pragmatically that it would be sensible to pray the Government to job backwards and, to use your words, re-institute investment allowances on the ground that it would be fiscally very difficult for them to be justified. Instead, in our paper, indeed in our submissions to the Chancellor in relation to the coming budget, we have argued that there could be a very valuable incentive indeed in introducing something which is not fiscally troublesome and for which there are precedents in other industries' circumstances, namely, a system of rollover relief for balancing charges, by which I mean that if you want to sell a ship and you sell it above the book value you pay tax on the excess value, and we say if, having sold that ship, you were to re-invest within three years or something like that, you would claw back the tax that you had paid at the time of the sale. That would be a positive inducement to re-investors. It would increase the equity you put in the ship, reduce the debt you had to take on and improve the return on capital, etc., and it would only, therefore, be available to those who, having sold, did re-invest within a reasonable time. In practical terms in the shipping business there are a large number of companies — not, incidentally, including my own — who survive by the skilful buying and selling of ships as well as the trading of the ships and may be inhibited from selling at a particular time because of the tax and the uncertainty of whether to re-buy, which would be said to be a positive disincentive, but giving a reasonable period in which to re-buy could act as a major incentive to re-investment. Therefore, we are not jobbing backwards because frankly we think it is unrealistic to do so. We are jobbing into a new

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[**Mrs Dunwoody** *Contd*]
direction. There would be a cost to the Inland Revenue at a certain stage probably but it would be quite a material step towards reducing this sort of gap that we see in the fiscal sense between the regime which we have and the regime which most of our European neighbours have. It is rather a long-winded way of answering your question but is that clear enough?

Mrs Dunwoody: Quite clear, thank you.

Mr Bidwell

1349. There are a couple of questions that fall within the bracket of Government action on which we would like to have your view. At the beginning of this inquiry the then Secretary of State for Transport, Mr John Moore, announced the Government's intention to provide assistance with repatriation and training costs and set up a Merchant Navy Reserve. These proposals are included in the Merchant Shipping Bill currently before Parliament. Despite what it sees as the limitations of these proposals, do you welcome them and what positive effect are they likely to have on the industry?

(Mr St Johnston) I need hardly say that the proposals are very much welcomed. They do not, of course, solve the whole problem that we are talking about here strategically today but I think it would be quite wrong not to expose before this Committee the principal reason why we welcome them as much as we do. There is a great deal of talk (and quite rightly so) and coverage in the press about the reduction in the size of the merchant marine linked to flagging-out, which, of course, is jobs, and there is a great danger that if we are not careful it will become harder and harder to attract the right sort of young people, either to become officers or, indeed, to go to sea at all in any capacity. We have to win the hearts and minds of careers masters and families, and right now the industry is experiencing an almost unprecedented loss to shoreside work. There is always that because it is a curious life being at sea and a lot of people elect to come ashore for perfectly good family or other reasons, but the danger is that what has always been a trickle becomes a bit of a flood. The number of companies in the process of streamlining themselves in order to meet the competition I have described endlessly this afternoon have curtailed or stopped their own cadet schemes. That is not a universal statement but a number of such schemes have stopped. I think a lot of companies, having emerged from the worst of that, may very well be reconsidering their policy. Therefore, putting this new training scheme alongside what the companies themselves will be doing I think is very positive. We do not have the details yet. I think that collectively as a country we have to be careful to avoid the trap of training a whole lot of aspiring youngsters for whom at the end of the day there might not be enough jobs because if you are not careful that is a self-defeating activity. So yes, we do welcome very much the so-called Moore package and we are waiting keenly to hear the details of that.

1350. My second question concerns safety. Among the miscellaneous measures which you suggest the Government could use to assist UK shipping is one concerning international safety standards. While emphasising your commitment to the safe operation of ships, you argue that "the British Government continues to insist on putting its own gloss on international regulations, placing British shipowners at a competitive disadvantage in order to comply with them." Could you explain what you mean by that a little more fully?

(Mr St Johnston) Yes. I am sure you will forgive my hesitation because safety looms fairly large on my own horizon at the moment, being a Director of P & O, as a result of the Herald Of Free Enterprise. But safety standards are absolute, that is obvious, and it is the procedures for humans to obey that are just as important as mechanical devices to render things absolutely failsafe. That, too, is perfectly obvious. The IMO is the international body which sets international safety standards and that body gets a considerable input from our Government and our shipowners, as it jolly well should. This results in a number of international conventions which all shipowners, irrespective of their flag, are bound to obey. This is at the heart of the so-called "flags of convenience" argument as put out by UNCTAD and so forth. If a flag of convenience means a short-cut to cutting corners in safety standards, that is obviously a bad thing, and that is what Port State Control is all about.

1351. Are corners cut?

(Mr St Johnston) In some of the odd registers such as, though not necessarily, the Cayman Islands, they obviously are. There are cases where people go to a register because they believe they will have the ability to cut corners. If that is so, nobody in Britain, whether they are owners or governments, supports that because it is a passport to perdition. Nevertheless, if I am — which I am not — a Panama shipowner, provided I abide and work by the IMO regulations, the international worldwide regulations, that is fine. I cannot remember where that quotation that you gave came from, but if there is a commentary to be made on our rules and regulations (and here I am generalising, I am not referring specifically to the understandable aftermath of the "Herald of Free Enterprise" thing); if we as a country demand standards and inspection procedures that are still more demanding and, therefore, costly than IMO, you can argue we are placing ourselves at a competitive disadvantage to some of our perfectly responsible and safety-conscious competitors. That is the point.

Mr Conway

1352. I wonder if I could bring Mr St Johnston back to some of the points that Mrs Dunwoody was making a little earlier. You are working terribly hard because obviously you have made your representations in advance of the budget and we are speaking to the Treasury soon as a Committee so if I could just press you more on your views on taxation and incentives so far as your industry is concerned. You do propose a number of Government measures in your earlier suggestions. You stated "We still believe that a return to a more favourable capital taxation regime would be the simplest route for

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[Mr Conway *Contd*]
effective support". That was paragraph 15 in Appendix 1. Is it still your desire to have the Chancellor put you back to a pre-1984 fiscal regime before that quite stiff budget?

(Mr St Johnston) I am afraid I cannot have made myself clear enough in answer to Mrs Dunwoody's question. We believe that a fiscal regime that provides somehow an incentive to successful shipowners to reinvest is "a good thing". It manifestly was before 1984; the lack of it seems to have resulted in a derth of orders post-1984. There are other reasons, of course. We therefore say we understand why the Government of the day does not like free depreciation because it runs slack across the thrust of the corporation tax reforms of 1984. Therefore, we select another fiscal incentive which ought not to be so fiscally unacceptable, or provocative, in the form of roll-over relief, for which there are other precedents. It is not a novel concept and we believe ought, therefore, to be more digestible to the Treasury because, again, it would only advantage the successful re-investors; it would not be a subsidy for you, even if you were about to go down the plughole.

Mr Bevan

1353. On that question, Mr Chairman, if I may, roll-over being the profit between sale price and historical down-written value, you place great importance on it, as you said to Mrs Dunwoody. However, in your own statistics that freedom exists if it is reinvested in a new ship. In your own statistics you say it only amounts to gains of £12 million on every 100 ships.

(Mr St Johnston) Yes.

1354. How can that, therefore, be an important fiscal incentive?

(Mr St Johnston) There are 600 ships and that could, therefore, be £72 million. Which is a lot of money.

1355. So we are reading it wrong? £12 million per 100 ships?

(Mr St Johnston) We have 635 ships. We grossly over-simplify because we have to do this top to bottom approach, and if that was misleading I apologise. The previous situation is you have got to roll it over within a fiscal year. That can be very, very difficult in real life terms. We say extend the period to — I do not know — three or four years, or something like that, and then it could be a major contribution to this so-called gap that we have identified to the tune of £50, £60, £70 million in a year. That is a lot of money at comparatively little pain, because it is only administered to those who are showing the will to go on.*

Mr Conway

1356. Obviously there has been a lot of discussion about this and, in fact, statements referred to in the other House, but the free depreciation of the 100 per cent first year allowance, and carried back against the profits of the previous three years, was not really successful in stopping the decline of the fleet between 1975 and 1984 when that budget ended. In fact, Lord Brabazon in the House of Lords debate on 15 July 1987 said: "front loaded depreciation produced poor results for the United Kingdom industry generally and may not have served shipping that well, for the fleet's decline began well before the 1984 fiscal reforms". So why does the GCSB think a 50 per cent initial depreciation allowance is likely to be more successful in attracting investment into shipping when compared with all other industries? Is not an investment actually going to be determined by the state of the market for which a ship is being designed?

(Mr St Johnston) May I ask Mr Le Cheminant to answer that question?

(Mr Le Cheminant) There are two separate threads to the statistics. You had a massive rundown in the market for ships because of oil coming from the North Sea, or Mexico or Alaska and container ships got long-term, long-distance business and so on. All of those things were happening and the fleet would have shrunk anyway. It may not have shrunk as far as it did but it would have shrunk because of these changes. While that was going on the old tax allowance system gave a substantial incentive to people to invest in new ships, and while that decline went on, people still actually ordered something like 12 million tonnes. In other words the fleet we had at the end of that period was a newer and better fleet than it would have been without that incentive.

(Mr St Johnston) There was modernisation of fleets, which meant five or six ships being rolled into one new one, and that was all going on in the late-seventies as well.

Mr Conway

1357. Obviously there have been the capital allowance changes that were made, particularly in the budget and again in subsequent budgets, which obviously do not please industry generally, let alone your own industry specifically. But, of course, there was the balancing effect of the corporation tax rates which have now made you — because they are the lowest in the industrial world — extraordinarily competitive with our major competing nations. How do your members view that? It is difficult for the taxpaying customer to give you both.

* *Note by witness:* We would like to clarify what GCBS had in mind when we costed some of the support measures that we suggested in our paper. It was clear from some of the exchanges on 2 February that the impact of measures such as roll-over relief for balancing charges, expressed as — in this case — £12m per 100 ships, was not clear. It appeared that members of the Committee felt that £12m spread over 100 ships was a derisory amount of support. In fact the yield per ship would be substantial. All the costings in our paper were done on the assumpton that ships would be replaced every 15 years. Thus a fleet of 100 ships would require 6⅔ replacements each year. The amounts shown are the *annual* estimated yield of each measure, and roll-over relief would provide about £1.8m per replacement — a useful measure indeed.

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[Mr Conway *Contd*]

(Mr Le Cheminant) If I may, Chairman, obviously everybody welcomes a reduction in corporation tax, and if somebody could abolish it in this budget that would be marvellous, but I do not suppose that will happen. That is only one element in the equation. You have to consider that the shipping industry, unlike just about any other industry in this country, is fully exposed to international competition: it operates internationally without the sorts of protections which are actually available to almost all the rest of British industry. The whole of manufacturing industry has a 10 per cent EEC external tariff; the farming industry is heavily subsidised, as we all know, through the CAP. The exposure of shipping to the direct competition of everybody from every part of the world is almost unique in our industrial situation. That is why one has to think a bit beyond tax. If the Government wants to help, one has to think beyond simply it would be nice to reduce taxation.

(Mr St Johnston) I have remembered a question Mrs Dunwoody asked me about cabotage.

Mrs Dunwoody

1358. I was going to come to that. May I give you one of your own quotes before I do? You did say: "It is intolerable that British ships are excluded from the coastal trades of five of its Community partners, whilst any ship can trade around our coasts regardless of whether it benefits from domestic protection or unfair Government subsidy". That is an important point. I would also like you to address yourself to the question of UK licensing of foreign vessels as well.

(Mr St Johnston) First of all, the first EEC law on shipping, as you know, was hatched in the last three years, when the GCBS and all sorts of international shipowning bodies participated with the Commission. By and large, the thrust of those regulations was to give a framework within which shipping should operate, i.e. the basic framework, rather like our Merchant Shipping Bill, was broadly satisfactory. However, one of the elements in the package that was there for negotiation was, indeed, cabotage — deeply engrained, passionately emotive for those who have it and quite a problem for those who do not. Under the British presidency John Moore actually did the most amazing balancing act to get most of what we wanted through. I think everybody, speaking nationally, ought to be rather pleased. He lost on getting cabotage in and it is very interesting that in Brussels everybody said that he had no chance. It was nothing to do with his lack of persuasiveness or anything else that he did not get it. There were just too many angular spikes on it for it to have been included in the package. That is history. It is not dead; it is technically on the table, but something of a political nature has to come along to get that carried forward into the EEC political arena again and that ought to be the second phase of EEC regulations, which are the so-called positive measures to help harmonise and co-ordinate EEC shipping. It is still on the drawingboard. This gives the British a problem because a number of our short-sea owners are severely disadvanted by exactly what you read out, and as a trade association it is really quite difficult for us not to have a great deal of sympathy with their predicament, even though as a country we are wedded to free trade. As an industry, we want to open trades up, not close them down — the reverse of protectionism. However, politically I can well imagine that in EEC terms it is important for Britain, who said quite a lot before the negotiations about the importance of this issue to Britain, to be seen to have some sort of levers or weapons and I guess this is what leads to consideration of whether some similar sort of regime that exists for other classes of ship could be adopted as an interim and temporary measure in order to show that we actually do mind and do mean business; that is to say, a practical response to a real-life situation, even though it is philosophically contrary to what we normally preach.

1359. How would that tie in with your view of the EEC's shipping policy, because although you told us you believed that you were now on the first phase, what is your reaction to that? Further, how do you see that developing because all these things must be very much a part of how we view European developments, surely?

(Mr St Johnston) Yes. The things that were included in the EEC package about ensuring freedom to trade and the competition rules which the shipowners must obey and so forth are, broadly speaking, acceptable and because they were effectively doing something there was no point being silly about it. However, as I said, those were setting the framework. We would very much, as an industry, have liked to see cabotage included within that, for all the reasons I stated earlier. It did not get in, which is troublesome, because there are a number of EEC members who will be very content if in the year 2050 it is still gathering dust on the shelf, for good chauvinistic reasons. It remains in our interest to keep that issue alive so that we can, as I say, attach it to the next phase of the EEC regulations. Those regulations, because they are not just the fabric of the shipping rules but are some constructive policies as yet unborn for the harmonisation and sustenance of the fleet, are rather exciting and it is a pity that that has to be added to them. That realistically is not going to happen for quite a while because the next phase of proposals are not even in draft form. They are still revising them in DG VII in the Commission, in Clinton Davies's section, and it is actually quite difficult to draft and I am not entirely surprised that they have not seen the light of day yet. There is clearly going to be quite a gap before anybody is getting excited about stage two, the positive measures, and it is, therefore, a problem for us as an industry and as a country to keep the issue alive in the interim. It is only that, as I understand it, which has led our Government to think whether there is any lever that they could and should consider for that purpose but, as I say, it is absolutely counter to our general philosophy.

Mr Callaghan

1360. Mr St Johnston, I would like to bring you back to the question of the Inland Revenue again. It has been reported that the Inland Revenue is

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[**Mr Callaghan** *Contd*]
seeking to bring UK-based seafarers on offshore agreements inside the mainland tax network. If the Inland Revenue does insist on PAYE from seafarers employed through the Isle of Man, what effect do you think this would have on the Isle of Man register?

(Mr St Johnston) That is a difficult one to answer. May I ask Mr Le Cheminant if he has an update on that, the reason being it has been a changing picture. We did not know until recently where we might stand.

1361. 15 January?

(Mr St Johnston) That is correct.

(Mr Le Cheminant) The important thing about it is that liability for tax depends on tax residence. Whether tax is collected by one means or another is a technical thing which one can dispute, and there are plenty of talks going on at the moment.

It is not the tax element which leads people to go to the Isle of Man. That, in a sense, is a matter between an individual seafarer and his own particular tax man, where he happens to live. Of course, many people working on ships that are flagged out qualify under the present rules for the 100 per cent remission on tax anyway. The importance of the Isle of Man rests much more in the sort of employment deals you can make with British seafarers, many of them, which affect the totality of the employment costs. Many of these chaps are earning at least as much as they earned when they were on mainland registers, but they are doing so with terms of leave, stand-by costs and all that sort of thing — whether through an agency or whether, in some cases, still employed directly by a company — which are themselves an enormous relief to the total cost of employing people. In that respect tax is a secondary issue. It is an important issue, obviously, for individuals, and it is an imporant issue for companies in what they have to do. All of them try very hard to do what the law requires them to do. But the importance of the Isle of Man is not just tax, it is many other things.

(Mr St Johnston) Mr Denholm has ships under that register.

(Mr Denholm) I think it is fair to say that seafarers prefer to be paid a gross wage and make their own tax arrangements, and they get the advantage of the time-value of the money which will have eventually to be paid in tax. Many of them organise their lives so that when they can take their leave they take it in Spain and their wives join them there. They have freedom which they would not otherwise have. I agree with Mr Le Cheminant that the main attractions in these registers are not purely tax. Nevertheless, to bring the Isle of Man within the PAYE regime would, I think, lead owners or managers to move their centre of activity to some other place, to Hong Kong or to the Bahamas, or Liberia or Panama.

1362. Do you not think the Inland Revenue is conscious of that? If so, why are they going to introduce it?

(Mr Denholm) We do not know at this stage whether they are or not.

(Mr St Johnston) This, actually in the process, makes the point that I was endeavouring to make earlier, sir, that it is an uncomfortable fact that once you set off down the flagging-out route it is basically a one-way street and it would be this or some other thing which tends to push an owner further. For example, if he is in a highly competitive segment of the business where the tax regime counts as to whether you are competitive, the fact that you are, for example, in the Isle of Man and continue to employ a good number of British officers is probably what you desire to do — and you may employ British seafarers as well. If in spite of doing that you are still finding it hard to compete the temptation will be to move to a register where requirements to have British officers at all, or any, are very, very limited can become too tempting to resist. That is the danger of it. I cannot tell you how vividly one of our members described to me the discussion which he happened to have in his own board room as to whether to put the first of their fleet as near to the U.K. as the Isle of Man. They have decided to do it, but they were under no illusion that it could become the slippery slope. Equally, regrettably in employment terms, although satisfactory terms are agreed with the British officers and/or ratings when the ship makes that first move, it can often be a very short-term accommodation because of the sort of considerations that I have outlined, this is why part of our financial strategy concerns measures for retaining a reasonably sized corps of trained seafarers for whom one can retrieve for active employment at sea if need be.

Mrs Dunwoody

1363. Since 80 per cent of the ships entering British ports are said to be foreign-owned, why are light dues such an important part of your argument and why do you seriously think that a change would affect the competitiveness of British ships?

(Mr St Johnston) It is the competitiveness of British ports not of British ships because, as you say, every competitor who chooses to come to Britain incurs these light dues. The danger is that more and more people will decide that they would prefer not to incur those light dues and instead will discharge at Rotterdam and trans-ship in little feeder ships and whizz across the North Sea, including the British shipowners at the end of that progression. Because of course British shipowners have a bigger share, by and large, of the British market and they are, therefore, keenest to retain direct calls at British ports. The fact is that there is quite a large sum of money telling, shall we say a foreign container shipowner, when faced with decisions whether to come into British ports at all, not to do so, on the light dues issue alone. Of course, there are other elements in the equation that leads to that decision. The fact that there is a very high volume of business through, for example, Rotterdam, and the fact that the municipality of places like Rotterdam do give extremely long-term finance for development of port infrastructure facilities is a factor — and price also (handling costs and port costs). But we believe that it is desirable for us as a trading nation to retain direct calls wherever we can, because by that means our exporters and importers get the best service

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[**Mrs Dunwoody** *Contd*]
at the best price. If we price ourselves out through light dues, or whatever reasons, and if as a result Britain becomes an offshore island of the continent, I cannot believe that would be a good thing for us in trading terms. So it is not just a disincentive and a problem for us, it is a problem for everybody who wants to see a healthy flow of ocean-going ships coming to this country. That has been the basis of our efforts to persuade the Government to do things more along the lines of the continent, which provides lights from general taxation rather than a specific levy on shipowners.

(Mr Le Cheminant) Might I, perhaps, add one figure just to illustrate it? Big ocean-going ships coming to the UK face light dues, obviously varying due to the size of the ship and so on, something like £14,000 to £15,000 every time they come into one of our ports. They go to any of our neighbouring ports on the continent and they pay zilch. That is a lot of money, especially when one thinks of the number of ships that come in in the course of a year, and so on. It is a very strong disincentive for people to come directly here rather than go to the continent and send our share of the cargo across on ferries.

1364. What percentage of the overheads would that represent, Mr Le Cheminant? Is that going to be the largest element of their costs?

(Mr Le Cheminant) Yes, it is the largest single element.

1365. The equation surely must take in the costs of double shipping, transferring into small ships and bringing it back? That must also be part of the equation?

(Mr Le Cheminant) It must be something between a quarter and a half of port dues on average, I would have thought, 30-something per cent.

(Mr St Johnston) If you would like a more precise answer to that question would it help if we were to drop a note to the Clerk on that?*

1366. It would be helpful because we must know exactly what we are talking about.

(Mr St Johnston) We might as well get it right. We are rapidly doing mental arithmetic. I would add, if I am permitted, that Mr Le Cheminant is a very polite man. He was actually referring to ships of my company when quoting those figures, because I recognised them very clearly.

1367. Can I ask one other thing about one of the points you raised and that is the whole vexed question of the Channel Tunnel and the ferries.

(Mr St Johnston) There are two elements to this. The first — and I think I can speak for the main ferry operators — is that they are assuming there will indeed be a tunnel and whether it is 1993 or whenever is not material But the tunnel is coming and, therefore, for the near-sea ferries, which are the ones most directly affected, there will have to be a major realignment of how ferries operate if they are to provide a competitive alternative to the tunnel. I am not particularly knowledgeable in exact terms as to what exactly those are going to be, even though I am, as I say, a Director of P & O, but one must imagine they will have to have regard to whether there may be some form of rationalisation, which is permitted in other forms of shipping but is not permitted currently in respect of ferries. The reason it is not permitted is because they are a monopoly; in future with the tunnel they will be anything but a monopoly. I personally expect that they will realistically be permitted to rationalise and, if so, that they will, on the one hand, be attempting to rationalise their services and, on the other hand, inevitably increasing productivity, wherever it is possible to negotiate that, and there is a lot in the newspapers about that at the moment. That will be a process that goes on during the intervening years so that by the time the tunnel appears there will be a brand-new type of competitive ferry in the near-sea trades that will attract a reasonable proportion of the overall market, otherwise they would have to shut up shop and I have certainly heard nothing to suggest that they have that in mind at all if they can possibly avoid it. There is a second aspect of it, which is the EEC aspect, and it is the perfection of the internal market in 1992, by which time, if the EEC juggernaut continues to roll in the direction in which it is currently rolling, there will be VAT imposed on all intra-Community transport, and here we are talking about passengers. There will also be VAT on a whole range of costs of passenger shipping, including ferries — but that at least will be offsettable against the VAT on revenue — and, of course, there may be an end to duty-free. Duty-free in these short-sea ferries is a very major component of the overall revenue that these ships earn. In excess of 20 per cent. of gross revenue is earned through duty-free. It is an astonishing statistic. There is a lot of mileage in an EEC situation like that between now and 1992 but we have to realise as an industry that, of course, this is a thing which matters particularly, though not exclusively, to Britain because we have a far greater involvement in this industry.

Mr Bidwell

1368. But no Transport Minister must ignore the possibility that the tunnel is coming and there may be a blockage or accident on the feeder line and all the rest of it and a lot of people would be marooned if there were a wholesale rundown of the ferry industry. There must be a wide element of advance planning for these sorts of contingencies, including having a reserve ferry fleet, if necessary.

(Mr St Johnston) I cannot answer that question but I understand the point you are making.

Mr Bidwell: I am speaking as a former railwayman.

Mr Conway: They said that about horses when they invented the car!

Mrs Dunwoody

1369. You do actually say that action will be needed if there is not to be unfair competition. All I am saying to you is, what do you have in mind, because the first leg of your argument is that when one comes to the rationalisation process, because of

*See p.29

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[**Mrs Dunwoody** *Contd*]
the way we are proceeding we will probably, by the time it is built, have reached the situation where we are pared down to a highly efficient level? What are you asking for over and above that in order to ensure free competition?

(Mr St Johnston) I do not think anybody is asking for anything except the ability to ensure joint operating or consortia arrangements, which are currently proscribed.

1370. So that is the only basis of the argument on which you ask for action?

(Mr Le Cheminant) Yes, to remove the constraint.

(Mr St Johnston) It is the removal of a constraint, not financial assistance or anything like that. The other point about VAT and duty-free is a totally self-contained argument. Although one can spare a moment for thinking what ought to come into force from 1 January 1993, it would hit the ferry companies at precisely the same moment as the tunnel was emerging from the ground.

1371. There are German ships which are in similar positions and which are arguing with you very enthusiastically. You are not entirely alone in that.

(Mr St Johnston) And airports and so forth.

1372. And it is of great interest to the tourist trade.

(Mr St Johnston) All I am saying is that is going to be a lively political topic in the next four or five years, for sure.

Mr Conway: It also has implications for the Minister's proposals in the Bill about the Merchant Navy Reserve because 50 per cent. of our military reinforcements to NATO are initiated in the UK and obviously they are substantial in so far as they are by ferry, which may not exist.

Chairman

1373. Are there any final points, Mr St Johnston, which either you or your colleagues would like to make to the Committee which you feel they either have not covered at all or not fully covered?

(Mr St Johnston) No, but for fear of leaving a particular feeling amongst any of your Committee, sir, I would like to reiterate something. Our industry actually is in pretty good shape now by all the fairly severe and rigorous methods that have been used to get there. We can manage very well as things go, at the moment. However, we do believe that it would be a genuine mistake just to let things go according to how the wind bloweth, for strategic reasons. The last thing that we would, therefore, like to leave you with is the feeling we are either a lame duck or a sunset industry. We are there, and the question is whether we do reinvest in ships and, if so, whether they are British or non-British. Please accept that from us as being a very important qualification to the fact that we have put up whole lot of proposals which do involve money.

Chairman: I can assure you I am positive the entire Committee will be delighted to hear those closing remarks you have made. May I also say we have had a very long and probing series of questions and, therefore, on behalf of the Committee may I thank your colleagues and yourself for what has been a most interesting and informative session and one which I am sure will be very helpful to the Committee in its deliberations. Thank you very much.

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Supplementary Memorandum submitted by the GCBS
LIGHT DUES AND TRANS-SHIPMENT

1. The amount of light dues payable in respect of a ship entering UK ports depends on:
   (i) its size and (at present) the amount of cargo, such as containers, carried on deck;
   (ii) the number of voyages it makes each year. In the case of a foreign-going ship, dues are payable after seven voyages; in the case of a home trade ship, it is 14 voyages;
   (iii) a home trade ship pays at half the rate of a foreign-going ship.

2. The cost of light dues alone could thus be very much cheaper if containers were carried to the UK in a small home trade ship rather than a large foreign-going ship. A 20,000 net registered ton (nrt) ship, calling six times per year — about the largest number of voyages that can be made by ships engaged in many deep sea trades — would pay some £100,000 p.a. If it unloaded 1,000 containers per voyage, that would be a cost of nearly £17 per container. A 1,000 nrt feeder ship carrying 150 containers would need to make 40 voyages per annum to bring in the same number of containers. However, it would pay under £4,000 p.a. in light dues, or under 70 pence per container.

3. Light dues are obviously not the only cost to be taken into account, although they form more than half the marine costs of bringing a ship into a UK port. Against trans-shipment by feeder service are the costs of chartering and operating the feeder ship and of handling the containers twice. There may also be a marketing penalty to be paid through the relative unattractiveness of a feedered as compared with a direct service. On the positive side of the equation are potentially very large savings arising from avoiding delays to the deep-sea container ship. In many trades the UK containers will form a relatively small proportion of the total cargo carried to Europe. Diversion to a British port could detain the ship in European waters for two days longer than would be the case if just one call was made, say at Rotterdam or Antwerp, and the UK cargo trans-shipped. In extreme cases it might even be possible to offer a service with one less deep-sea ship. The circumstances will vary from trade to trade but it can be said that the cost of light dues is an important influence on all shipping lines' decisions concerning trans-shipment.

4. It is clear also that more shipping lines are finding the case for trans-shipment to be compelling, for an increasing amount of UK cargo is being trans-shipped. According to a study published in 1986 by the Department of Transport and the British Ports Association, in 1984 15% of *all* deep-sea imports and 8% of all deep-sea exports were trans-shipped. These figures included:

16% of deep-sea non-fuel imports;
21% of deep-sea non-fuel exports;
24% of exports to the Gulf;
39% of deep-sea animal fodder and foodstuff imports;
42% of all imports from the USA;
60% of coal imports (but possibly distorted by the miners' strike).

The number of containers trans-shipped had increased by 50% between 1976 and 1984 and UK cargo as a whole by over 100%. GCBS believes that there has been no reversal in that trend since 1984.

23.2.88.

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TUESDAY 9 FEBRUARY 1988

Members present:

Mr David Marshall, in the Chair

Mr David Gilroy Bevan	Mr Terry Dicks
Mr Sydney Bidwell	Mrs Gwyneth Dunwoody
Mr Jim Callaghan	Mr David Mudd
Mr Derek Conway	Mr Neville Trotter

Further Memorandum submitted by the Department of Transport

REQUIREMENTS FOR "FLAGGING IN" SHIPS TO THE SHIPPING REGISTERS OF THE UNITED KINGDOM, CROWN DEPENDENCIES AND DEPENDENT TERRITORIES

General

1. The Transport Select Committee has asked for a note on the process of "flagging in" ships to the British register, and the rules which regulate it. This note outlines the requirements, and the administrative procedures, for registering merchant ships, and touches on certain related matters.

2. It is by no means unusual for a ship to change its State of registration many times during the course of its life. This may be because the ship has been sold by one owner to another: or it may be because the owner has decided to change the registry of the ship (most obviously because he believes that the ship can be operated more economically under a different register).

3. The "British register" embraces the registers held at ports of registry in the United Kingdom, the registers of the Crown Dependencies (the Isle of Man, Guernsey and Jersey) and the Dependent Territory shipping registers (of which the most significant are Bermuda, the Cayman Islands, Gibraltar, and Hong Kong).

Requirements

4. The requirements for registering a ship in the UK, Crown Dependencies or Dependent Territories are laid down in Part I of the Merchant Shipping Act 1894. In brief, a ship which is wholly owned by British subjects, or by "bodies corporate established under and subject to the laws of some part of Her Majesty's dominions, and having their principal place of business in those dominions", is required to be registered. Thus a company established and having its principal place of business in the UK, or in the Crown Dependencies or in the Dependent Territories, or in a Commonwealth country, or the Republic of Ireland, is qualified — indeed, required — to place a ship which it owns on one of the British registers. A foreign company is not qualified to do so: but it can establish a subsidiary in the UK, a Crown Dependency or a Dependent Territory which would be entitled to place a ship on one of the British registers. A significant number of ships on the British registers are owned by subsidiaries of foreign companies.

5. If a ship meets these eligibility requirements, it will (subject to the necessary administrative processes) be registered. There is no discretion under the 1894 Act to refuse registration to eligible ships, though some Dependent Territories have recently taken such powers under local legislation.

Procedure for Full Registration

6. An applicant for registration in a UK port must give notice of the proposed name of the ship to the Registrar-General of Shipping and Seamen, Department of Transport, at least 14 days before the date on which it is proposed to effect registry. For registration in a Dependent Territory or Crown Dependency, the local Registrar seeks "name approval" from the Registrar-General. (No notice period is laid down in these cases). If the Registrar-General is satisfied that the name proposed is not already in use (or is not unacceptably similar to a name already in use) he gives "name approval". (Name approval for ships of less than 100 gross tons is delegated to local Registrars in ports outside the UK, Channel Islands, Isle of Man or Gibraltar).

7. Registration in the United Kingdom is carried out by Registrars who are officials of HM Customs and Excise. (The number of ports at which registration business can be conducted stood at 86 in November 1987, but HM Customs plans to concentrate the work at 15 regional offices). To register a ship, the owner must make written application to the Registrar responsible for the port in question, and arrange for him to be provided with:

- evidence of ownership;
- a declaration of ownership (plus proof of incorporation and appointment of an authorised officer for a body corporate);

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- a certificate of survey establishing the dimensions and tonnage of the ship from a classification society surveyor approved by the Department of Transport;
- the current fee of £215 (£150 for a ship under 1,500 grt).

8. The Customs then issues an official number and "carving note": the owner carves the official number and the ship's registered tonnage in the main beam or other permanent structure of the ship, and the ship's name and port of registry are marked on the ship. Various particulars of the ship are entered in the register and a certificate of registry is issued.

9. Similar procedures operate for registration by Registrars in the Dependent Territories and Crown Dependencies.

PROVISIONAL REGISTRATION

10. There is provision under the Merchant Shipping Act 1894 for a ship which becomes the property of persons qualified to own a British ship in a port of a foreign country to be issued with a provisional certificate of registration. The provisional certificate is issued by a British Consular officer and is valid for six months or until the ship's arrival at a port where there is a British Registrar (whichever happens first). The ownership requirements for provisional registration are the same as for issue of a full certificate, and the Consul will require evidence that those requirements are satisfied. In cases of difficulty he will liaise as necessary with the Department of Transport or with the Registrar of the Crown Dependency or Dependent Territory concerned.

OTHER REQUIREMENTS

11. There are various safety and manning requirements with which British registered ships must comply but which are not a condition for entering the ship on the register. For example:

- a cargo ship registered in the UK requires a Safety Equipment Certificate, a Safety Radio-Telegraphy or Radio Telephony Certificate, an International Oil Pollution Prevention Certificate, and (in the case of a chemical tanker or gas carrier) an International Certificate of Fitness. These normally require an inspection by a marine surveyor of the Department of Transport who will issue the certificates when he is satisfied that the ship complies with the relevant requirements. The ship will also require a Safety Construction Certificate and an International Loadline Certificate: these would normally be re-issued by a classification society recognised by the Department;
- all officers on UK registered ships must hold UK certificates of competency or comparable certificates issued by certain Commonwealth countries (and the Irish Republic) with whom the UK has arrangements for reciprocal recognition. In addition, the master, chief officer (mate) and chief engineer must be British citizens or citizens of the Irish Republic or Commonwealth countries.

These requirements are the subject of separate legislation and not, in law, part of the registration process: they reflect the provisions of the international Conventions to which the United Kingdom subscribes. Although it might be thought that international Conventions provide a simple transition from one register to another this is not necessarily the case. The Conventions provide the broad framework of requirements but as in many instances an Administration is required to supplement these requirements by provisions of its own inevitably differences between Administrations occur. When the requirements of the United Kingdom differ from those of previous Administrations changes in arrangements or equipment may be necessary. The Department of Transport have established with the industry the necessary measures to minimise any problems which might arise and thus to reduce the costs involved.

12. The Crown Dependencies' and Dependent Territories' requirements on such matters vary from territory to territory but, as in the UK, are dealt with in separate legislation and are not a condition for registration.

MERCHANT SHIPPING BILL

13. The Merchant Shipping Bill now before Parliament would amend the requirements for registration in detail but would leave the general nature of the arrangements as described. The main changes provided for in the Bill are that:

- the *requirement* in present law for a ship owned by qualified individuals or companies to be registered will be replaced by an *entitlement* to register;
- *eligibilty* to place a ship on the UK register will be redefined. Those qualified to be owners of British ships will be British citizens: certain other categories of individual: and bodies corporate incorporated in the United Kingdom or in a Dependent Territory or Crown Dependency, and having their principal place of business there. Commonwealth citizens and companies will no longer be eligible to register ships in the United Kingdom. It will remain the case that a Commonwealth (or foreign) company or citizen may establish a company in the United Kingdom or a Crown Dependency or Dependent Territory which would be entitled to register ships in the United Kingdom;
- it will no longer be necessary for a ship to be *wholly* owned by qualified persons for it to be eligble to be registered: it will be sufficient for 33 out of the 64 shares into which a ship may be divided to be owned by qualified persons;

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- where a ship is owned by a qualified individual who is not resident in the United Kingdom, or by a company incorporated in a Dependent Territory or a Crown Dependency which is qualified to place a ship on the UK register but does not have its principal place of business in the United Kingdom, then the ship will only be entitled to register if a *"representative person"* on whom documents may be served, is appointed in relation to the ship: in certain cases the Secretary of State's consent will also be required;
- the Secretary of State will have *power to direct* that a ship should not be registered where he is not satisfied that the ship is entitled to be registered, or where, having regard to the condition of the ship and to the safety, health and welfare of persons employed on board the ship, it would be inappropriate for it to be registered. The Secretary of State will have similar powers to direct that a ship's registration should be terminated;
- some changes will be made in the system of *provisional registration,* so that provisional certificates can be issued in Commonwealth as well as in foreign countries, and the validity of provisional certificates limited to three months;
- separate registration arrangements, with stringent new requirements as to the beneficial ownership, will apply in respect of *fishing vessels.*

14. The Bill would apply these changes to the registration of ships in the UK. The Bill's provisions may, however, be extended by Order to the Crown Dependencies and Dependent Territories. In addition, the Bill will make provision for Orders in Council to define *categories of register* for the Crown Dependencies and Dependent Territories, and to assign each dependency or territory to an appropriate category, depending on its needs and on its ability to administer and enforce the relevant International Safety Conventions. Territories in the highest category will be authorised to register all types of ships: territories in other categories will be limited as to the types of ship they can register (for example, some territories might be limited to registering ships under 150 tons, and fishing vessels).

Examination of Witnesses

MR G R SUNDERLAND, Under Secretary, Shipping Policy and Emergency Planning: Mr J D HENES, Assistant Secretary, Shipping Policy and Emergency Planning, Mr C T B SMITH, Assistant Secretary, Economics (Transport), Department of Transport, called in and further examined MR R L L FACER, Deputy Under Secretary, Personnel and Logistics; and CAPTAIN B TELFER, Deputy Director Naval Operations and Trade, Ministry of Defence, called in and examined.

Evidence heard in private

Chairman

1374. Good afternoon, Mr Sunderland and gentlemen. Could I say first of all that today's proceedings will be kept in confidence until reported to the House, as is the custom. Could I welcome you to the Committee and ask you for the purposes of the record to introduce the officials present, please.

(Mr Sunderland) Thank you, Chairman. I am Russell Sunderland, Director of the Shipping Policy and Emergency Planning at the Department of Transport. On my right is Mr Henes, who is head of the division responsible for general shipping policy and defence planning and on his right is Mr Smith, who gives us economic advice on shipping matters. On my left from the Ministry of Defence is Mr Facer, who is Deputy Under Secretary Personnel and Logistics, and on his left is Captain Telfer, Deputy Director of Naval Operations and Trade.

1375. Thank you. I should warn you that we have a pretty formidable and lengthy list of questions to ask you, but before we start is there anything either you or Mr Facer would like to say to the Committee?

(Mr Sunderland) No. I think we have been up-dating our evidence to the Committee from about eighteen months ago. We have really given you the picture of the fleet as it is today and we understand that you will have seen the evidence which we have given to the Defence Committee. We have not actually up-dated that but we are prepared to answer questions which would enable you to get right up to date on that, if you wish.

1376. Thank you. Could I start off by asking you if you could please explain how responsibility for the supply and use of merchant shipping for defence purposes is split between your two departments.

(Mr Sunderland) The Department of Transport is responsible for ensuring, as far as possible, the availability of shipping to meet the demands of both the armed forces and for the civil supply of the United Kingdom. In other words, very clearly, our Department has the responsibility for ensuring that supply, for whatever purpose, and it is for the Ministry of Defence to state to us their requirements for merchant shipping for support of the armed forces and we will then monitor the availability of that shipping, keeping in touch with them. We keep a regular watch on the availability of this shipping, and as and when deficiencies appear to us likely to arise, we will consult with them about the steps which should be taken to meet those deficiencies.

1377. In a memorandum to this Committee dated 25th February 1987, which was printed with our interim report, the Department of Transport argued that any case for assistance to the shipping industry must be strategic; it has no compelling economic basis. Would you care to amplify this, please?

(Mr Sunderland) Well, Chairman, we did, I think, amplify it at some length in that memorandum, and I do not know how far you would want us to spell out even further our inhibitions about accepting the argument which the General Council of British Shipping usually advances, that is to say, unless we

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[**Mr Chairman** *Contd*]
ensure that there is a substantial fleet under the British flag available at all times then we are at risk of exposing ourselves to some sort of monopoly in shipping by foreign operators. That argument we do find a bit difficult to accept and we have put all the emphasis, as you will have seen, on the strategic use of merchant shipping, the strategic role of the fleet, and I wonder, indeed, since we have accepted that there is a need, a continuing need, for a substantial British merchant marine to meet our defence and civil re-supply purposes, whether it is necessary to argue the same from the economic standpoint, but we are certainly prepared to go into that if you wish.

Mr Mudd

1378. I would not want to take Mr Sunderland too deeply down the hypothetical path that I paint, but under American laws, as I understand it, were Blue Arrow to be an American contender for the Americas Cup, it would be possible for her to be registered as a United States Coastguard Auxiliary, thereby picking up substantial American Government construction costs or construction subsidies. Is there in fact not some halfway ground whereby the British Government might well look at every ship constructed either by or for a British owner as being eligible for strategic use by the British Government and thereby qualifying for some form of construction subsidy?

(Mr Sunderland) I think the construction subsidy referred to here relates to construction in US yards. I would be very surprised if the GCBS would want to see themselves tied in any way to construction in British yards. This is, I think, a very different subject from the one I was talking about just now, about maintaining a merchant marine, wherever constructed, for either economic purposes or defence purposes. If we are talking about maintaining a ship-building capacity in order to make sure that we can supply vessels ourselves in time of war, that, I think, really is a very different subject.

Mr Bevan

1379. If you want it to be under the British flag, Mr Sunderland, why is it that the British army is sent on its annual manoeuvres at the moment carried by a Danish fleet?

(Mr Sunderland) Well, I do not know whether one of my colleagues would like to answer that. This is a familiar question to us and Ministers have on more than one occasion already in the House given an answer to that, namely, that British vessels have not been available in large quantities at time of exercises. They have been fully occupied on commercial purposes and have not wanted to bid for the business. If war broke out, we would not give them the opportunity of carrying on their commercial business. We would simply requisition them, but for exercise purposes we do not think it is necessary to disrupt commercial operations and if the Danes can come up with vessels which are not fully employed for commercial purposes, that seems to us a not unreasonable way of utilising spare assets. Perhaps Mr Facer would like to add something to that.

(Mr Facer) Thank you. I think that the only additional point I would like to make is that, of course, the Ministry of Defence pays for any ships taken for exercise puposes and therefore we are anxious to get good value for money, both in meeting our requirements and meeting them at a reasonable price.

1380. I will take this up again in asking you three further questions based on your evidence to the Defence Committee in December 1984. The Minister of State at that time gave three prime reasons for the use of the merchant fleet in terms of defence. The first was for transatlantic reinforcement of Europe: second, reinforcement of Europe from the United Kingdom, first taking our own UK reinforcements and then US equipment stockpile; and finally for direct support of the Royal Navy, and I would, incidentally, ask how on earth our merchant shipping can be equipped to do that if you are never letting it rehearse in terms of the annual manoeuvres and the utilisation of foreign fleets to do that? But those three requirements were added to by David Mitchell, the Transport Minister, by a fourth requirement, what he called the economic shipping requirement for the civil supply of the UK and Europe in time of tension or war. Would you still sustain first of all the first three of those arguments which were made by the Defence Secretary and, secondly, the fourth argument. Do you think they should be added to in any strategic assessment?

(Mr Sunderland) Those four categories are indeed the four essential requirements that we are looking at all the time. I do not think there is a fifth one.

Mr Conway

1381. Can I come in on this specific point about the use of ships, the first bit of Mr Bevan's question about the use of foreign flagged ships to carry troops on exercises principally to Germany? The difference between the exercises Crusader and Lionheart, which have been our two major peacetime exercises of any major scale involving troops from this country, is that in Crusader there were more ships used, but by the time Lionheart took place, air transport was used considerably more, so I understand the evidence absolutely clearly. This was simply because of economic availability as opposed to the costs involved of shipping out larger quantities, particularly of infantry troops, by air rather than by boat, which has been the case formerly.

(Mr Facer) Yes, I think that is correct. Each exercise is slightly different, testing different procedures, and I think in both Crusader and Lionheart we did test the procedures for transportation by several means. The requirement, of course, is to transport reinforcements from the UK to the Continent and for that we do plan to use, in tension and war, ships from the British UK register.

1382. It may be difficult for our witnesses to answer this, Mr Chairman (and I am sure you or they will put me right if so), but as more than 50 per cent of the reinforcement for BAOR is obviously UK-based as a result of these two different types of logistic exercises — the second one favouring air transport and the first favouring sea — has that led to a Governmental decision on which preferred method

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[**Mr Conway** *Contd*]
of transport it is going to use? If I may, that will link on to the question I would like to ask about economic shipping.

(Mr Facer) Mr Chairman, the reinforcement plans from the UK to both the central region and the flanks of NATO use a combination of air transport and sea transport. Inevitably our plans will involve considerable use of sea transport. There is a great deal of freight which has to be moved in support of the Forces and most of that will go by sea.

1383 Finally, Mr Chairman — then I will give way. The fact that we were not using our own ships the second time round — principally because they were not available and, therefore, a Danish line was used — is obviously an economic indication. If the requisition of ships takes place (and I am not sure if it does or not and you can tell me otherwise) following the signing of Queen's Order 2, the United Kingdom or its allies would not be at a state of war at that stage, just at a state of increased hostility. if you like. The Defence Committe did not make a detailed examination of this but it did point out that as the size of the merchant fleet declines the proportion of the fleet taken up for defence purposes will rise at a faster rate and that this may have a serious effect on the amount of economic shipping available. Subsequently, the statement on the defence estimates for 1986 commented that because the United Kingdom merchant fleet is of great importance for defence needs the scale of its decline has caused some concern. Obviously as the merchant fleet declines in economic terms if it is requisitioned at the Queen's Order 2 stage what economic effect is that going to have on our nation in between the period when hostility is increasing but the country is not actually at a state of legal conflict, if you like?

(Mr Sunderland) I do not think there is any doubt that there would be an impact on the normal liner services in particular into this country, if transatlantic reinforcements were to take place, because we are committed to contributing all suitable vessels for that extremely important operation. So there would, of course, be disruption of liner services. But then when you look at what comes in on our liner services, they are, to a fairly high degree, inessential goods. Our essential goods come in, one could argue, on bulk transporters, which would not be used for transatlantic reinforcement.

Mr Callaghan

1384. Perhaps I could reinforce what Mr Conway was saying. As I understood it last week the Chairman of the witnesses who spoke to us seemed to think that there had been an arrest in the decline of the merchant fleet. He thought that we had a number of about 750 which he thought was just about right and was particularly in line with the fact that some of the ships were to be refitted with new engines and there may even have been a possibility of some new ships being ordered. Yet here — and I think Mr Conway mentioned it — the statement on the defence estimates of 1986 commented "because the United Kingdom's merchant fleet is of great importance to defence needs, the scale of its decline has caused some concern". Yet I rather gathered from the Chairman last week that he was not as concerned as that statement says. What is the situation today? How worried are you about the adequacy of the UK-owned fleet for defence purposes?

(Mr Sunderland) I think that to begin with one has to be clear about which particular fleet one is talking about. I am not so sure that I immediately recognise the figure of 750. The number of vessels registered in the United Kingdom of over 500 gross registered tonnes, which is the cut-off limit that we normally talk about — reasonably-sized vessels — is something now around 410 but, as I am sure the Committee will be well aware, for defence purposes we do not confine ourselves to the United Kingdom register. Vessels registered in the Crown Dependencies and the Isle of Man are every bit as good as UK registered vessels for defence purposes. Indeed so are many vessels registered in the dependent territories. There are altogether something over 1,000 vessels registered under the British flag. In addition to that there are more vessels which are owned here but registered in foreign countries and we have arrangements — or are making arrangements — with those countries to be able to get those vessels back in time of war. So that the potential fleet is certainly into four figures.

1385. What you are saying then is that the figures we were given last week do not tell the whole story and; from the figures that you have just given us, there is no cause for alarm?

(Mr Sunderland) I would not say that, because I was going on to say that one has to look at the manning of these vessels. Vessels registered in the UK and the Isle of Man, as I say, are no problem. Many of the vessels registered in dependent territories, equally, because of our nationality requirements, will have British officers on board. Not all of them will do so. * * * With vessels registered in foreign countries, such as Liberia and Panama, although we may have arrangements with the country to get them back in time of need we cannot guarantee that they will have the right sort of crews on board to ensure they will be delivered promptly when we need them. That is why we are taking some steps to try and establish a reserve of officers who could be used to man those vessels. So it is not entirely a clear-cut picture: it is one about which we do have some anxiety but that anxiety mainly arises about particular types of vessel, not about the overall tonnage level at the moment.

Mr Bevan

1386. Could we still stick to that overall tonnage level? I recognise the difficulties you mentioned in manning and retrieval but, nevertheless, there are indications, I would submit to you, that there is substantial trouble, and there is also, I would say, some disagreement about the amount of ships available and the tonnage available. If one looks at the 1984 figures from the Department of Transport you have got ships totalling well over 800 — something like 850 ships. If one takes the evidence which was given in May 1984, you gave evidence,

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[**Mr Bevan** *Contd*]
indeed, then that the fleet availability was over 800 ships. The General Council of British Shipping forecast a fall to about half that number. This is the exact comment. "I must tell you" (said the Chairman of the Committee) "I find the figures very alarming". The Minister of State for the Armed Forces replied: "If you suggested that the total size of the merchant marine would go down by half from the present situation there is no doubt there would be considerable difficulties particularly in relation to certain specialised vessels." As the UK mainland register has now fallen to 314 vessels and the wider UK-owned trading fleet to 666 vessels by September 1987 (that is in our evidence from the Department) are there now not considerable difficulties? For instance, the 666 vessels figure includes 162 ships non-directly owned but with a UK parent — exactly those you would not be able to retrieve in all probability in such a situation. Does this not, therefore, now cause you to say, quite the reverse from the last questioner's question, that there is considerable danger at the moment in the number of vessels alone?

(*Mr Sunderland*) Could I, first, take up the point of the availability of only — I think it was — 311 vessels. That, I take it, is the figure for vessels on the UK register and owned directly by UK — —

1387. 314.

(*Mr Sunderland*) I do not think there is any question that that is to be regarded in any sense as our core fleet. Our resources go much more widely than that.

1388. In what way?

(*Mr Sunderland*) Well, we have the Isle of Man register for a start. Then we have the Bermuda register and the Gibraltar register.

1389. It is a long way from Bermuda.

(*Mr Sunderland*) But, I should point out, all these vessels are trading worldwide.

1390. Exactly.

(*Mr Sunderland*) Many United Kingdom registered vessels never touch these shores, but they are a resource.

1391. You are totally confident, then, that you have absolute control over the three registers you have mentioned in the three dependencies you have mentioned and are able to recall ships through those registers at will when geographically available?

(*Mr Sunderland*) We have certainly as much ability to recall vessels on the Bermuda register as we do on the UK register.

1392. And the Isle of Man?

(*Mr Sunderland*) And the Isle of Man, certainly.

1393. Which is the third one?

(*Mr Sunderland*) I mentioned also Gibraltar, but then there are the Cayman Islands. The Cayman Islands, because of their rather peculiar requirements, do have a certain number of vessels sailing without UK officers, and those we cannot be as certain of getting back.

Chairman: A number of Members are desperate to come in on this point.

Mr Trotter

1394. It seems to me we have to look at this more from a NATO point of view than just ourselves, and similar reductions are going on in the other western navies. I do not know whether figures have been published here but in the States there has been mention of a need for 600 merchant ships available immediately for military use and a further 1,200 back-up to that to keep Europe supplied afterwards. What planning is there to look at the overall NATO scene, not just the merchant navy in Britain? The Americans are taking advantage of the cheap cost of second-hand ships at the moment to buy up modern vessels and lay them up for an emergency or a war: have we thought of doing that?

(*Mr Sunderland*) I would have to ask Mr Henes to explain just what is going on in NATO, where, you are quite right, this is now increasingly a matter of Alliance concern, and we do not regard it as just a national matter, because transatlantic reinforcement in particular is a NATO affair, and we all have to share that burden.

(*Mr Henes*) For a long time it has been NATO's plan to pool its merchant shipping in war, and therefore the balance of supply and demand for merchant shipping in a later war has to be looked at in NATO terms. NATO is about to undertake for the first time a full study of the balance of supply and demand for merchant shipping in war. That is the first point. The second point is a rather narrower one, and relates to the particular requirement for moving US reinforcements to Europe in a time of tension. That is a separate and very important exercise, and one on which the United States has taken the lead. They define the requirement; they can say the extent to which they meet that requirement from their own merchant resources, and therefore the extent to which they rely on the merchant navies of other members of the Alliance to complete that requirement, and they are in the lead on that and that is under review as well.

1395. Presumably not only the total demand but also the supply figures are being looked at.

(*Mr Henes*) In the second one, both of those are being looked at. The United States are reviewing their requirement and they are also reviewing the total supply position from the United States merchant navy and from the merchant fleets of the other members of the Alliance.

1396. What are the time scales likely to be?

(*Mr Henes*) The first one will have a long time scale. Some results may perhaps become available this year, but I think substantial and full results not until next year or 1990. As far as the US position is concerned, I should emphasize it is not the first time they have looked at it; this is a rolling plan; they have a review in hand. I would expect that to become available at least in terms of the analysis of requirements much sooner, within a few months. The implications for the supply of that and how the

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[**Mr Trotter** *Contd*]
decline of ours and other NATO fleets, a point which has already been alluded to, matches up with the statement of requirement, will be looked at during the course of this year.

1397. What about the purchase by Britain perhaps of cheap, good, second-hand ships to lay up for an emergency in the way the Americans are doing?
(Mr Henes) All I want to say on that, sir, is that it is a possibility.

1398. Who could find the money for that; which of the two ends of the table? Is that one of the problems?
(Mr Sunderland) I do not think it is the problem at the moment. The issue of whether or not to buy ships for moth-balling has been looked at in NATO during the last few months. We could not find much enthusiasm amongst the European members, I think partly because of the problems of manning such a fleet and getting it mobile quickly. The Americans themselves do experience considerable difficulty in getting these ships on water, up and running, at short notice. Also, as a matter of fact, second-hand prices are rocketing at the moment, and if we chose to do it perhaps it might be seen that we had "missed the boat". I do not want to mislead you into thinking it is something that Ministers are thinking about very actively at the moment. We do not see the situation as being that desperate.

Mr Bidwell

1399. This Committee went to the Isle of Man, and that will figure in our ultimate conclusions. Perhaps this question is really directable to Mr Facer, because I wondered if the Defence Ministry has in any way encouraged the ships — not to register in Hong Kong but to register in the Isle of Man. It seems to me on what Mr Sunderland said it has a better geographical situation and it would be better that you should have ships registered in the Isle of Man, as well as giving it a shot in the arm economically, as far as I can tell. Would that have figured in any discussions you may or may not have had? Have you had a hand in that or has it just "growed like Topsy"?
(Mr Facer) No, Mr Bidwell, we have not. Perhaps I ought to explain the direct support of our defence requirements, which fall into two categories: the support of the Royal Navy and the reinforcement and re-supply of mainland Europe from the UK. We *** and therefore the question of measures to encourage ship owners to register in one place rather than another for us has not arisen.
(Mr Sunderland) Chairman, could I add a point in reply to Mr Bidwell? I think it may be of help. As I am sure the Committee knows, the Merchant Shipping Bill which is going through Parliament now does contain provision for the Department to assist owners with the cost of transporting their crews to and from their vessels in the deep seas, because this is one of the big expenses that they face in keeping British crews on board, and that assistance will be available only to owners of vessels registered in the United Kingdom and the Crown Dependencies — effectively the Isle of Man. So that is one small measure of preference, if you like, which we are offering to the domestic registers.

1400. It could be regarded as an encouragement.
(Mr Sunderland) An encouragement, yes.

Mr Callaghan

1401. Following on from the remarks that you were making about the number of vessels thoughout the world that are available to the UK in times of emergency, it would appear from what you said that our problem is getting the right types of crews aboard them in the time of emergency, the right type of officers to enable us to control more ships, yet I believe the number of UK seafarers decreased between 1973 and September 1987 by some 70 per cent, and the most worrying aspect is the virtual disappearance of cadets and trainees; cadet numbers have fallen by some 93 per cent since 1975 to a total of less than 500. With these figures, have we got the manpower in such an emergency in the nature of war to be able to send the necessary trained officers and seamen to man those ships?
(Mr Sunderland) Mr Callaghan, Chairman, we are getting concerned about the lack of young people coming forward to be trained as officers. We think that we have the numbers now but will we have the numbers in a few years' time, when existing officers have retired and there are not the replacements coming through? This last year 180 entered cadet training. We do not think that is enough.

1402. That is both deck and engine?
(Mr Sunderland) Both deck and engine, about 189. We want to increase that. That is why Ministers have proposed in the Merchant Shipping Bill that they should be empowered to give assistance to training. We would like to substantially increase the numbers this year of people coming forward for training. I think this is partly a question of giving financial assistance to companies to encourage them to take people on and it is partly, also, a question of altering the climate and the view of the prospects for a career in the merchant services. We are hopeful that with these, admittedly modest, measures of assistance in merchant shipping we can begin to create a rather better mood amongst teachers, parents and careers officers and encourage people to look rather more carefully at a career in the merchant service.

Mr Mudd

1403. I wonder if I might ask, in effect, two questions, one military and one civilian, in the same breath? While it is understandable my colleagues look at the problems of the logistics that one assumes that a certain ship that is not under British flag will still be available to the Western powers, irrespective of where it may be when the balloon went up, and the argument might well be it happens to be many moons away on the wrong side of the globe, I wonder if any assessment exists (and I am not asking for figures just an acceptance or rejection) of the number of Estonian, Yugoslavian, Polish and Finnish vessels that might well be in Western waters that would add to the resources of the West in the

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[**Mr Mudd** *Contd*]
event of hostilities? Moving now to the Ministry of Defence level, it is true that the Ministry of Defence has the back-up resources that it currently needs. If one looks at vessels like OAKLEAF and bigger class it seems that more and more eggs are being put in bigger and better baskets with a bigger capacity and bigger range and, ultimately, a bigger loss in the event of them going down. So could we have a word or two on the Royal Fleet Auxillary's role as a back-up unit in the event of hostilities breaking out simultaneously.

(Mr Facer) On your first question, sir, about assessment of Soviet bloc shipping, we have made an assessment of this. Clearly it does depend very much on the circumstances in a period of tension and it is very hard to judge what those will be. Therefore our conclusion is that ***

On your second question about eggs in baskets, clearly a large ship that is sunk in war — as we saw with *Atlantic Conveyor* — represents a significant loss to defence capability. In any wartime situation merchant ships clearly will be vulnerable to attrition but they will, of course, be protected by the Fleet. They will be part of the Royal Navy's groups which contain both warships and merchant ships and are protected by the Royal Navy anti-submarine and anti-air defences. We believe that those defences are good and we shall do our best, if the time comes, to protect these valuable assets that we have in support of the Royal Navy.

Mrs Dunwoody

1404. I would like to bring you back to requisitioning. It seems to me we were rather skipping lightly over some aspects of this. To start off with, your assumption seems to be that you can simply go through the various dependencies, add up the numbers of ships and say they ought to be available for requisitioning. Firstly, can I ask you, since most of this fleet is getting older all the time, since there is very little investment in new ships, are you at all sanguine about the actual capability of vessels to carry out the job that you envisage? If we do not build new ships and ships are getting consistently older, how can you even be sure that the ones you can lay your hands on will not fall apart? Secondly, may I ask you to come back to this old question of manning. If we do not have sufficient British crews available — and I think there are considerable doubts as to whether you will have a number of officers available — it is quite obvious a lot of these ships will be crewed up by any other nationality who happens to come to hand, many of whom seem to be Eastern nations of one sort or another even mainland Chinese. Can you tell me how you envisage dealing with the problem? NUMAST has given evidence on this. They said: "It would be naive and complacent to assert that UK tonnage would always be available to the UK in time of need. The whole flag of convenience system is designed to dodge legal, safety, strategic and moral responsiblities. Therefore it is very unwise to imagine the defence needs of the nation can depend on such a system". Surely the things are inter-linked. How will you deal with that — old ships, foreign crews, not enough officers? You are quite sanguine we would be in no real difficulty?

(Mr Sunderland) Could I deal with those points one at a time, please, Mrs Dunwoody? First of all the age of the vessels. The British registered fleet is just about of average age, taking the world fleet as a whole. It is not exceptionally old. I know the owners talk about "the ageing British fleet" and it is true there has not been much new investment recently, and that is a matter of concern to us. But one has got to get this in perspective: relative to the Greek fleet or the Cyprus fleet, for instance, it is a relatively modern one. I do not think British owners are noted for operating rust buckets, in any way.

Chairman

1405. The average age is 10½ years.

(Mr Sunderland) That is about average for the world as a whole, yes. So far as crews are concerned it is indeed the case that some vessels operated under the British flag, mainly dependent territories, are manned by crews whom we would probably find unsuitable in time of war. Some Poles, some Yugoslavs and communist Chinese. We do not, I admit, have accurate information at this moment on the numbers of such crews; they come and go and it is very difficult to keep track of them, but the shipowners are beginning to help us in this because they can see the need for better information. I think, to answer your question, we have never assumed every vessel on the dependent territory registers would be available to us; we have always maintained that a substantial proportion of them would be available and that is what we are banking on. To the extent that it was necessary, because a particular vessel was ready to hand and needed, we might ask the owner to change the crew. Neutral crews would usually be obtainable at very short notice in most ports in the world. So far as safety is concerned, I am aware of the claims that NUMAST have made about the standards on the flag of convenience registers and it is certainly the case that many vessels operated on the so-called open registers or flags of convenience are, indeed, operated less safely than those on the British registers, but those which are owned by British owners have a very good reputation; they are not on these registers in order to evade safety relgulations. If you take, just as one example, BP, who put a substantial number of its vessels out a couple of years ago to the Bahamas, Gibraltar, I think, and Bermuda. We have no evidence at all that this involved any lowering of safety standards. Just as reinforcement here, I would draw the Committee's attention to the provisions of the Merchant Shipping Bill — further provisions on registration — which tighten the control which we will have over the safety standards of the dependent territory registers.

1406. Do you know if BP kept the same crews or if when they changed the flag the nationality of the crews was changed?

(Mr. Sunderland) There was some change of crews, but in general they were prepared to re-employ those crews who left their employment when they came off the British register. I could not tell the Committee just what proportion were re-employed.

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[Mr Trotter *Contd*]

Mr Trotter

1407. I was hearing the other day from an owner of a tanker that had been flagged into a dependent territory and the crew would not sail up the Gulf. Fortunately they managed to do a deal with the oil company concerned that they did not send that ship to the Gulf. That is alarming. Would you not say there was a problem with that in a wider crisis?

(Mr. Sunderland) What we have heard on the whole from the owners is that most of the crews have been prepared to sail into the Gulf, and the few seafarers that have left the vessels have tended to be Europeans; the third-world mariners have been readier to enter the Gulf than have our own. I am not sure what lessons we should draw from that.

Mr Mudd

1408. I must admit I am intrigued, having seen the CV of the members of the team, to find the presence of Captain Telfer, who is described as Deputy Director, Naval Operations and Trade, and on this particular point, where one is finding the flagging-in to the Red Ensign of ships designed to be at risk, particularly in the Persian Gulf and in certain areas, the effect of which is suddenly the Red Ensign is becoming an attraction to certain nations, but at the same time an embarrassment to costings of the Ministry of Defence to have to provide an umbrella that might not normally be regarded as a legitimate umbrella for it to have to carry.

(Captain Telfer) The situation in the Gulf presently is unaffected by the increase in number of ships re-flagging in any shape or form. The present concept of the Armilla Patrol of having one duty ship, one at immediate stand-by and one set down for maintenance is perfectly adequate for the job that they have to do today. Therefore, there is no additional cost involved. Armilla is there whether there were one ship or five, or whatever the number is for any one transit through the Straits of Hormuz. As you are aware, we are not accompanying ships all the way to their port of destination; it is only through the Silkworm danger zone and the Boghammer and the Iranian patrol craft warship area and that is where we are providing that protection regardless, at the present anyway, of the number being re-flagged, and it is not affecting our *modus operandi* or, indeed, the cost.

1409. Might I ask then at what percentage of the capacity you have now reached would an increase in cost become inevitable?

(Captain Telfer) An increase in cost is difficult to quantify.

1410. May I ask the point at which an increase in cost would become necessary?

(Captain Telfer) We look at the options; first of all, if the numbers increased to a point where they were greater than five merchant ships for any one transit in or out of the Gulf, it might become necessary to employ two ships instead of one at any one time, but those ships are there, so it is just a question of changing the concept. We may in further saturation consider not allowing the third ship to go quite so far away for its maintenance period. So they are all immediate options open to us, again without affecting the cost.

Mr Mudd: Thank you.

Mr Dicks

1411. Last year the Secretary of State for Defence, commenting on the role of the merchant shipping in future emergencies, said, "If the decline goes on at the rate it has been there may not be enough . . . British merchant navy officers in a few years time". Do you agree with that, bearing in mind some of the comments of Mr Bevan earlier about logistics if you were faced with a Falklands type situation in 1990 and given the rate of decline of British merchant shipping? How would you and could you cope in the same way that you did in 1982?

(Mr Sunderland) Before I ask Mr Facer to deal with the specific point about the Falklands, could I say that we do not necessarily accept that the rate of decline of tonnage which we have seen during the last few years is going to continue? Indeed, if you look at the last six months or so, the British Islands Register (by that I mean the United Kingom and the Isle of Man) has been pretty well static. The long decline appears to have been arrested. How long it will continue is very difficult to forecast, because it depends on assumptions about the state of the market. Shipowners will sell a ship if they think the market is not going to turn up and they will buy a ship if they think there is going to be a market. It is extraordinary difficult to forecast a decline.

1412. I think we are talking about the decline in the merchant navy officers. You can keep the ships going, but if you have foreign officers and crew, they would not be ready to be used in an emergency like the Falklands for obvious reasons.

(Mr Sunderland) As I have said, we are doing something about the growing shortage of young officers, but we do accept there is a problem there, but I think, quite apart from assistance to training, if the industry because of an improvement in markets is persuaded to start re-investing in shipping, then obviously they will start increasing the training and we shall have more officers on our ships, but I think Mr Facer would like to say something about the prospect of repeating the Falklands operation.

(Mr Facer) I was going to say something first of all about the seafarers point, officers, which Mr Dicks mentioned, because the Ministry of Defence does need to be assured that there will be enough trained officers available, and for that reason we are funding the Merchant Navy Reserve, which is being or will be established if Parliament passes the Merchant Shipping Bill, so we do have a direct interest, and indeed are contributing. On your second point, about a repeat of the Falklands operation, I think I must say to start with that the question as it relates to the Falklands is now an academic one.

1413. I just used that as an example.

(Mr Facer) We have a garrison there; we have a major new airfield, and therefore the question of doing an operation like Operation Corporate to defend the Falklands is no longer necessary. We

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[**Mr Dicks** *Contd*]
would do a different operation with air reinforcement.***

1414. I meant a similar situation.
(Mr Facer) Again, of course, we have to look at what might be likely. If one looks around the world, if you had to choose somewhere in 1982 that was the furthest away from the United Kingdom and from any United Kingdom base and had no airfield and no capacity for air reinforcement and was still a dependent territory, which faced a threat, you light really only on the South Atlantic. I know there are one or two very small dependent territories in the Pacific which are very remote, but they do not face the same — in fact, they do not face any threat at all, so it is actually very difficult to envisage that we would need to mount anything like the operation of 1982. However, if we had to, then we still have enough ships to support an operation of that kind or any that is at all possible. One cannot plan for the completely, totally unlikely scenario, but for any sort of British operation out of the NATO area which we think is in the realms of possibility, the answer is yes, we do still have enough merchant shipping to support the Royal Navy in that.

1415. And English or British Officers?
(Mr Facer) Yes.

Mr Trotter

1416. And tankers to act as emergency RFAs?
*(Mr Facer)*The tanker situation is something we are watching very carefully, although numbers at present would be enough. Again, the requirement will vary according to circumstances, but I would not wish to be complacent about the tanker situation; it is something we would wish to monitor very closely.

1417. Because the particular size I think we used most in the Falklands is one of those rapidly disappearing, is it not, 20,000 tons?
(Mr Facer) That is certainly the case.
(Mr Sunderland) Yes, Chairman, Mr Trotter is, of course, right and this is a problem which NATO as a whole is facing. This particular type of vessel is becoming in increasingly short supply throughout the Alliance, but we are watching it very carefully. The situation at present is satisfactory although it does involve reliance on vessels which Shell, for instance, have put on the Isle of Man and Bermuda registers, but they do have British crews on board. Therefore, for the time being, we can rely on them.

Mrs Dunwoody

1418. You will forgive my saying so but there seems to be an awful lot of watching going on. We are watching carefully the fact that we do not seem to have any investment in new vessels and we are watching fairly closely the fact that we will not have enough officers. Can I ask you, firstly, if you could give us some details of how your Merchant Navy Reserve is going to be organised, because a £200 incentive does not seem to me to be, in this day and age, exactly the world's greatest encouragement. I can remember my grandmother was always on about the King's Shilling which she would not allow him to accept, and I reckon on that basis £200 is not much of an incentive. I would like to know how you are going to organise it and on what basis. Secondly — if we do not have enough reserve officers — NUMAST have again said that half its current membership now sails on foreign-flag registered vessels and would not therefore be available for defence purposes. What are you going to do under those circumstances? Thirdly I would like to ask you another question which is unrelated to that but it is very much related to the situation in the Gulf. I am delighted to know that the Navy uses the old working-class formula of "one on, one off and one in the wash", but could I ask you whether there has been any change in your engagement orders? Do you now automatically do some kind of escort duty on vessels other than those which are a full British responsibility? What would be the true cost, if in fact you found yourselves in a situation with increased work, of actually defending vessels which are only very nominally connected with the British taxpayer?
(Mr Sunderland) Could I try to deal with Mrs Dunwoody's first two points? So far as the Merchant Navy Reserve is concerned, I hope that Ministers, in the course of the debates on the Merchant Shipping Bill, will be able to say a little more about this, but from what they have said so far I think the picture is clear that they want to start with a pretty simple reserve and see how it goes. We accept that it is difficult to predict the numbers who will be attracted by a modest bounty of that kind and a minimal obligation. I have heard it suggested it would be more attractive if there was, in fact, a requirement to spend two or three weeks in training — that that would actually give the Reserve some real appeal, and I can see that argument. For the moment the plan is simply to maintain a register of qualified seafarers who have been at sea within the recent past, say up to five years, who are in good health, and it will be necessary to have periodic up-dates of that information. If the response to this is inadequate then we shall have to think again about whether we improve the incentives for people to join. But Ministers have decided that, they would prefer to approach this, as it were, by small steps. NUMAST have pointed out that a large number of their members are employed on foreign vessels and would not be available for defence purposes. We are not counting on those people. We know that they are so employed and we are not, for the moment, planning to enlist them in the Reserve. They are, however, a resource which would be, I suggest, partially available in time of war, simply out of patriotism, but I must stress that our calculations about the availability of vessels with British officers on board in no way attempt to take into account that particular body of officers.
(Captain Telfer) Can I take the final question? First of all, with respect to the rules of engagement, we have not changed the rules of engagement of Armilla in any way to allow them to interdict with ships that are not entitled to our protection. I think the best way to answer the question is to take you through the process, briefly. First of all, the ships are made known through the General Council to the Department of Transport who validate their entitle-

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[Mrs Dunwoody *Contd*]

ment. A list is then compiled which is sent to us in Naval Operations which is then transferred to the ships out there via the Operations Commander in Northwood, so the Commander of the Force knows exactly which ships are entitled. There is another category of ships which are those which we know to contain British seafarers, and to those we would expect the officer in charge at the time of the operation to be able to respond, through humanitarian reasons, to any call for assistance if that ship was to be struck. That is the process, that is the position that we are in and we are currently not able to allow those ships to interdict in non-entitled shipping. It is a very clear picture. We have absolutely no problems with that.

1419. How would you know whether there were Britons on board? Would they identify themselves?
(Captain Telfer) It is up to the companies to make it known. We cannot guess, obviously. Therefore it is up to the companies to make it known to the General Council or to the Department of Transport directly.

1420. That is a slightly grey area, is it?
(Captain Telfer) Yes

Mr Bevan

1421. Maybe I can be allowed to move a little further forward. I think that it has been argued that although, for instance, the Isle of Man register (to get back to this particular point of retrieval and manning) means that the UK crews will be retained (this has been argued on several occasions), however, there is absolutely nothing I suggest, in the Isle of Man manning regulations on the employment of ratings and officers being British, and that they can come from a variety of places. Included in there are Hong Kong, Malaysia, South Africa and Pakistan, and I suspect that to be the situation as well with the Bermuda registers. From Lloyds List on 24th October last year we find that at least two ships were fully manned with non-UK seafarers. If you are watching the situation, as you said — and I am not suggesting you are watching it like Nelson did with his telescope to his blind eye — it might well be that the little steps that the Ministers have ordered are not quite quick enough to catch up with the changing situation. For instance, Michael Sclar, giving evidence to the Sea Trade Conference in Geneva in mid-November 1986 said "The trend from traditional maritime nation registers has placed enormous pressure on the cost side of bulk shipping and, thus, has amplified the already severe rate of impact resulting from over-tonnaging." He added — and this is the important bit from this point of view — "that the manning cost of a Hong Kong or China registered bulk carrier was about 360,000 United States Dollars a year, less than half the cost of a British registered vessel." If I am right, then the self-same situation will obtain not only to Bermuda but possibly to Hong Kong and to others and the non-British manning will be going ahead. What is the implication?
(Mr Sunderland) Mr Bevan, the situation so far as nationality is concerned is precisely the same in the Isle of Man as it is in the United Kingdom. There is no requirement under the law for the ratings on a United Kingdom registered vessel to be of British nationality. The key officers must be of British or Commonwealth nationality and so they must be in the case of the Isle of Man register. There is no difference between the two. I am not sure which register the the two vessels were on which are reported to have had no British personnel on board.

1422. Isle of Man.
(Mr Sunderland) If that is the case, then they were in breach of the regulations.

1423. And Lloyds List of 24th October 1987 reported the case.
(Mr Sunderland) We would be happy to attempt to look into that case and let you have a note if we have anything on it, but just as regulations of all kinds are from time to time breached, I think it is true to say that the British shipowners are in fact normally extremely punctilious about observing the regulations, and indeed, if they are caught there are penalties.*

1424. We will pass the evidence on to you.
(Mr Sunderland) Thank you.

1425. Could I finally ask what the implications would be, as I did?
(Mr Sunderland) The implications of a substantial breach of the rules would be, so far as the dependent territories are concerned, that they would lose the status which we are proposing to give to them under the Merchant Shipping Bill: in other words, they would lose the power to register vessels. That, of course, would be a very serious matter and would not be taken without consultation with the dependent territory concerned, but at the moment we do have nationality requirements and to the best of our knowledge, these are observed.

Mr Bidwell

1426. In the case of training of future seamen and attracting young people to go to sea, would we be looking particularly at sea port areas and the local authorities who cater for those areas? That has a lot to do with the orientation or the slant of education itself. It is geographically located in history. I understand a lot of this reflects itself in the Liverpool area, and that there is in fact a local authority overseeing that situation, but would it result in more generous central government grants in future under the new look and the new concern? Would it happen that way? Of course, Liverpool can do with it at any time.
(Mr Sunderland) Again, I fear I have to ask the Committee to bear with us and wait for details of the scheme which are being worked out now and which will probably, I think, be announced before the Merchant Shipping Bill is through the Commons. We want to be able to strike while the iron is hot and launch this scheme immediately.

1427. So we could reasonably put questions to Ministers now along those lines?

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[**Mr Bidwell** *Contd*]

(Mr Sunderland) Certainly it is an interesting point that there is scope for concentrating recruiting in the traditional areas, where employment for the sea has fallen off of late. This is something which we shall want to be looking at along with such people as the Marine Society, who do a very valuable job in this area, as soon as we have got the Bill through Parliament and we are ready to disburse the funds, but I am sure we shall be ready to accept ideas from any quarter about how we can best encourage people to look more positively at the idea of a career at sea.

Mrs Dunwoody

1428. Do you accept the argument of the Council that in effect the fiscal changes had a direct deleterious effect on their investment in shipping, and if so, do you foresee this is going to be a continuing problem? You actually said it appeared there had been an arrest in the decline; that is the sort of phrase that Ministers always use when they really mean to say that it has all gone absolutely disastrously wrong but at the moment it seems to be slightly less bad than it was. Do you accept their evidence that the fiscal changes were the thing that contributed to the speed of the decline — not alone, but to the massive fall?

(Mr Sunderland) I think one has to be very careful before attributing the decline that we are so familiar with — that is, the overall tonnage decrease — to the fiscal changes of 1984. The vessels which left the British register as part of that process left because for the most part their operating costs were too high. They were not making any profits in the state of the shipping market, and I think it is inconceivable that in the case of the great majority of those vessels, which were to a large extent large tankers and large bulk carriers, that the owners concerned would have wanted to have replaced them even with generous investment allowances. They got rid of those vessels at a time when other people were not buying new vessels, except one or two with suicidal tendencies in the Far East. However, I did say earlier that we were concerned about the lack of new investment, and we can see that since 1984 investment has tailed away virtually to nothing. I think it is reasonable to suppose that in some sectors of the industry, where profits can still be made and the prospects for those profits are improving now, then had it not been for the fiscal changes of 1984 we might have been seeing more investment, yes. I wonder if Mr Smith would care to add anything?

(Mr Smith) No. I think that reinforces the point that the situation is very different between different parts of the fleet. It has been on the bulk side, the deep sea bulk side that we have had the most major changes. The effect of the fiscal change, we should recognise, is in fact to benefit rather than the reverse any potential investment that promises to be very profitable, so the danger in the future would tend to be on sectors of the fleet that really could not make much of a go at it, but therefore might be influenced had there been that sort of fiscal change. The pattern is very different as between different sectors.

Mr Trotter

1429. I think I saw the other day that somebody was re-flagging tankers from the Bahamas to Bermuda in order that they got the advantage of our escort in the Gulf. Either they had re-flagged them or announced that any future re-flaggings there were going to be would be to Bermuda rather than the Bahamas. That is off-set by the fact that the ships are going to be available to us in an emergency if they are flagged in Bermuda whereas they would not be so readily available in the Bahamas. It occurred to me, of course, that ships are so international that they could quickly get them out of Bermuda again before we could get our hands on them. Is this not one of our problems? If you wanted them in a crisis and they did not want you to have them, they would just go and register them back in the Bahamas.

(Mr Sunderland) There is truth in that, but equally, I suppose, you could say that if in a state of tension, if war were brewing, then the protection that might be available for those ships under the British flag might be of some interest to the owner as well. There are many considerations and I think it is very difficult to predict what would happen.

1430. I think you have said in evidence, and perhaps today, that you were looking into the question of the extent to which we can pursue British-owned — and I use that word loosely — ships that were registered outside Britain and the dependent territories. That has been a fairly obvious problem for some time. Are you getting any nearer solving it? Because presumably it is a question (a) of UK law and (b) whether other countries will co-operate.

(Mr Henes) You are right, it is partly a question of UK law and it is difficult to say anything about that at this stage. It would be for the Government of the day to decide whether to introduce any fiscal legislation. At present we have the prerogative which allows us to requisition British registered ships, but that could be extended by Statute.

1431. There is no Statutory law now?

(Mr Henes) There is no Statutory law now but there could be. That would only be half of it, there would then be the question of the legal arrangements in the State of registry. To be more particular, take a ship that is beneficially owned by a UK company. A subsidiary company of that company is a Liberian company who owns a ship registered in Liberia. I have spoken about UK law — what about Liberia? Liberia is one of the four states we are having dealings with to ensure that there would not be difficulties.

1432. Is Panama another one?

(Mr Henes) Panama is another one.

1433. On the crewing, I think you said, Mr Sunderland, that Shell tankers were retaining British crews when they were flagged out. Has that been done because they are patriotic or because it has been made worth their while?

(Mr Sunderland) I think it is largely because Shell find it is most satisfactory to continue to use highly trained and highly reliable British crews.

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[**Mr Bidwell** *Contd*]

1434. They are not big crews, are they? There are not a lot of people on the ship.

(Mr Sunderland) They are reasonably large, but in proportion to the overall costs of the operation Shell certainly find it worthwhile to pay a little bit over the odds and get a reliable operation.

Mr Trotter

1435. BP, by contrast, are not having wholly British crews, are they?

(Mr Sunderland) Indeed. I should be careful here before I appear to generalise about Shell. It depends on the vessel: the more sophisticated the vessel is the more important any oil company will regard the reliability of the crew.

Chairman

1436. Could I come, Mr Sunderland, to the short-sea sector and say that the 1987 statement on the Defence Estimates shows only four large stern trawlers available for minesweeping. The need, therefore, must be met largely by offshore support vessels which could also perform other defence tasks. The representatives of this sector of the industry, BOSVA, in evidence to our Committee said "The situation of the British OSV is now desperate". They attributed this situation to unfair competition from Norway, Germany and American owners in the North Sea sector. They then went on to argue "If shipping is to be considered as a strategic industry (and given the UK's geographical position and the extent of our offshore resources it can hardly be otherwise), then it needs Government protection." Is this an argument to which the Government should respond favourably?

(Mr Sunderland) I will take issue with the statement of BOSVA that the situation is desperate. Perhaps, to be fair to them, if they were to be giving evidence today they would not use that word. Their position in the UK North Sea Sector has been strengthened enormously over the last two years in terms of the proportion of the business which they get. Furthermore, rates over the last 6 to 9 months have hardened appreciably. There is now only a very small handful of vessels laid up and although they could still do with better rates the situation does appear to be improving all the time. So I think that the overall prospects for this particular sector are certainly a good deal brighter than they were, perhaps, when BOSVA gave evidence.

1437. I think it is twelve months — February — when they gave evidence to the Committee. You are saying that "desperate" is no longer true, although you did refer to two years. The position has improved somewhat?

(Mr Sunderland) Yes, I think the Committee should be told that the reason why the situation has improved is not only because business has picked up and rates have picked up but also because the Offshore Supplies Office, under its full and fair opportunity policy has been ensuring that British registered vessels get a fair crack of the whip in the UK sector. The result, as I say, is that they now have a very substantial share of the business. I do not have today's figures in front of me but I suppose it is now in the region of 70 per cent of the business.

1438. As shipping is a highly-mobile form of capital whose ownership can change quickly or even be concealed (as various pollution prosecutions have illustrated only too well) does not the move from home-flag to other flags create unique difficulties for requisitioning?

(Mr Henes) The moves to Dependent Territories are not changes of flag. I do not think it poses terrible problems. One should still be able, when dealing with the owner company, to requisition ships in much the same way as though they were on the UK register. As far as ships that are flagged-out — on Liberian or Panamanian registers — it is the point I was covering in my earlier answer to Mr Trotter: we do have to get the legal position clear, and we have made considerable progress on that. I think if we are clear there then there should not be problems of procedure.

1439. But there could be? You are not absolutely certain there will not be.

(Mr Henes) We have never requisitioned such a ship and, indeed, we are going to be discussing with UK beneficial owners of ships on foreign registers the position of their ships if we wanted to requisition them in a crisis. I think when we have had those discussions then we will be clear about whether there are problems and in a stronger position, I suspect, to say there would not be problems, but we have not had the discussions yet because we want to get the position with the foreign registry sector we are dealing with absolutely clear. Although we have made good progress on that we have not yet finalised the agreements.

Mrs Dunwoody

1440. Could you conceive of the situation where you found yourself without sufficient tonnage in, say five or ten years' time, where in the interests of national security you would feel that it was essential to begin to encourage the building and the creation of a newer and more efficient merchant fleet? Or are you prepared to interpret the balance of national interest against the balance of an open market, a line of division between the security and commercial shipping interest? Is that the same for all the sectors, or are you quite convinced that you do have sufficient strategic planning ability to be able to say "under our existing system we think that we can cope with the problems that could arise"?

(Mr Sunderland) I think the answer to that is — if I may say so — it is a good question for Ministers. If I can give a prelude to what Ministers might say in reply, we have gone on record very clearly as identifying the strategic role of the merchant fleet as being one of overriding importance, and that we cannot allow the fleet in its various component parts to contract to a point where we cannot meet certain essential requirements. You asked whether the system is adequate to ensure that, for the foreseeable future, we will have these vessels. I suppose it depends what you mean by "the system". I am

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[Mrs Dunwoody *Contd*]
confident that we now have the mechanisms for rapidly identifying shortages and imminent shortages, and there are a variety of ways in which we could deal with these shortages should they arise. I do not think the system (if, by that, one means the systems in the Bill and the general fiscal environment and the general situation in which British shipping finds itself) — I do not think it is necessarily true to say that the system will take care of the future of the British fleet. I think it also requires the Government to monitor carefully what is happening in each individual sector and be prepared to take specific action, should the need arise.

Chairman

1441. Could I ask two questions about our NATO partners? The first is that fears have been expressed about the massive reduction and lack of investment in some of the merchant fleets. Norway's for example, has declined considerably, where the average age of the vessels of the US Reserve Merchant Fleet is 22 but in reality the ages range from 14 to 48, and at 48 I doubt how useful some of these vessels would be. Do you share these fears? The second question is related to the previous question which I asked in relation to manning, because the Norwegian Government did set up a ship working party, which reported that the biggest problem identified by the working party considering the defence aspect was Norway's long-term ability to secure effective and loyal manning of flagged-out vessels being requisitioned. Is this a problem, not only for Norway but for all NATO flagged-out tonnage? We have already dealt with the UK situation; how about our other NATO partners?

(Mr Sunderland) Yes, Chairman, it is a problem that has been identified by NATO as a whole, somewhat belatedly, I think. We in the United Kingdom and our friends in the United States have recognised it for some time and I think it is really only during the last eighteen months or so that the other members of NATO have come to realise that there is a problem facing us all here. So far as the particular situation in Norway is concerned, they have, of course, just created a second register, the Norwegian International Registers, which, if you like, takes the place of our Dependent Territory Registers, but they have gone further than we have been prepared to go setting up a register that has no nationality requirements attached to it at all except that the Master of the vessel should be a Norwegian, and even there the Government has said that they are prepared to waive that requirement or to look sympathetically at requests for waivers. I think the reason why the Norwegians have had to go down this particular road is that, placed where they are, they have very little trade of their own. They are a high cost country and they do not really see very much of a future for their own shipping other than by utilising to the maximum the opportunities of third world crews. As you say, the working party has identified that vessels on this register, referred to as "flagged-out" but I think it very probably meant those on the International Norwegian Register, may not necessarily be quite so easy to get hold of, and they are now turning their attention to that problem and seeing what they can do about it. We welcome the way in which the Norwegians have recognised their responsibilities. Other countries in NATO, as I say, are beginning to worry about the availability of vessels for defence purposes, and I think that is all to the good.

Mr Dicks

1442. I have a couple of questions. In a sense they are inter-linked. The GCBS has suggested a Merchant Navy Strategic Reserve Contract, entered into in respect of each UK-owned ship kept on a UK or designated register. It would have to be set at an average of about £150,000 per annum per ship for full UK crews. How do you see that? How do you compare it with the alternative proposed by the GCBS, which is crew-related allowance payable in respect of each British seafarer employed by UK owners, irrespective of flag? Can you compare or contrast them?

(Mr Sunderland) The GCBS have come forward with a whole menu of options, as they have put it, for ways in which the Government could assist the merchant fleet, either with investment or with crew cost or both, and we are looking at these proposals with the GCBS now. I have to say that, although we do not dispute the general orders of magnitude of the figures, certainly the differentials in crew costs are well-known. The figures are, nevertheless, rather alarming if Ministers were to begin thinking in terms of supporting the merchant fleet in this way, and so far, as the Merchant Shipping Bill makes clear, they have chosen to target their assistance very much more sharply and many would say more modestly, of course, towards training, crew relief and the Merchant Navy Reserve. Whether any other ideas which the GCBS have put forward will in the end prove acceptable to Ministers or be seen to be necessary, I think only time will tell.

1443. Is the question really that you cannot have it both ways? Either you pay to have a Strategic Reserve and a merchant fleet, which is going to cost the Government money; or you do not pay and you have to pick up whatever you can when you can depending on the availability of British merchant fleet officers and the nature and nationality of crews involved? The Government cannot have it both ways, can it, really?

(Mr Sunderland) Chairman, that may prove to be right in the event, but I think there is a step in the logic which we have over looked here. Is it really going to be necessary for the Government to meet the full cost of the difference between a third world crew and a British crew? I do not see that is necessarily the case. As I mentioned with Shell, there is a real value from having a British crew on board a ship. There is reliability; there is experience; it is well-known that British crews are more adaptable.

1444. Can I interrupt, with great respect? If there is freedom to choose your crew because of market forces and they decide what is best for them given the cost, it ill becomes the Government to say, "You

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[Mr Dicks *Contd*]

have made a bad judgment" because we can benefit from a different kind of judgment as an offshoot. I think it is a bit naughty to suggest that as a way out of it because it is going to help the Government have what it wants and not pay the full cost of it.

(Mr Sunderland) I was about to suggest things may not be so black as the GCBS paint in this document; otherwise, one is I think perhaps entitled to ask, why does anybody stay on the British register when they have the freedom to flag out? We have not seen much new investment in new vessels recently, and that is worrying. The fact is that we still have a substantial merchant marine under the British flag using British crews, and from my discussions with British owners I am quite clear in my mind that they do attach a value to those British crews and are prepared to pay a premium in many cases for employing them. So it is not just a question of what is the cost of a third world crew and will the Government kindly make up the difference; I think there is a real value there that we have to take into account as well.

Chairman

1445. Thank you. I have couple of final questions, Mr Sunderland. With the advent of the Channel Tunnel, how worried are you about the supply of ferries once the Tunnel becomes operational?

(Mr Sunderland) I would like to ask Mr Smith, who has made a particular study of the impact of the Channel Tunnel on Shipping, to answer that one.

(Mr Smith) The analysis was done fairly carefully at the time when the decision was made to go ahead with the Channel Tunnel, and compared with the size of the ferry fleet, and we were thinking particularly of the cross-Channel ferry fleet and therefore thinking of that arc of services that goes from the Wash round to Portsmouth. Taking those and the present level of them, the estimates which were made would indicate two rather different figures as between the number of ferries and the carrying capacity of the ferries. What we know, of course, is that ferry size is increasing all the time. We have seen these new ferries, jumbo ferries, coming on to some of the routes. So our estimates indicate — and these are, Chairman, in the White Paper which was produced at the time, so they are readily available — that the UK fleet on those services, which are currently of the order of 31 vessels, we thought would go down to 22 vessels as a result of the opening of the Tunnel. So you have a considerable reduction in the number of ferries, but at the same time the ferries are going to be larger. Particularly with defence implications in mind, it is better to look at carrying capacity of the ferries, and what we know — what we are reasonably sure of, I should say — is that the Tunnel will be less effective in attracting many of the lorries which are less time-conscious in crossing the Channel, and therefore will erode, as it were, the carrying capacity in terms of vehicles less. So the figures which were made at the time indicate that there would be only a very slight reduction compared with the present level in 1993, when the Tunnel opens. The figures which are shown are 10,900 passenger car units. (Sorry about the terms, but a car is a car, whilst a coach or lorry is regarded as six passenger units. We just have a standard measure). At the present time the capacity on those routes is of the order of 10,900 and we have estimated it might well go down to 10,000 and then, by the year 2003, we estimated, since the business is going to be growing both for the tunnel and for the ferries, the capacity would be up to 50 per cent above the present level. So those are the estimates which were made at the time and I see no reason why a fresh analysis would take a different view if it were repeated today.

Mr Bidwell

1446. I have been a Member of this Committee for a very long time; we have had more than one study of the tunnel. We have even been to Paris to talk to the Civil Servants there, who are much more forthcoming than our Civil Servants seem to be to us (but we will let that pass). There is a lot of conjecture and a lot of imponderables. The question of obstruction in the tunnel if it comes on to usage and so on; the lengths of journey by train — as to whether it is better to go over the water or continue by rail — and the picture of a whole-scale eclipse of the ferry trade is a false picture, is it not? The balance you seem to be giving us (this is in the evidence you have given us) is it will be, in spite of the Tunnel coming on, an unknown quantity for some considerable time in relation to its reliability and so on. Therefore — would you confirm — there will not be an enormous change in the usage of the ferries to the degree that many people fear?

(Mr Smith) Yes, that is generally true. We would accept, having done the estimates, that there are many uncertainties in these figures and one does not know exactly what pricing policies may be followed, and one does not know precisely the extent to which the Tunnel will draw from the long and more regional routes. The concern that has been expressed in some quarters, that it will lead to a wholesale collapse of the ferry capacity, is, I think on reasonable estimates, unfounded.

Chairman

1447. My final question, Mr Sunderland, is again on the question of financial assistance. The House of Lords Committee in its report on European Maritime Transport Policy said "The defence role of shipping in time of emergency requires, in the Committee's view, that the Government should give serious consideration to appropriate assistance to the shipping industry to support that role. For example, the assistance might be provided from the Ministry of Defence Vote". In view of the fact that the recent Merchant Shipping Bill emanates from the Department of Transport, is there any prospect at all that the Ministry of Defence will take their Lordships' advice and provide assistance to the industry? Added to that one is a sort of rider that if you felt, on strategic grounds, that the shipping industry did need additional support, what form would it take and how would you direct it to particular types of vessel or particular sectors?

(Mr Sunderland) Could I ask Mr Facer to speak to the point about the Ministry of Defence?

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[**Chairman** *Contd*]

(Mr Facer) Mr Chairman, the Ministry of Defence is providing, as I said earlier, some assistance by way of a contribution to the industry, and that is the cost of the Merchant Navy Reserve, which is being found from defence votes. I do not think it would be an appropriate use of the defence budget to provide general assistance to the merchant shipping industry. That would be for other parts of the Government. However, if, of course, we get to the point where defence requirements can not be met by the ships that are available, then we shall have to consider options, some of which we might feel deserved sufficient priority for funding against the many other demands on the defence budget.

(Mr Sunderland) Chairman, if I could just add to that. I do not think Ministers at this point in time would want to rule out any solution to this problem, should it arise. We are at the moment, I think, at a sort of watershed in the fortunes of the shipping industry. We seem to be poised on . . . I do not think you can be poised on a plateau, but I hope the Committee sees what I mean! We do not really know whether the upturn in the shipping industry, which seems to be coming through in many markets is of itself going to provide the necessary stimulus to investment to ensure that there is no further overall decline in those sectors of the fleet that are important for defence purposes. There are some measures of assistance coming through with the Merchant Shipping Bill and we will have to see also what effect those have. Should there be a need for other ways of dealing with the problem, then I hope we have been able to convince you that we are alert to the need to respond rapidly. By our negotiations with other countries, our legislative provisions as well as the things which we are doing in the Bill, I think we are already doing quite a lot to seal off the possibility that we could be seriously embarrassed with an outbreak of war or, indeed, a deterioration in the international situation.

1448. Thank you, Mr Sunderland. Are there any final points which any of your colleagues or yourself would like to make to the Committee?

(Mr Sunderland) I do not think so. Thank you very much, gentlemen.

Chairman: Then it only remains for me, on behalf of the Committee, to thank you very much for the very frank and forthcoming way in which you have answered our questions in a very lengthy and interesting session which will be very helpful to us in preparing our report.

Mrs Dunwoody: I take it your Department is an equal opportunities department!

Supplementary Note by the Department of Transport

Mr Sunderland undertook to follow up a reference made by Mr Gilroy Bevan to an article in Lloyd's List of 24 October 1987 in which it was suggested that two Isle of Man-registered ships were in breach of the officer nationality requirements (QQ 1421 to 1423).

He has now had an opportunity of looking at the article in question, which indicates that two Isle of Man-registered ships are manned by Indian Masters and officers. In fact, as Mr Sunderland told the Committee, the requirement in the Isle of Man, as in UK, is that the *key* officers should be British or Commonwealth citizens. To be precise, the Master, Chief Officer and Chief Engineer must be British, Irish or Commonwealth citizens. There are no nationality requirements for junior officers, but both senior and junior officers must hold certificates of competency issued by this Department or by those countries — Ireland and some Commonwealth countries, including Australia, Canada and India — whose certificates we recognise as equivalent to our own. On the face of it, therefore, the officer arrangements for those vessels fall within the rules.

If there were to be any question of a breach of the rules, we would of course want to pursue it with the territory concerned, and they with the owners of the vessel. The question of changing the category of vessels which the territory would be permitted to register under the Merchant Shipping Bill now before Parliament would be very much a move of last resort, and would reflect our view of the territory's overall ability to administer and enforce the international maritime safety conventions.

Despite this example, it remains the case that many Isle of Man vessels have UK officers and/or ratings, and that transfer to the Isle of Man register has enabled shipowners to retain UK crews at lower overall cost.

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TUESDAY 16 FEBRUARY 1988

Members present:

Mr David Marshall, in the Chair.

Mr David Gilroy Bevan	Mrs Gwyneth Dunwoody
Mr Sydney Bidwell	Mr Peter Fry
Mr Jim Callaghan	Mr David Mudd
Mr Terry Dicks	Mr Neville Trotter

MR STANLEY CLINTON DAVIS, EC Commissioner, MS BELINDA PYKE, Member of Mr Davis' *Cabinet* and MR BALT HELDRING, Principal Administrator in the Shipping Division of the Directorate General for Transport; called in and examined.

Chairman

1449. Good afternoon, Mr Davis. We do have a number of questions for you but before we start is there anything you would like to add or say as an opening statement?

(Mr Davis) If I might, Mr Marshall, and perhaps take up ten minutes or so of your time, I would like to say at the very outset setting aside for the moment strategic arguments which, strictly speaking, are not within the province of the Commission but I might well allude to them later, I do firmly believe that the European Community needs a merchant fleet, and by the term "fleet" I mean the ships and the men and women who sail in them and help to operate them. I go one stage further: I believe that we need a modern, well-equipped merchant fleet, and we need skilled and well-trained seafarers. The sharp competition that characterises the industry means that the Community fleet can only be viable if it achieves high levels of productivity and in turn this means that our ships have got to contain the latest technology and our seafarers must be able to work that technology to the utmost. Now, all the restructuring that is taking place within the Community economy is not changing these basic truths. We live by our trade in manufactured goods. The Community imports raw materials, transforms them and exports the products. Some of these exports are carried on lorries or by rail or by air, but by far the largest part, something like 90%, is carried by ship and to my mind this fact tells us one thing above all: that the Community has got to retain control of an independent means of transport for its trade. I do believe that dependence on others can and is likely to be extremely dangerous. That goal can only be achieved by the maintenance of a Community fleet. Let us just examine briefly what is happening. The Community's share of the world fleet in 1980 was 29%. By 1987 it had been reduced to 17%. In absolute terms the fleet is now barely half its 1980 level of 170 million tonnes. This decline has been starkly reflected in unemployment among Community seafarers: financial difficulties, even bankruptcies, among Community ship owners, greatly reduced demand for Community shipbuilders and ship repairers, and disrupted services to shippers. The decline in the UK fleet with which you are of course primarily concerned represents a major component in the drop in the Community fleet. I note that the interim report of this Committee in May of last year showed that the United Kingdom share of the world fleet had actually decreased from nearly 10% in 1975 to under 3% in 1986. By 1987 this had become barely 2%. A substantial part of the decline in the Community fleet is therefore represented by the UK loss and the response of the UK to this loss must be of particular significance. In its 1985 communication on maritime transport, three factors were regarded by the Commission as responsible for the decline of the Community's fleets. One was a loss of comparative advantage; another, the world recession and excess shipping capacity, and the third the growth of protectionist policies and practices of other countries. It was this protectionist threat which it was considered could be countered most effectively by Community action. Under the UK presidency, the Ministerial Council agreed in December 1986 four regulations based on the Commission's proposals. The first of these, number 4055/86, applies the principle of freedom to provide services to maritime transport between Member States and between Member States and third countries. It removes over a transitional period existing restrictions for Community ship owners, whether by unilateral measures or through bilateral cargo sharing agreements, and it prohibits cargo sharing arrangements in future agreements with third countries unless under specified exceptional circumstances which might exist in the liner sector. However, an element which the Commission considered to be extremely important, namely that part of the proposal which would have totally opened up cabotage within the Community, was left aside and it still remains to be dealt with. It is the Commission's view that until this is agreed we cannot have a proper common shipping policy. The second regulation, number 4056/86, lays down detailed competition rules dealing with Articles 85 and 86 of the Rome Treaty for international maritime transport services for or to one or more Community ports. It aims to ensure that competition is not unduly distorted through restrictive practices while attempting to avoid excessive regulation of the market. There is a group exemption of conference agreements from the general prohibition of restrictive agreements under the Treaty. This exemption is granted subject to certain conditions and obligations, and on the assumption that they operate in open trades. Should there be action, for example by a third country to

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prevent the operation of non conference lines in a given trade, this fundamental requirement is not meant and the exemption would be withdrawn. Competition has to be conducted on a fair basis by all parties, whether they be conferences or independent lines. The third regulation, number 4057/86, deals with unfair pricing practices and provides for the imposition of redressive duty on foreign ship owners to restore a situation of fair competition on a commercial basis. This is aimed at those cases where foreign ship owners enjoy non commercial advantages granted by a third state and persistently charge freight rates too low to be sustainable by companies operating on a commercial basis. In this respect the Commission has stated that it would regard failure to observe ILO or IMO standards as a non commercial advantage. The final regulation, 4058/86, concerns co-ordinated action by the Community to safeguard free access to cargoes in ocean trades. The adoption of these regulations demonstrated the determination of the Community to ensure free and non discriminatory access to cargoes for Community ship owners, and to secure fair competition on a commercial basis. It is hoped that the regulations will discourage restrictive measures by third countries. Where they do exist, or arise in the future, the Community will seek first of all to achieve an effective solution through negotiation, but if this course does not succeed, the regulations offer the means of taking counter measures. The first of these regulations entered into force on 1st January, and the rest on the 1st July, that is to say the 1st July of last year. A number of complaints based on the regulations are currently being examined by the Commission. Co-ordinated counter measures have been sought by Denmark in respect of the practices of West African countries operating through central bureaux. These practices have been raised previously by the Commission with the countries concerned and we have not obtained any useful response. Although discussions are now proceeding within the LOME framework, the regulation on co-ordinated counter measures exists in the background as an incentive to serious discussion of the problem. In addition, conference lines and European outsiders engaged in the Europe/Australia trades have complained about unfair pricing practices by Hyundai, a South Korean company. New measures for cargo reservation by the Portuguese Government have been the subject of a complaint by the Portuguese shippers under the regulation on freedom to provide services. The Commission has shown that it is already committed to the effective application of the regulations and looks to the Council of Ministers to provide the necessary support to implement these measures, but I have to say that I have been very disappointed by the lack of vigour displayed by Member States in applying these regulations. The Commission was particularly disappointed by the way that the Member States dealt with the case last year of a shipping agreement between Italy and Algeria. In our view this agreement which contained a freight sharing clause contravened the regulation on the freedom to provide services. In effect, this case provided the very first test as to how seriously the Member States viewed enforcement of the whole package — a package which had only by then recently been agreed. In the event the Member States took what I can only describe as a complacent, if not craven, attitude and were prepared unanimously (including those who had been most vociferous in supporting the package) to endorse the agreement negotiated by Italy and Algeria, and on my advice, the Commission took a stronger line and indeed we have now referred the matter to the European Court of Justice. We believe that the Council's decision was incompatible with the regulation and the spirit of the package and it is for those reasons we have asked the Court to cancel the decision. I cannot say very much more about these matters, because they are of course *sub judice* but the fact is that simply agreeing to a set of regulations is plainly inadequate in itself. The measures, if the industry is going to be helped at all, have got to be enforced strictly, and the Commission, regardless of the views of the Member States, intends to assume its legal duties seriously as far as this is concerned. Mr Marshall, unfair third country practices only explain partially the difficulties confronting the Community fleet. There is also the loss of comparative advantage to other fleets. As excess world shipping capacity grows with reduced volumes of cargo, some ship owners have improved their efficiency and specialised in certain sectors of the market. Others have been tempted to cut costs by switching vessels to registers offering a variety of incentives, including some of a very undesirable nature. Supposed benefits have included low registration fees, scant or non-existent ship surveys, little or no taxation, secrecy about company ownership, low wages, no social payments for crews, and the chance to impose poorer working conditions, sometimes through longer working hours and reduced manning. Ratification, let alone effective implementation of international conventions such as SOLAS, MARPOL, or ILO147 are regarded as low priorities for the promoters of too many registers. I am of course Environment as well as Transport Commissioner and I find this a very disturbing phenomenon. The proliferation of registers has also had curious results — French vessels register in the Kerguelen Islands, UK ships in the Isle of Man, Denmark looks to the model of the Norwegian International Ship Register, German ship owners exploit bareboat charters in Panama, Cyprus and elsewhere. I think it is very unfortunate that the Community spirit has not yet proved sufficiently strong to bring Member States together to seek a common response. Instead we have a motley collection developing of second registers with different conditions, supplemented by varied national packages of support for the industry. We have a confused situation and again the Commission insists that the Community has to seek a soundly-based approach which builds on our strength rather than exaggerating our weaknesses. One of the contributory causes for the dire situation we are in is unilateral national action, so for a start this Commission is seeking information from Member States, both on conditions relating to second registers and on aid to shipping as distinct from shipbuilding. Member States are reacting in different ways, and with

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[Chairman *Contd*]
different levels of concern to the downward trend in their merchant fleets, but I continue to believe that a united approach by the community would provide the most impact in dealing with this problem. Like many challenges facing the Community, the establishment of a common approach from the various national backgrounds and interests is not going to be easy, but I would like to mention some possibilities which are being examined within the Commission with a view to establishing the second stage of the Community's shipping policy because I have always pointed out that the shipping memorandum or package which has been largely agreed was only a first phase. Some of these ideas were discussed at the symposium on the Community fleet which was held in Antwerp last May and will be discussed further with Member State representatives in the near future. In 1986 I floated the idea that Member States and Community shipping interests should give serious consideration to the establishment of a European flag. I am still of the view that some form of a Community ship register associated with positive measures of assistance offers the best way forward. Of course, I recognise there are legal difficulties in proceeding to a single independent Community ship register. Maritime law invests control and jurisdiction on the State of registration of a vessel. In addition, the capacity to inspect ships, conduct accident inquiries and enforce mortgage and similar charges on vessels raises significant legal and administrative questions. However, it is surely possible to envisage a Community ship register on which a vessel on a Member State register could, subject to fulfilment of agreed conditions, obtain a parallel registration on a Community ship register. Such conditions would include compliance with IMO and ILO conventions and could extend also to acceptance of certain manning requirements. The Community register need not be a dual registry as for legal purposes the vessel could remain on the Member State registry. I believe that the attraction of such a register for Community shipowners could be a link to favourable fiscal treatment or financial assistance. Obviously we would need to take into account the views of national finance ministers in that regard. Nonetheless, favourable fiscal treatment or financial assistance are the forms of help which we know shipowners are now asking for and can take most easily into their calculations when tempted to flag out. Support for this approach is also coming from the seafarers. One measure under consideration is that of favourable tax treatment for seafarers and this could help counter the most often cited reason given by shipowners for flagging out — namely the need to cut crew costs. The possibility of favourable tax treatment for shipowners is a further possibility. As in the case of seafarers, complex problems are inevitably raised. Tax regimes vary between Member States. Under some regimes there already exists exceptional treatment for ship owners. The Commission has put in hand a study of the financial impact of various measures on ship owners in the different Member States, and we are expecting a report shortly. Another measure currently being examined by the Commission concerns the question of excess shipping capacity and in particular ways of encouraging scrapping. This can only work, however, if it takes place on a truly international scale for there can be no benefit to the Community fleet if a ship is sold to a competitor fleet. The same question is also linked to the situation, of course, in the shipbuilding industry. It is important to maintain viable Community shipyards able to build a wide range of vessels and to maintain a technically advanced Community fleet but the danger of building ships which only add to the world's surplus must never be forgotten. Subsidised excess capacity in world shipbuilding has been a major source of the problems confronting world shipping. The Community must seek true negotiations most particularly with Japan and South Korea to reduce globally this surplus capacity, but until there is evidence of a genuine willingness to eliminate existing distortions to competition, the Community must be prepared to take any necessary defensive measures. There is one other thing I would like to add and that deals with the question of strategic interests. I believe that dependence upon others and allowing the merchant fleet to be regarded as a sunset industry is a policy of despair as far as strategic interests in defence are concerned. I will not enlarge upon that. It is a view that I have advanced before, and it is a view which I sincerely hold. But as I said before, I suppose I must be careful about allowing Community considerations on behalf of the Commission to intrude into the evidence I am giving. Before closing I would like to mention that the first meeting of the joint committee on maritime transport was held last week. This Committee brings together the social partners in the Community's industry to discuss matters of mutual interest at Community level. I am confident that the Committee will enable improved co-operation on specific issues and in this way make its own contribution to helping the Community fleet. Cooperation I believe by all those involved in the industry and by all the Member States is the only way in which we will find effective and desirable solutions to the problems facing the merchant fleet through the Community.

1450. As you know, our study is into the British fleet, and in view of the fact that the spectacular decline in the UK fleet is at least in part related to the UK joining the EC, do you regard it as a problem for the EC or simply one for the UK Government alone?

(Mr Davis) I have already indicated that I believe that the time has come when, faced by a common difficulty running right through the Community, it is essential that we now look at this matter on a Community basis and because we are facing a dramatic situation as far as the decline of this important industry is concerned I refuse to regard it as a sunset industry. I believe the time has now come for a very radical approach as far as the solutions are concerned.

1451. It has been suggested that the shipping policy of the EEC simply reiterates with some time lags and minor modifications that of the Maritime Committee of the OECD. Is that fair criticism, do you think?

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[**Chairman** *Contd*]

(Mr Davis) Of course there is some element of duplication, I suppose, but the important thing about all Community law is it is directly enforceable and it is enforceable by reason of the existence of the European Court of Justice in proceedings that might be taken, so consequently there is a considerable distinction between conventions or agreements that are entered into which engage international organisations, and in fact the situation affecting Community Member States. Of course we have to view shipping in a broader perspective than the Community itself. To some extent this is done in the way we have approached these four regulations, but on the other hand there are wider considerations, and therefore the work that goes on in the OECD is of considerable importance too.

1452. The four main points in the EC's first stage shipping policy document were designed to: 1) safeguard access to cargoes for European Community fleets; 2) counter unfair pricing practices of non-EC lines; 3) apply the competition rules of the Treaty of Rome to maritime transport and 4) apply the principle of the freedom to provide services to internal Community shipping. How have these measures, and in particular the unfair pricing regulation, been progressing?

(Mr Davis) Well, I have in the evidence I gave earlier outlined a number of cases which are currently under investigation. It is of course much too early since the first regulation came into effect on the 1st January 1987 and the remaining regulations came into effect in July to be able to make a full assessment of what is happening. What I sought to underline and what I said before was that it is all very well having the regulations but I have got to have the political will and the legal will to make them work. I believe that the Member States at the first hurdle (and this is all 12 governments) colluded in providing all the wrong signals for the rest of the world' shipping because if in fact we had faltered at the first stage (which they were encouraging us to do) of what value were the regulations? Of course this is one of the reasons (not the only one, at least politically), why I thought it approporiate to recommend to my colleagues that the action I have described in relation to the Italian/Algerian agreements should be taken.

Mr Fry

1453. First of all I think we would all like to commend the action that you have taken. One of the problems, though, is that time is not always on your side, or even on the side of British merchant shipping, and I would therefore like to just ask a couple of questions arising out of your interesting statement. Between 1982 and 1987 the French merchant shipping fleet was more than halved, West Germany went down by 40%, Italy by 25%, Portugal by 25%, Spain by about 40% and ours was worse than halved — something like two thirds of the gross tonnage that was registered in 1982 had gone by mid-1987. My first question must be would you not agree that unless something is done fairly quickly, there will not be much of an EEC fleet to maintain, because if that scale of loss is continued, then no matter what is decided in Brussels or in Luxembourg or Strasbourg we will just not have the ships registered? So urgency, may I put it to you, seems to be something that you I am sure are aware of, but unfortunately Member States do not seem to share this view.

(Mr Davis) Yes. I rather endorse that view and the decline is startling. As I tried to indicate, in my view it is exceptionally dangerous because it predicates that we shall be dependent upon others, and when one considers that 90% of Community trade is carried in ships this is a very dire prospect indeed. You are quite right, of course, that time is not on our side. It is particularly regrettable, for example, that the Court proceedings to which I have alluded which I suppose are inevitable will take something like two to three years to resolve. During that time, uncertainty prevails, but of course we have no other recourse where the Member States decline to observe the regulations as we see them. The shipping memorandum upon which the four regulations were based was in fact decided in principle by the Thorn Commission in December 1984.

I felt that they were inadequate in a number of material respects, and although of course Commission policy is not like government policy, when a new government comes into operation it can discard the policies of its predecessors and that is something that is not available to the Commission. It is a continuing process. Nonetheless I did decide to carry out certain amendments with the agreement of my colleagues to the shipping memorandum. That took us until March 1985.

Since then there has been a continual process of negotiation until the package was eventually agreed, and by Community standards it was agreed quite rapidly. I was told within the area which I used to deal with, consumer protection, that it was not unusual for matters to lie on the Council table for ten or twelve years, and so that final package was regarded as being dealt with with remarkable speed. But here we are dealing with an industry in sharp decline and we are working very hard with relatively limited resources available to my services to produce a further package of defensive measures, and hopefully this will be able to be on the Commission table and thence on to the Council table within the course of the next few months.

1454. Could I follow that up by saying that one of the main points in your EC policy was to apply the principle of freedom to provide services to the internal Community shipping and you have already touched on the question of cabotage in your statement. It does seem to me at the moment that the resistance of other EEC members to make concessions in relation to cabotage does mean that this country is in a position where it has to allow others to compete around our shores and I think a period of something like ten years has been suggested before cabotage could be legally removed. I must put it to you that this surely is going to mean that the UK Government is going to be put into the situation where either it has to see its merchant shipping continue to decrease and, indeed, to have to share its cabotage or it will have to decide to take some kind of

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[**Mr Fry** *Contd*]
action, perhaps not so much in itself to ensure the continuance of British ships carrying more of the goods around our shores but to jolt our fellow members of the EEC into taking the kind of decision over cabotage that obviously you want and this country wants, but quite frankly, is just not being achieved.

(Mr Davis) Yes, Mr Fry, I understand the dilemma to which you refer and, of course, it was with great disappointment that the proposal in relation to cabotage which the Commission had itself adopted was subtracted from the agreement which was eventually made by the Member States and I believe it will emit all the wrong signals, so at the moment the situation is that the Council still has before it the proposal relating to cabotage and, indeed, offshore supply services but has shown remarkable reticence about tackling this. If I can put it another way, I think they are honing inactivity into a fine art. Nonetheless our intention is to persist with this. I have been in touch with the UK Government, who are very concerned about this matter, and, of course, you have in this House a Merchant Shipping Bill currently under consideration in which this issue may well figure. It is not for me, of course, to recommend to any member government how it reacts to this situation. All I can do is use my best endeavours to ensure that the issue is prosecuted and prosecuted as rapidly as possible. To that end, although the German Presidency has not indicated that it intends to hold a Shipping Council during its Presidency, I am going to make that recommendation to the German Minister. Two days have been set aside for a Transport Council meeting in June and I think it is appropriate that at least half a day be provided for shipping matters, included in which is the issue of cabotage.

Mrs Dunwoody

1455. Commissioner, I welcome the fact that you obviously regard this as a very urgent and important subject and are putting a lot of personal commitment into it, but you will forgive me if I say it is a little difficult to see what arguments we should use to persuade Britons of the efficacy of the Community's policies in this matter at a time when in some ways we are going for the lowest common denominator, that is to say, we are going to be asked to change the cabotage rules without any very clear indication of the length of time in which those changes will come about and the benefits that will be seen by Britain, which has always operated a very open policy. Secondly, may I ask you if you are to take these very positive moves — and I would like to talk to you in a minute about "scrap and build" — what is the size of DG VII, how many people are actually dealing with this and what kind of urgency do you see amongst the Member States? I ask this not, frankly, because I am seeking to be awkward about this but it is important if we are to produce a report saying this is an urgent problem but also pointing out that we see the need for political action. The Commission itself has made a number of quite clear policy statements — because this is what you are saying to us today — but does not appear to be doing a great deal about it at Council level.

(Mr Davis) Not at Commission level.

1456. At Council level — which then demonstrates that there is some very positive line that the Commisssion is taking which will be so persuasive that the Council will respond instantly. What brilliant ideas are you going to bring forward about "scrap and build" because it is all very well saying you do not want to treat shipbuilding as a sunset industry but if, in fact, there is no positive incentive at Commission level to encourage people to protect their shipbuilding industry, then I have to say I cannot see any reason why that will happen in Europe. We have very clear evidence that the shipping industry itself is going to say effectively, "If you put commercial pressures on us we will buy wherever we can, under what circumstances we can, and will use whatever fiscal measures we can to flag out." Is the Commission actually saying to us the extension of the national interest is the Community interest, and if it is saying that, what positive incentives is it giving both to the national governments to encourage the maintenance of shipbuilding within their own field and to the changing policies that will actually make people like "scrap and build", which the Commission is supposed to have been looking at? When do you come up with some answers?

(Mr Davis) I am grateful for questions which are posed in a somewhat characteristic and provocative way from Mrs Dunwoody.

1457. Would I be provocative?

(Mr Davis) Of course — in the most friendly way, as a very good friend. Let me deal with them not necessarily in the order in which you put them. I did indicate that we operate with a very limited service. We have 120 people operating in DG VII, dealing with all the transport problems of the Community. There are six A officials in the Shipping Sector and out of the six members of the *Cabinet*, though there is a sort of collective *Cabinet* responsibility, I have two members, Belinda Pyke and Claude Chene, who is a French member of the Commission staff, and myself operating in the Transport Sector. I also ought to say this, I think, that for a very long time, particularly in the Shipping Sector, results have been patchy to say the least. This does have an effect on morale in the service and I think that, as a result of the agreements that were reached, morale has improved. We also have a new Director General from Spain, who was fairly recently installed in office, so overall, the situation is certainly improving. However, we also have to concentrate on matters other than shipping. We have had the aviation package, we have road haulage problems and numerous other things. Within these limitations I believe that negotiating the package was an enormous burden of work for my officials and also for myself, and the fact that we did succeed in large measure was an encouraging sign. We are now working on a number of other positive measures but, of course, at the end of the day whatever we may put forward is dependent upon the political will of the Member States, albeit by a majority now, to conclude agreements about. We are hoping that we

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[**Mrs Dunwoody** *Contd*]
are putting forward ideas which commonsense would indicate are reasonable. I always believe that the test of objectivity is whether other people agree with one's own ideas. As I have indicated, we are going to put forward a number of positive measures. I could enlarge on that later. On "scrap and build", I said that over-capacity remains the greatest obstacle to recovery as far as shipping is concerned, and in addition to exerting downward pressures on profitability and wages what it does particularly is to undermine attempts to maintain high standards. Clearly the best way of reducing over-capacity is to reduce shipbuilding capacity worldwide. We have done that in the EEC already but there is a lack of similar resolve in the Far East. Of course, we have no legal powers to make them change their ways; we can only negotiate. Another way is scrapping. A scrap and build policy was put forward by the Commission in 1979: no agreement was reached. We are now looking again at a scrapping policy. Our officials have been to Japan to look at a scheme that seems to be working there although it is still in its infancy. We have got a consultant whom we have engaged recently to examine possible measures. I am hoping to have results in April, and then of course we will have to consider what proposals, if any, we put first to the Commission and then to the Council. On the question of Community interest, really that is an extension of national interest, and how you postulate that to people who are interested in shipping. One of the great tragedies of our time is that we have taken merchant shipping in this country and in the Community as something for granted. Few people have actually looked at the interests of seafarers. The fact that you do not have seafarers in the sort of abundance that we need to maintain fleets is a matter of grave concern. You cannot conjure them up in a matter of hours or days or weeks or even months if an emergency arises, so all these are factors that somehow or other, not the Commission alone but the Member States (if they have the political will) have got to galvanise people into thinking about. It is a matter of great interest.

Mr Trotter

1458. I was very interested earlier this week, coming down on the train, to read in *Lloyd's List* that the Union des Chambres Syndicales de l'Industrie du Petrole (known as UCSIP), was complaining about the obligation imposed on French refiners to transport two thirds of their crude oil requirement in tankers under the French flag. That would seem to me to be contrary to the EEC rules, and yet it is in the current edition of *Lloyd's List*.

(Mr Davis) It may well be, but we act only on complaints that are made, and if somebody wishes to refer this issue as a complaint, it will be registered officially and then investigated, but I could not, of course, comment on a report (however respectable the source).

1459. But it would seem to indicate that national Government attitudes are going to be very different at times from what we would like them to be, because I am sure we all agree with the aim of what you said in your introductory remarks: this is going to be one of your problems — that national interest may not be seen the same way.

(Mr Davis) And that is in a sense what Mrs Dunwoody was asking about before. I see no future for individual merchant fleets within the Community on any lasting basis. I think unless we are prepared to deal with these matters in a spirit of the Community in the interests of the national fleets and of the countries themselves we shall get nowhere.

1460. Could I be the Devil's advocate and say that we have had before us the shippers' representatives and they alarmed all the Committee by saying that they saw no interest in there being national fleets at all. They did not mind what sort of ships were used to carry our trade. Is there not going to be pressure from that sort of lobby on the national governments?

(Mr Davis) Of course, and I think it is absolutely right that shippers' interests have got to be kept well in mind, and indeed it is right that shippers' councils should be involved in the work that is undertaken now internationally by governments and indeed by the shipping industry. They are involved in arrangements that affect conferences, but having said that of course, they are going to look for the cheapest possible form of transportation of the cargo that they are wishing to transport, but it cannot be necessarily consonant with national or Community interests that that view should prevail. After all, if that were the case, why bother with a British merchant fleet or a German merchant fleet or any of the other Community merchant fleets? It is easy enough I think to be able to apply that to, say, the threat from the Soviet Union which was more persistent some years ago and when I was Minister I was very much involved in that issue, but if you subscribe to that particular doctrine I think it is a policy of total despair, and where does your defence policy then lie when it is so heavily dependent upon merchant shipping? We know that to be the case. The House of Commons Defence Committee has come to that conclusion, as I understand it. I think Ministers are deeply concerned about it. I think Opposition spokesmen are deeply concerned about it and certainly I as a Commissioner with this responsibility am also concerned about this, so from a defence point of view it cannot make sense, but dependence upon others is putting yourself in a position of eventually perhaps being exploited, if not blackmailed, and I do not think that is a very sensible policy.

Mr Bidwell

1461. Part of the question I was going to ask has been answered. We have of course taken before this Committee substantial evidence on the defence question, so we understand the importance of what you had to say about that, but we gathered that there is not any solution except on a Community basis and that there is no joy for our fleet in any kind of independent way or even in a defence way. We have to face this on a Community basis. Can I ask you what you think about our present Shipping Bill? Does it substantially go towards arresting the decline in the British fleet in your opinion, and can this only apply to one State, or others as well, because this is

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[Mr Bidwell *Contd*]

something that seems to be commonplace and other States in the Community have been similarly hit. Would you care to comment on that?

(Mr Davis) It is invidious for me to talk about a piece of legislation before the House of Commons as a Commissioner. I am sorry incidentally — I did not intend actually to offer my remarks in too extended a way, but if I have, then I apologise.

1462. It is very helpful to us.

(Mr Davis) There are interesting elements of the Merchant Shipping Bill that do spring to mind — the idea of repatriation costs being borne — but it is not for me to comment on the adequacy of that. There are other elements of the Merchant Shipping Bill which I think are significant, but having said that, it is for this House of Commons to decide, not for me, whether it represents a solution or anything approaching a full solution to the problem of Britain's merchant shipping fleet, with its very sharp decline, as has been noted by Mr Marshall and by myself. I simply do not believe we can go on with partial measures. The decline is much too rapid, and too dangerous. I think it was Aneurin Bevan who once said 'You do not have to read the crystal if you can read the book". The record is very clear now.

1463. He said "Why gaze into the crystal ball if you can read the book?"!

(Mr Davis) Thank you. I stand by your correction. Since I have become a Commissioner I suppose I have not had the same opportunity to refresh my memory about these things, but I do believe that all the evidence shows that the situation is now in such a marked state of decline that Member States cannot go it alone.

Mr Bevan

1464. Thank you very much indeed. You outlined in your excellent statement, and you were a very distinguished Member of this House prior to being a Commissioner, so you can see both sides of the fence, a situation of complete hegemonisation rather than harmonisation which you said altruistically you would like the EEC to aim for. Is it possible, when in fact there is no requirement in your EEC policy document, to define either a national shipping line or to ensure that a ship is registered by a Member State in a Member State's register? Would you not agree that cabotage in the way in which it is translated in Europe is a very ancient meaning for a very ancient word for a restrictive practice, in fact? If I may I will probe further on these lines because we have, as you rightly say, to look at the situation from the United Kingdom's point of view. As there is so much anti-UK and pro-nationalistic cabotage existing within Member States and as there are so many bilateral agreements formally in existence which are untouched — indeed, we have been forced to make some informal ones ourselves — it is possible to analyse that only two courses of action are practically open to us. One is to seal off the UK coastline, with powers from Parliament to do what one might describe as becoming a "little England", I suppose. Another, to which you have referred, is to seek a ruling of the Court of Justice, which you said will take two or three years, even in your own case, so Lord knows what in ours. Finally, we could introduce our own retaliatory cabotage rules. If I might finalise this particular series of questions, you referred to the shipping debate and, indeed, I think it was Sir David Price who said in the debate that "the French play to the rule that they never do anything internationally that is not perceived to be in the interests of France", and our own Secretary of State intervened at a later stage and said "the Greeks are worse". So here we have an EEC with absolutely no ability to introduce power. Even "scrap and build", if it were a policy, would have to have incentives and an intervention policy would not obtain. At the moment there is little practical possibility of that, so do you not feel that in this instance maybe, to obtain eventual harmonisation of the type of situation you want, the UK will have to go its own way with its own very definite rules and regulations in the meantime to ensure its own fleet survival, without which there will be no EEC fleet?

(Mr Davis) Mr Bevan, you have very properly put a question which is of major concern to HM Government and, indeed, to this country but I am afraid I cannot help you with the solutions which may be best adopted in the interests of the United Kingdom. I am a Commissioner dealing with the Community as a whole and, of course, all measures that are taken have to come under scrutiny. But I do not hide from you the fact that there is a deep dilemma here and when you say that cabotage is a restrictive practice, it is exactly that. It is a restrictive practice which some Member States deem to be in their national interests. One of the matters which the UK Government will have to consider — and I am bound to say this is an issue which I raised when I was a Minister holding this particular responsibility here — is what implications would arise for overall shipping policy in an international sense if Britain were to apply a restrictive policy in this regard. These are questions of advantage and disadvantage that it is for governments to make a determination about in the absence of a Community policy. Then you say that in the present context intervention does not seem to be something that governments are likely to become involved in in terms of adopting a policy. It depends on the nature of the intervention; it depends on how Community-based intervention would apply. If you take, for example, training of seafarers, that is a form of intervention but quite clearly it is something which, provided the Commission were notified about it, we would for the most part take a benign attitude to because we need to train seafarers. Consequently, you have to look at every measure one by one and view it on its own merits. As to the question of a national shipping line, the Brussels package* called for a definition of a national shipping line but only for United Nations Liner Code purposes, not for any other, so that proposal still remains on the Council table. There is, I am bound to say, little likelihood of discussion on it

*Council Regulation (EEC) no. 954/79 of 15 May 1979 concerning the ratification by Member States of, or their accession to, the United Nations' convention on a code of conduct for Liner conferences.

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[**Mr Bevan** *Contd*]

as far as I can see. The Commission proposal would allow Member States to add registration as a condition in implementing the directive. The United Kingdom already has, as I understand it, legislation on the question of a national shipping line but did not include this particular reference to the flag in it.

Mr Callaghan

1465. May I first of all welcome Mr Davis as a former colleague but also the statement he has made to the Committee. I would like to follow what Mr Bevan has said. In fact, he has more or less asked the question I wished to ask. If you will bear with me for a moment, I am not digressing but trying to make a comparison. When I first came in here as a new Member for a number of years I tried desperately hard to save the textile industry, which was based in the area from which I come. I was concerned about unfair competition, which you mentioned earlier in your statement, and the dumping of textiles in that area. I felt that we in this country were playing the game by the rules but other countries were not doing exactly that and that we had this unfair competition. I feel it is exactly the same with the UK shipping industry, that we in Britain are playing the game and I put it to you that rather than the UK being a more scrupulous observer of the EEC rules and regulations and suffering the greatest comparative decline in shipping, we should invent a British rule with regard to our shipping industry because I feel if we do not we are going to be where we are in the textile industry. I had 26 mills in my area when I came into the House; there is not one left. I feel the same thing is going to happen unless we start playing by the same rules as the other countries. You did mention that instead of its being a sunset industry you would take countermeasures against things like unfair competition. Could you enlarge on that, please?

(Mr Davis) First of all, when it comes to playing the game I am afraid I cannot become involved in trying to compile a league table of countries which fail to observe various Community laws. I am afraid the record is not always very good and it is not as good as you suggest it to be, Mr Callaghan, if you take, for example, certain environmental matters. On the other hand, it is not only the United Kingom that fails to observe important elements of Community law, it is many of the others, and so it is with the shipping matter. What I was trying to say before, however, was that if the countries want to help themselves, they have enacted laws; let them do their best to observe those laws and not run away at the first difficulty that emerges. That is point No. 1. Secondly, the United Kingdom still has a very important merchant fleet in Community terms, even though its position has diminished quite remarkably and regrettably. I do believe that the United Kingdom, as far as shipping is concerned, would in the main observe the rules. The difficulty is sometimes that Member States do not like to be isolated in a political argument. It is very difficult to sustain that isolation even if you happen perhaps to be right. In terms of dumping — and this is connected with the countermeasures — I referred previously to the Unfair Pricing Practices Regulation. It is not only about State subsidies. It is not only about practices indulged in by some of the Iron Curtain countries and the Soviet Union in particular. It is also about those shipping companies encouraged by their own Government which deploy practices which give the most minimal observation to basic codes that have been agreed on in the ILO and IMO, so we would take counter measures in that regard by precluding in the final analysis those ships from using Community ports. There is also another matter to which perhaps I should have alluded before which has had a very important effect, and is having an important effect in dealing with sub-standard shipping, and that is the question of Port State Control. Where there has been very considerable compliance, somebody may remind me of the figures of inspections but a large number of ships (an increasingly large number of ships) has been inspected, an increasing number are being detained, and this is a very important element in being able to establish control over that form of unfair competition, because that is what it is — a form of dumping, if you like — and I am told that the figure in relation to inspections is now 70% on a yearly basis. What I am very anxious for is that we should not be complacent about it. I am always disinclined, when you are asked "Are you satisfied that such-and-such a position prevails?", to say "Yes". That is a disastrous way of answering a question. No, I am not satisfied with it. There is room for improvement and most particularly in looking at the requirements imposed by the ILO conventions.

Mr Mudd

1466. I would never ask a Commissioner to hypothesise, except this afternoon! With perhaps the arguably shortening odds that Norway might seek to join the Community before too long, is research going on to find out whether or not the arrival of the Norwegian merchant fleet, while on the one hand increasing the Community's percentage of world shipping and being seen to be a good thing, on the other hand would add to the surplus capacity and might not turn out in fact to be yet another kick in the teeth and another ray in that sunset of which we have heard so much already?

(Mr Davis) I am glad that you habitually never ask hypothetical questions and you will not be surprised if I were to say that habitually I refuse to answer them! We do not know what the position of Norway is in this respect at the moment. What I would say is that of course we do not confine our interests to the Community. We do have a very close liaison with EFTA countries. There are meetings of officials in EFTA countries. We meet within the context of the IMO in which the Commission has taken during a period that I have been Commissioner an increasing concern at the Commissioner Secretary General level, and consequently we are involved in the international dialogue in every respect so I am sure that my officials are aware of the current state of the Norwegian fleet, the problems that affect the Norwegian fleet. Should the occasion arise I am sure that that research would be even more detailed.

Mr Trotter

1467. I would like to return to the question of

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[Mr Trotter *Contd*]
Port State Control, but before doing so, could I ask the Commissioner about the question of duty free sales on ferries? I am not sure whether this comes under your Directorate or not, and also the question of possibly imposing VAT on fares, because those proposals ferries would both seem to be harmful to the merchant navies of the countries concerned.

(Mr Davis) No, it is not my direct area of concern; it is Lord Cockfield's. Of course, I am aware of the fact that — well, I should say two things. First of all I am a member of the College, and therefore I have collective responsibility for the decisions of the College. I too am aware of the fact that within my own sector of responsibility there is concern on the part of the shipping industry. We have received representations from the General Council of British Shipping, from the trade unions, but I think one has to look at the context in which this discussion is based. It is to deal with the removal of fiscal frontiers in view of the development and completion of the internal market by 1992. Now the proposals to harmonise rates of excise duty and VAT would certainly remove the logic of duty free. I understand perfectly well the representations I know have been made to Lord Cockfield about this: that duty free sales do represent at the moment important sources of revenue to ferries, to the aeroplane industry as well, although I sometimes wonder when things are sold or put out for sale on aeroplanes how anybody can buy them, other than the duty free whisky and cigarettes — if you are interested in those things! But I think we have to ask ourselves whether these actually provide a suitable base for the development, the stability and development, of an industry. Is it not something that is a little artificial? If you take the airlines, for example, one also questions security issues, safety issues, in relation to duty free purchases. That is another matter with which this Committee, I assume, is not particularly concerned.

1468. Perhaps one could argue that it may be an illogical way of helping the owners concerned, but it might be as well to leave it in place until some alternative assistance has been found for them.

(Mr Davis) That is an easy way out. All I am saying is I do not regard it as a very satisfactory base for building prosperity of an industry or trying to revive an industry. Let me just make clear, however, the present state of play. The Commission has not yet brought forward a proposal on the VAT on passenger transport, although there has been an indication in the White Paper on the internal market that this would be put forward by the Commission in due course. Now, I also ought to point out that the Commission's proposals on harmonisation of VAT would place transport in the lower (that is to say the 4%-9%) band width.

1469. Could I now turn to Port State Control, because it has been suggested to us that there is an unevenness in application between different ports, different regions and certainly between countries. We are all in agreement as to the importance of trying to run the badly maintained ships off the sea. Are you happy that this is being properly enforced across the EEC?

(Mr Davis) Some Member States do have a poor record. The situation has certainly improved more recently, but there is an unevenness and therefore that is one of the reasons why one cannot afford to be complacent about what is clearly, in the main proving to be a very good viable system of inspection. We actually attend Port State Control committee meetings, so therefore we have a real direct role in that regard. One of the problems that we are confronting is the ILO conventions. Surveyors have certain skills at technical inspections, that is to say, within the ambit of the IMO regulations or legislation. They do not have the same degree of experience at inspecting for compliance with ILO standards, so clearly we have to make a push in that direction, and I am concerned that the handbook for surveyors, for example, on how to apply the ILO standards has no guidelines on that at all, and that is something which clearly needs to be put right. So what we have done is to initiate discussions with the ILO and Port State Control Committee on this issue: how we can actually produce guidelines that are more appropriate, that are capable of being introduced and enforced here, and how you can have a better way of developing common inspection procedures. Indeed I think I am right in saying the first meeting in fact is to be held next week on this point.

1470. It has been suggested that the US is different from us and Europe in this respect in that they impose modern pollution and safety of life protocols not only in their harbours but also on vessels sailing in their coastal waters. Is that not something we should be thinking of doing in Europe?

(Mr Davis) We do, of course, have surveillance by aeroplane. There has been recent discussion at the North Sea Conference of these issues. The United States situation is quite different. The Coastguard there is probably larger than any individual Naval force in the Community and I think that the situation affecting United States legislation is quite different. Having said that, there is one other point I would make. I am not sure how far we could ever get agreement on the lines you suggested but I do not rule it out. I laud the idea of Port State Control but at the same time it cannot represent a substitute for effective flag state control and this is something we have to build up most particularly in enforcing international standards with the least well developed shipping nations. In 1977 one of the things that the then government proposed to the IMO or, as it was then, IMCO, was a maritime safety corps provided by the more developed shipping nations so that surveyors and inspectors could go to the less developed countries and help to set up the necessary infrastructure for maritime surveillance. I would like to see that embraced more effectively because I think that is the surest insurance.

1471. You feel it is more perhaps a question of lack of resources than intention in many cases?

(Mr Davis) In many cases that is certainly true.

1472. If we can manage to get all the badly run,

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[Mr Trotter *Contd*]
badly maintained ships off the sea, would there not still be left well maintained, well managed, well crewed ships but crewed by people from the Third World who are quite happy with their much lower incomes because they are adequate by the standards of their own countries? How can we compete with that? Does that not bring us back to what you said in your most interesting opening address to us

(Mr Davis) There are two things here. Yes, in part it is that but there is a benefit to be obtained by getting more productivity from what are now capital intensive ships by having well trained crews aboard rather than looking for crews who are less well trained and less well motivated. Of course, I do not believe that the answer lies in flags of convenience or any aspect of policy that resembles flags of convenience, second registers and so on. I believe that it is always a mistake to go for the lowest common denominator. We have to think of a number of other things in this respect. Safety of shipping is very important. If you look, for example, at the *Amoco Cadiz*, which was a very modern vessel but in the event obviously sailed by a crew that was less competent, you can exactly see what the cost is in terms of France in particular but also to some degree the United Kingdom, because it had to spend a lot of money trying to avert the possibility, which fortunately did not arise, of grave pollution damage. Virtually every accident that occurs with a tanker, and indeed other vessels, off the shores costs a great deal of money to put right and a lot of this is due to old vessels, vessels that have served their time or vessels that are quite modern but are crewed inefficiently, and that is the part of the balance sheet that is never seen.

Mrs Dunwoody

1473. I welcome the fact that you have more than once stressed the need to support IMO and other international safety records, but it is true that as an industry shipping is a very dangerous industry and if there is to be a drive towards an internal market it removes a great many of these things. I know you very sensibly do not want to argue on hypothetical situations but if by 1992 there is to be a real drive to do something about a Community shipping policy, presumably one aspect of safety that is going to be very important is that of the seafarers and the conditions in which they operate, not only the rates of pay but the general protection they get, because frankly, I think the interesting thing in this Committee is that we actually have a dichotomy in some of the evidence. On the one hand we are told people are flagging out because of the cost of British seafarers and, on the other hand, we are told that they represent a very tiny percentage of the costs of very high technology ships, so there must obviously be a difference between the different types of shipping and the different markets. Surely the Community, if it is going to have any impact, ought to be pushing safety and very particularly some kind of equity of treatment of crews is one of the areas in which it could have an impact?

(Mr Davis) I am grateful that you have reflected on the issue of safety. I see no reason why the improved competition should necessarily mean the diminution of safety standards. In particular, as far as aviation is concerned, the Commission has made every effort to underline the need to ensure that compliance with high safety standards is essential for crews, for passengers and for the reputation of the national states. So it is with shipping. Consequently, the need for proper training of seafarers is absolutely paramount. The drive towards the internal market need not necessarily impair safety standards. I think what it means is that the advantages that the internal market can give by exploiting the opportunities of a market of 320 million people must have accompanying policies attaching to it which put a premium on safety, which put a premium on trying to obtain consensus in the Community between both sides of industry, if at all possible. This is why we in the Delors Commission have placed so much importance on the social dialogue, that is to say, a discussion between the partners in industry, because generally in the Community there is a desire on the part of both sides to arrive at reasonable Community solutions. You are quite right in stressing this issue. We have a good relationship with the IMO and we are developing a relationship to a greater extent than before with the ILO, so those are two essential pre-conditions. We have a Cost 301 project, which has identified a number of areas for further Community activity in the area of vessel traffic systems. That is important in terms of congested seaways. We are going to introduce a proposal soon to deal with the transport of dangerous goods by sea, arising to some degree from the experience of the *Mont Louis* accident. It will also deal with the labelling and identification of dangerous substances arising from another catastrophe, the *Herald of Free Enterprise*, so we have to try and anticipate problems, but you cannot always do that because Member States are not always prepared to do it. We are wiser with hindsight, of course, but I do believe that we have taken this on board and we will continually take it on board, but catastrophe will obviously tend to accelerate progress, regrettably.

Mr Bidwell

1474. As Mrs Dunwoody has observed, seafaring is a very dangerous occupation. Perhaps we can reflect on the fact that the incidence of fatal accidents on British vessels is 35 times higher than in manufacturing, six times higher than in construction and four times higher than in coalmining. In some other of the EEC fleets the fatality rate is even higher. Concurrent with this is the Community fleets' high percentage of shipping casualties. Despite this, the Commission has not yet addressed the problem of improving safety standards within the member fleets to any effective degree. Why is that?

(Mr Davis) I do not accept that. I have already referred to Port State Control, which is dealing with vessels that might be unseaworthy or substandard. We have not only in that regard proposals put forward, ideas to enhance the benefits of that particular thing, but I have already spoken of the continual demands we make of Member States to ratify more promptly IMO and ILO conventions. I have spoken previously of the question relating to

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[Mr Bidwell *Contd*]

vessel traffic systems and the project there, and the proposal dealing with dangerous substances by sea, but we can only, unfortunately, deal with our proposals at the pace that the Member States are prepared to permit.

1475. There has been discussion in the press and elsewhere of the likelihood of the Commission including, in what has been termed the second stage, a system of taxation of seafarers — I think you touched on it in your initial statement — and perhaps social security in the hope of facilitating the employment of national or Community seafarers in its fleets. Would you care to comment on this, particularly as the United Kingdom has recently abandoned a scheme in which UK seafarers derive tax advantages?

(Mr Davis) Yes. Of course, there are certain advantages of that kind which are applied in some of the Member States. In 1985 in the Shipping Memorandum from which the four regulations emerged, we did say that the Commission would regard a favourable direct tax regime for Community seafarers as "a reasonable way of helping to maintain the employment of EEC nationals on Community ships", and that view was endorsed by the House of Lords Select Committee Report on the Memorandum. We contemplated various forms of such a regime. For example, you could have a daily amount to be deducted from tax, a percentage of relief on overseas earnings, but it is not for me to spell out necessarily all the possible potential in this respect. Our services will be discussing this issue and the possibilities with Member State experts later this month. Certainly it is something we ought to be looking at.

Mr Fry

1476. Could I turn quickly to the question of flagging out. You have described it, I believe, as a disease. On the other hand, the Chairman of the European Parliamentary Transport Committee went so far as to talk about how advantageous flagging out was to the competitive position of Community shipowners. What is interesting about that is that we have taken evidence which does seem to indicate that flagging out does not necessarily mean any diminution on the question of safety, does not necessarily mean that safety is a factor. The House of Lords Committee on European Maritime Transport Policy made an interesting comment: "The Committee can understand that shipowners sometimes see no alternative to flagging out in order to keep in business, but if commercial interests alone prevail, the national interest could suffer in the long run." Can I put it to you that that raises a very interesting point. Is the worry about flagging out really to do with the competitive existence of a maritime fleet, an efficient fleet, to service the EEC or the United Kingdom or any other country, or is it more to do with what might be deemed the national interest, as suggested by the House of Lords Committee, and, as I am directing the question to you, may I say is it more concerned with EEC Community interest?

(Mr Davis) I am sorry, I did not get the person to whom the quotation was attributed at the beginning of your remarks.

1477. According to my note, it is the Chairman of the European Parliamentary Transport Committee in May 1987, quoted in Lloyd's List of 7 May 1987.

(Mr Davis) I have a speech before me which has been provided and what was said in this regard according to this (I hope) true copy is: "The European Parliament would welcome the appropriate incentives to prevent flagging out. We have to stop it before it is too late, but in order to effectively combat this tendency we need to know all the reasons and carefully assess them," so he was not supporting the idea of flagging out.

1478. I was not suggesting he was. I was suggesting what he was saying is that he could see there are advantages to certain Community shipowners in flagging out.

(Mr Davis) I know for a fact he does not like the idea and, of course, I do have a very close relationship with the Chairman of the Transport Committee. First of all, let me say this about flagging out. There are some flag of convenience countries which have a better record than others. Liberia, for example, has had an improving record but at the same time, perhaps because of its increasing insistence upon observing international codes of practice, it has suffered in consequence. One has, therefore, to ask the question, why do some shipowners flag out? Is it to observe higher safety standards and higher standards of crewing or simply to cut costs? I think in too many cases over so many years now it has been a nice easy way of contracting out of what ought to be mandatory responsibilities. It is adopting too often a permissive attitude about standards that ought to apply in any civilised industry. I am not labelling all flags of convenience in that way but it is certainly true of some. Secondly, from a national and Community point of view it is dangerous, not least for strategic reasons. It is, I think, extraordinarily complacent to believe that in time of emergency or potential emergency agreements for repatriation could readily be implemented, but even if they could, could you rely in an emergency upon seafarers from other countries which might have a direct interest in conflict with that of a Community member? There are plenty of Polish seafarers, for example. I am not postulating the possibility of a war with Poland or an emergency but if my recollection serves me right — and this is not a matter of Commission policy — during the 1973 emergency in the Middle East the United States found it very difficult indeed to repatriate vessels where there were agreements in place and so they had very largely — I am not arguing the rights or wrongs — to use aircraft. I do not, therefore, believe that one can view this simply in the context to which you alluded, Mr Fry. I think it is a broader issue but I passionately believe that to flag out in the way that has been happening in recent years is tantamount to saying *adieu* to the shipping industry in the Community and maintaining high standards of seamanship and high standards of safety. I believe that that

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[Mr Fry *Contd*]

would be a policy of utter despair

1479. Can I follow up your interesting remark that you believe that the solution is a European register. Where would you see the standards set by that register in relation to current UK standards, the standards of what one might call the respectable flagged out, because surely from your other remarks you have laid stress, rightly so, upon maximum safety for seamen? I would put it to you that if the aim of the European register is to maintain the kind of standards and conditions and pay that pertain in the UK fleet at the moment, either that alone will be insufficient to stop a further decline in the fleets of the EEC members or it will require a very hefty subsidy indeed.

(Mr Davis) I think there is profit to be earned from deploying higher standards of seamanship, profits that are not necessarily discerned immediately in balance sheets but in terms that if you run ships more efficiently and that requires a high standard of seamanship, there is a real benefit to be gained from that, from increasing standards of productivity. We are not dealing now in the main with vessels that are labour intensive in the way they had been before. Most modern vessels are substantially capital intensive, so there is room, I believe, for deploying higher standards and better pay without, in fact, endangering the profitability of enterprises that are working in this field. Indeed, if you look at some of the examples that are easily to hand you will find that is so. Of course, it is one of the difficulties that is always in dispute between both sides of industry. What we need in the Community, indeed internationally, is much better research in the industry. Too often we engage in easy mythology which may be displaced by the reality of research. What effective research is being undertaken at the moment, not only into the Community industry — I wish we had more resources available in the Commission to do that very thing — but in the universities? What research is being done which would be able to focus on policies a decade ahead, either of the unions or of the industry? I believe there is a serious lacuna here. I am not saying there is no research. What I am saying is there is inadequate research. You cannot plan ahead unless that research is undertaken much more broadly than it is at the present time.

Chairman

1480. But in relation to your proposal for a European register or a European flag are you perhaps thinking of subsequent protectionist measures? For instance, do you see any progress in the subject of state aids to shipping at present? For example, Dutch and German ships have an 11 per cent. and 15 per cent. advantage over UK-registered ships in the short sea trades. Do you see measures along these lines?

(Mr Davis) I think defensive measures which provide a sort of defensive belt around shipping are something we ought to examine very carefully before we come to introduce them, because undoubtedly it would have a major effect on our international viability. We would be inviting other people to embark upon policies very similar to that. It would have an effect on our cross trades, without any shadow of doubt, although the cross trades have to some degree diminished in significance in recent times. We cannot disregard it. One of the things I would want to see in relation to the aids that you have referred to, Chairman, is greater transparency. We must know what is happening. Many of these aids are currently disguised, so in order to try and probe this issue further, we have written to all Member States trying to obtain information about state aids because state aids can, of course, unbalance a situation and disadvantage certain countries quite unfairly. This is why the Commission has certain policies in that regard. Having said that, to outlaw state aids altogether would not strengthen Community fleets as a whole against the competition from third countries, and that is where the prime competition lies. What we need to do is develop a common approach on what state aids are permissible, what state aids are impermissible, and at the end of the month, as I have indicated before, this is one of the subjects which will be embraced in the discussions between our services and national experts.

Mr Bidwell

1481. It is totally unfair now, is it not, to UK shipping that there should be this disparity that Mr Marshall has referred to? It is transparently unfair as it exists. Would you agree with that?

(Mr Davis) It is because there are obvious inequalities that we must get greater transparency. That is precisely the object of the exercise.

1482. You say they are long-winded in approaching these matters. How can we look to Community solutions in the grand manner you have outlined in your initial statement?

(Mr Davis) I do not think anything I have suggested is so grand. After all, the achievement of the internal market by 1992 you could say is a grand design. The accompanying measures that I have referred to — collective growth strategy, more social dialogue, doubling of the structural funds — all these things that have been discussed at the recent Summit are part, if you like, of a grand design but they are infinitely more difficult than the issues that are postulated for shipping, in my view, and the whole concept — whether one agrees with it or not — of creating a common market and a Community — and I think we ought to stress the Community side as much as the common market side — was a bold design and remarkable progress has been made whatever disadvantages might also accrue. I cannot see that in this relatively narrow field of transport, which is only one sector of transport, the sort of solutions I have been putting forward, which include greater transparency, are so incapable of resolution. I think what is needed is greater political will and greater foresight but also a combination of ideas from, for instance, Defence Ministers, Shipping Ministers, Treasury Ministers, getting together to recognise the basic thing, that is, the importance of the industry.

Mr Fry

1483. In answer to my previous question you did

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[Mr Fry *Contd*]

seem to place great faith in increased productivity. Indeed, we have seen this in many industries. May I put it to you that there are a number of industries where the Third World or a low-cost producer or low-cost country can effectively undercut unless there is sufficient investment in order for the more developed countries such as those in the EEC to take advantage of the kind of improved productivity you are talking about? When one talks to shipowners, as in so many of these industries in Europe, one discovers that they have not been generating the profit in recent years in order to make that kind of investment. A classic example is the footwear industry, where those firms that can invest are able to compete but the industry on the whole is made up of so many units it does not make money to invest. We are getting the same situation in shipping. I must, therefore, put to you that in order to have those advantages in productivity does that not seem to indicate that some kind of more constructive aid is going to have to be given to shipowners so that we can put ourselves in the position where we can compete with low-cost operators?

(Mr Davis) I do not dissent from that. Indeed, one of the reasons that discussions will be going on —

1484. Have you any figure on that?

(Mr Davis) I cannot pre-empt the detailed propositions that will be discussed. I have given you one or two examples. I do not think I can really enlarge on that. I want to see every potential and possibility that is reasonable being discussed. It may be that the ideas we have put forward as a Commission are not sufficiently realistic or are inadequate in some respects, but the national experts have something to feed in as well. But I do not dissent from the essential proposition you advanced. There have to be some incentives to ensure that the shipping industry does survive, incentives for shipowners but also incentives in relation to seafarers. Of course, there is another factor, that in the past few years at least little or no protection was afforded against these unfair practices. We now do have a regulation. Proof of its value will be given in the way it is applied. That is why I was so insistent that from the very first it should be applied rigorously. We also have the other factors such as Port State Control, to which I also alluded, so there are greater protective mechanisms available now than before. But in other industries there have been protective mechanisms deployed to avoid dumping and in that sense, though it is not quite the same in shipping, that is what some of these regulations are all about. You have to take action to prevent people taking advantages of you and that is really what international or Community legislation represents.

Mr Trotter

1485. It seems an unnecessary additional burden and cost to EEC shipowners if when they transfer ships for good reason from one EEC flag to another then they have to go through surveying and, indeed, often modification, at great cost. Is that something on which you think the Commission could help?

(Mr Davis) To take some measure of harmonisation as far as surveying requirements are concerned would be a helpful thing but I think it would be wrong to seek to apply the lowest common denominator in a matter which is so fundamental to safety as that.

1486. You think that is basically best left to the national government?

(Mr Davis) Not necessarily. I think it is a matter which is not at the present time high on the agenda but the important thing is to ensure that we do have high standards of surveying. We have served on Committees together in the past and I know that is something you feel very strongly about and I share your anxiety.

1487. You make very well the commercial argument for maintaining a merchant marine in Western Europe and you also referred briefly to the defence argument, although I appreciate that is not part of your remit. We are told that NATO is now generally worried about the total number of ships available to it and is studying that factor at this moment. Would not the EEC be an obvious body for NATO have to work with rather than with individual national governments, who may each be inclined to say that somebody else must solve the problem?

(Mr Davis) One must not intrude too much in NATO but I note what you say and would not dissent from it obviously. NATO is worried and has cause to worry but, of course, the strategic considerations cannot be divorced from dependence as far as trade is concerned. I do not think I have anything useful to add. I have enlarged upon that.

1488. There really is no link between NATO and the EEC?

(Mr Davis) No, there is not.

Mr Dicks

1489. I do apologise for being late, but one theme which seems to be coming through in everything you say is political will. We have talked about the French rules and you said there is no action we can take against them. Mr Bevan mentioned safety and you said we can only move as fast as the member countries are prepared to, and even on flagging out there is a general view that there is nothing we can do. It seems to me if Britain wanted to do it, the best way out of the problem we are facing with shipping would be to say, "To Hell with the EEC," and do what we think is right, no matter what they say, because if they do try and abide by the rules, if the French and everybody else want to ignore them, they do so. You mentioned trying to prevent dumping, which brought a smile to my face. The EEC is the best organisation always to organise dumping. It certainly defies the logic of GCE 'O' level. It seems to me — and I mean no disrespect to you or the Community — as someone who was pro the EEC and is now becoming anti — that with all the nonsense that is going on, what point is there in the British Government taking an overall European view when so many individual countries, be it Greece, France or whoever, can say, "To Hell with you. We are going to go our own way"? How do I go back and tell people they should be taking a

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[**Mr Dicks** *Contd*]

Community view if there is no Community political will, just national interest showing itself all the way along the line?

(Mr Davis) I am not here to help or change your point of view about the Community. What I hope to do is to be able to put it in perhaps a different perspective. Britain certainly does not take the view at Government level, at industry level or, indeed, at any other level that I know of that is intimately connected with the maritime industry, that it would be desirable in the interests of the United Kingdom to contract out of Community legislation. I went to considerable pains — the term Mr Bidwell used was "the extended way in which I went into this matter" — to try to show that the negotiation dealing with those four regulations represents an immense benefit to the protection as a first phase of not only the UK fleet but the Community fleet, and the fact that Ministers were able to resolve their differences in the interests of the Community was a great plus. But we are not going to solve every problem easily and every negotiation, whether it is in this field or others, which is concluded with success is, normally speaking, extremely protective. National interests are put forward. Different expertise is called on in order to assist the conclusion of an agreement. I believe that it is now abundantly plain in the absence of Community legislation that Community fleets have declined apace. Our only hope, I believe, is to operate on a Community level. Certainly the opposite is not working, has not worked and will not work. So I ask you to examine the record. What has Britain been able to do to arrest the decline of the British shipping industry without the protection of Community legislation?

1490. This is a rhetorical question but what has the EEC done with regard to the CAP? Has it made any progress at all? I do not expect you to answer that.

(Mr Davis) I am not even going to attempt to do so. It is absolutely out of order!

Chairman

1491. Would it be fair to sum up the situation by asking you whether the Community is now faced with a stark decision between abandoning a pro-competitive policy or abandoning hope of a significant Community merchant fleet?

(Mr Davis) I do not think that we have to abandon a pro-competitive policy in international terms. Indeed, I think if there were fairer competition, most particularly in relation to cabotage within the Community, it would be in the interests of the Community and all seafarers in the shipping industry. I see no correlation, with respect, Mr Marshall, between those two propositions. What I want to see, and I believe is perfectly compatible, is a greater measure of fair competition, high standards of safety and seamanship being applied and a greater resolve on the part of Member States to ensure that a lifeline — and I put it in those terms — in terms of our trade is allowed to remain and be enhanced.

1492. Thank you very much. We have had a very lengthy session. Are there any final points you would like to put to the Committee?

(Mr Davis) Solely to thank you for your probing and to wish you well in your conclusions, which we will in the Commission observe very carefully. I do not know what the timescale for all this is but I hope it will be helpful to us in framing new legislation.

Chairman: Stanley, can I say how nice it was to see you again and I am sure I speak for every single Member of the Committee when I say how helpful your contribution has been to our deliberations this afternoon and how helpful it will be when we prepare our final report, which should be, hopefully, just after Easter. On behalf of the Committee can I thank you and your colleagues for your attendance this afternoon and wish you a safe homeward journey.

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TUESDAY 23 FEBRUARY 1988

Members present:

Mr David Marshall, in the Chair,

Mr David Gilroy Bevan	Mrs Gwyneth Dunwoody
Mr Sydney Bidwell	Mr Peter Fry
Mr Jim Callaghan	Mr David Mudd
Mr Derek Conway	Mr Neville Trotter
Mr Terry Dicks	

LORD BRABAZON OF TARA, a Member of the House of Lords, attending by leave of that House, Parliamentary Under-Secretary of State, Department of Transport, and MR M RIDLER, Department of Transport, were examined. MR R SUNDERLAND, Under Secretary, Shipping Policy and Emergency Planning, Department of Transport, was further examined.

Chairman

1493. Good afternoon, Lord Brabazon, could I welcome you and your colleagues to this meeting of the Select Committee. Before we start the formal questioning is there any opening statement you would like to make to the Committee?

(Lord Brabazon of Tara) Not really, no. I would just like to say that following your interim report, which came out in May (I think it was), where you recommended us to bring in as soon as possible the measures of assistance to the Merchant Navy, in other words, the crew relief costs and the training costs, we were pleased to be able to do that in the Merchant Shipping Bill which is currently before your House in Committee and also, of course, the measures on registration of dependent territory ships.

1494. The British Shippers Council told the Committee that from a purely business point of view it saw the size beyond which the UK fleet must not be allowed to drop as being zero. Do you accept this assessment?

(Lord Brabazon of Tara) I think it is rather a hypothetical question because, of course, we have to take into account not only the needs of the British fleet for the purposes of trade but, more importantly perhaps from our point of view, the strategic and defence needs.

1495. It may not be such a hypothetical question in a few years' time if action is not taken to do something about the dramatic decline, but we can perhaps come back to that. The Director-General of the GCBS, Mr Le Cheminant, in evidence to this Committee on 2 February said that "the shipping industry, unlike just about any other industry in this country, is exposed to international competition; it operates internationally without the sorts of protections which are actually available to almost all the rest of British industry." Do you think this is fair comment?

(Lord Brabazon of Tara) I am not sure what the reference is to protections available to other UK industries. I would have thought that most UK industries operate in a pretty free market in the world and any barriers to trade which are there at present I would have thought we should be aiming to break down, so I do not know that it is a point I accept so far as shipping is concerned.

1496. The Department's own memorandum of 25 February 1987 argued that "any case for assistance to the shipping industry must be strategic; it has no compelling economic basis." Around the same time Mr Sunderland is reported to have told the International Chamber of Commerce that the UK Government's help with training and crew repatriation costs "marked a departure from a policy of strict non-intervention" and that the motives were "exclusively defence-orientated". Do you think there is now a case for an even greater departure from strict non-interventionism?

(Lord Brabazon of Tara) Not quite yet. I hope the measures we have introduced, to which I have already referred, which are strategically orientated and are aimed obviously at trying to maintain the employment of British seafarers on British ships, will go some way towards keeping people under our flag.

Mr Fry

1497. It has been suggested by some people that no matter what our Government does it would have only marginal significance because the lower-cost countries (if I may put it that way) which attract shipowners will only adjust what they are doing to make allowances for anything the UK or the EEC may do. What is your view on that particular point?

(Lord Brabazon of Tara) One of the main reasons for the decline in the size of the UK registered fleet has, of course, been the difference in crewing costs and I am not sure there is a great deal the Government can do about that. We would not expect our own seafarers to work for the kind of wages which Third World crews are prepared to work for. One must remember that when talking about the decline of the fleet one has to differentiate between the different sectors of the fleet. I am sure you have heard a lot of evidence about how the decline has certainly not been uniform across the whole fleet. One hears these broad figures of the number of ships and tonnage which have been lost. I think one wants to look into it sector by sector more, and in those, what one might call low-value sectors such as bulk and oil tankers, etc., where the rates have not been good recently, although there might be a slight upturn at the moment, where crewing

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[Mr Fry *Contd*]
costs are very important obviously there is a great incentive to flag out or sell up and go to places where crewing costs are much lower. In the higher-value trades such as container vessels, cruise liners, etc., we have really held on quite well to our markets.

Mr Bevan

1498. There are two things I would like to ask, if I may. In the context of the first question, which was not really fully examined, as to the strategic significance of the fleet, I take it from what you say, Minister, that you believe that the size of the UK fleet strategically must certainly be above that of zero?

(Lord Brabazon of Tara) Yes.

1499. I would like you to expand on that and tell us if you feel that the present size of the British merchant fleet is sufficient strategically, if the balance is right strategically, what alternatives you would like to see if it is not, how you would like to see the numbers develop, and additionally, whether you are happy that, for instance, the British Army is carried to its annual manoeuvres on a foreign fleet, the Danish fleet, and how you see the interpolation of the strategic necessities and requirements of the British fleet in terms of both NATO and the EEC capability?

(Lord Brabazon of Tara) That is a large number of questions.

1500. Yes, it is indeed, because I felt that very little had been said about it.

(Lord Brabazon of Tara) How do we define the right size of the fleet? We have to look at it sector by sector. We have to find out what is needed for the various strategic and defence requirements. As you probably know, there are four basic requirements which are defence-oriented. One is direct support for the Royal Navy. There are sufficient ships for that. I think it is all right at the moment; it possibly is close on the number of product tankers, I think I would be right in saying. The second is the transatlantic reinforcement from the States. That is largely a matter for the States and NATO. We would obviously need to be able to produce our share of that requirement and that requires a largely different type of ship from the first one. The third leg is the cross-Channel need to reinforce Continental Europe in time of difficulty. I think we can be confident at the moment that that is satisfactory. The fourth, of course, is the question of civil resupply. On that last point, we have for many years, I think since just after the end of the last war, had the NATO pool to which all NATO countries subscribe their shipping in time of necessity, so that it would be available in time of need. NATO is, we hope, going to look into that very shortly and see if that is currently up to scratch. We very much welcome those studies being done by NATO. In fact, I think we were in the forefront of pushing them along in that direction. So it is a question of fulfilling those four needs and making sure we do have the right balance of ships, not just, as I said earlier, a pure measurement of tonnage. As I say, at the moment we do have enough ships. I mentioned one possible area where there could be a shortfall shortly. On your last question, about the hire by the MOD of Danish-registered ferries, I think they were, for manoeuvres, we would take the view that it is up to the MOD to get the best value for the tax-payer when they hire ships for those sort of purposes. We would expect them, if it were possible, to hire British-registered ships but, quite obviously, if British owners do not want to put their ships up for charter for that kind of operation, if they are in use commercially at the time, one can understand why they might not want to do that. Then I think it is better in many ways that they should be actively employed in trade rather than being taken up for those sort of exercises. Of course, if there was a state of war or a state of near-war, then of course we could requisition our own ships and take them off their regular service so they would be available to us.

1501. Secondly, if I may: it has not been alluded to yet, but the question of cabotage has figured very substantially in the examinations of this Committee, and I would like to know really what you feel is the interpolation in the EEC and the cabotage adopted by various member countries, and indeed outside the EEC and Europe, and how we should indeed align our own, if any, cabotage dispositions. We have indeed taken unofficial action, and in the questioning to the Commissioner at the last meeting, the EEC Commissioner, reference is made to the remarks made in the shipping debate about the ability of the French to make rules to suit themselves, and the Greeks being worse. This all mitigates against the adequate functioning of the British merchant fleet. How do you see the situation and do you think it demands action of us?

(Lord Brabazon of Tara) I think the situation as regards cabotage within the EEC is very unsatisfactory. We were very disappointed indeed during our presidency, when we adopted the other four measures in December 1984, that no progress was made on cabotage. I am encouraged that the German presidency is, I hope, going to take up the issue during their presidency, but I must say that at present the situation is extremely unsatisfactory, in that it is something which must be dealt with by the Community. It goes against the whole purpose of the Community and free trade, and it just is not satisfactory that there should be a barrier remaining to our ships in European cabotage trade, and I very much hope some progress can be made. It must be made in any case by 1992. Mr Sunderland would like to add a point.

(Mr Sunderland) I think it is also worth adding that there is in fact an obligation on the Council of Ministers under the Treaty of Rome to adopt measures for the liberalisation of the shipping cabotage trades, and what is in question is when it will be done. We have had already a judgment of the European Court in the inland transport sector, where the Council has been dragging its feet over the liberalisation of cabotage there, and the Council is considering now what it should do about that. Shipping seems to be following on a little bit behind but I think it would be a mistake to assume that because we did not manage to get a regulation during

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[Mr Bevan *Contd*]
our presidency, that is the end of the matter. We do anticipate early developments in this area.

Mr Callaghan

1502. Lord Brabazon, referring back to the statement that you made that you felt we had a sufficient number of ships within the fleet but that if there were an emergency we had the necessary power to requisition other ships, I raised the same problem last week, that whilst we may have the ships that we could requisition, did we have sufficient numbers of highly skilled officers and crews to take over these ships? If my memory serves me rightly, I raised quite a thorny problem, because it would appear that we have not got adequately trained men in sufficient numbers to take over in an emergency. What is your view on it?

(Lord Brabazon of Tara) Our view is that it is something which definitely does need to be looked at. That is one of the proposals before your House in the Merchant Shipping Bill, the establishment of the Merchant Navy Reserve, which will, I hope, encourage seamen to go on to the Reserve and make themselves available in such a time. Of course, the other leg of that is the training aspect, and we are also introducing assistance to the merchant navy in their training costs. You are quite right to say that the numbers currently undergoing training are inadequate and that is why we have targetted specifically on that area and have introduced this measure in the Bill to give some assistance to shipping companies in training their officers.

Mr Callagan: Thank you.

Mr Conway

1503. I think we must resist the temptation to be the Defence Committee, but I would like to press the Minister a bit more on that. Can you give us your view on the direct support proposals that the GCBS suggested for a crew-related allowance payable in respect of each British seafarer employed by UK owners on their ships and for a Merchant Navy Strategic Reserve Contract, the incentive that you would give our owners to help with the reservists?

(Lord Brabazon of Tara) We are obviously studying the proposals which the GCBS have put up, largely for the Chancellor, I think, really rather than for my Department, and he, I know, has also been sent a copy of those proposals, and no doubt he is studying them with care. I obviously cannot make any comment as to what he might or might not do in the Budget — I do not know, but even if I knew, we are very close to it now, and I think that obviously when we look at those proposals we have to remember that, once you start to subsidise in that sort of way, it is a difficult road to go down.

Mr Mudd

1504. The Minister has suggested that in the event of hostilities requisitioning would be an adequate tool based on the existing size of the merchant navy. I would like to look at the existing age of British ships. At the present moment the average age of a British ship is about ten and a half years. Is there not now a growing responsibility to be placed upon the Government, in the interests of providing the ships for requisition, to provide the stimulus and encouragement for the creation of a newer, more efficient and more effective merchant fleet?

(Lord Brabazon of Tara) I think that ten and a half years is probably about average for many countries' fleets. I do not think it is something we need to worry about unduly at this stage. I am encouraged to see that one or two shipping companies are now making a great leap forward and ordering a few more ships. I was glad to see that P & O the other day had placed an intent to order a large, new container ship, so all is not doom and gloom. Again, really the question of providing incentives of that sort, you are again coming back to the type of fiscal measures which the GCBS advocate, which are really matters for the Chancellor to look at, and no doubt he is looking at them.

Mr Fry

1505. I wonder if I could pass one or two remarks to Mr Sunderland. May I say, first of all, his faith in the Council of Ministers bringing about the agreement on cabotage is very much greater than mine. I say that at the outset. We had the EEC Commissioner sitting before us last week. He very commendably talked about creating an EEC shipping policy but when I did suggest that by the time the EEC came to a decision there would not be a British merchant fleet to defend, he did not quite say that would not happen but did accept it would take some time to achieve. Now we are seeing a situation where some of our EEC partners have a decided advantage in the present situation. Why should the Germans throw away the advantage they have in relation to cabotage and why should they give it up? The history of the EEC does not exactly give one confidence that they will actually step forward and say, "We will give up our advantage for the sake of British shipping," so the problem that arises, if I may say so, is, if there is no agreement on it what is the British Government going to do to bring about such an agreement? One of the things we could do is to say, "Right. If you will not come to the negotiating table and will not agree to share this, then we will restrict our own cabotage." How long, therefore, is the Government going to wait for the Germans and the Dutch and anybody else who has an advantage to carry on taking trade away from us before it does something more actively to defend British merchant shipping?

(Mr Sunderland) Perhaps before the Minister comments on that I could amplify my earlier remark by a reference to the commitment of the Council of Ministers to complete the internal market by 1992. That I think I can say is a solemn commitment on the part of Ministers and that will embrace shipping as well as the trade in goods and other services.

1506. We all have our views at to whether that is going to be achieved, but do go on.

(Mr Sunderland) I think that, combined with the judgment of the Court on the internal side, together, if I may say so, with our experience during our own Presidency — when, although we did not get a

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[Mr Fry *Contd*]
cabotage regulation we made quite a bit of progress towards one and time ran out on this because the Presidency only lasted six months and we had a very substantial package of measures to get through — those three factors together do give us some ground for confidence.

(Lord Brabazon of Tara) Could I say something on your particular question about the Germans and the Dutch. We have no argument with the Germans and the Dutch. Their coasts are open to us. It is really with the Southern European states whose coasts are totally closed to us. I do not think that closing our own coasts completely would be the wish of the industry. They would rather see us try and open the coasts of those countries who at present close them to us, notably France, Italy, Greece and Spain. One has to make a judgment about what is the best thing to go for. We believe that it is best to try and get other people's coasts opened to us rather than closing our own, even if we were legally allowed to close our own, which is doubtful.

1507. Can I take up that point about the Dutch and the Germans. They do have an advantage in terms of short sea shipping over and above the trade we have. The figures we have been given are an 11 to 15 per cent. advantage over UK-owned and registered ships. In the light of that fact we cannot even get an agreement on cabotage. I must put it to you, Minister, is it not time the Government took some firmer steps to try and at least reduce that disadvantage against two very near neighbours and fellow members fo the EEC?

(Lord Brabazon of Tara) When you are talking about that advantage you are talking about the investment grants which the Germans have given their short sea trade in particular. I think they may now be regretting giving them that. There is evidence of over-tonnaging. You are going down the road again of the sort of investment grants which used to be given in the old days, which have resulted in over-tonnaging, in lower rates and the sort of situation in which world shipping has found itself, not only our country but everywhere else as well in the industrialised world, in the last few years.

1508. With respect, you have not answered the question I asked. How much longer is the British Government going to hope its EEC partners will agree over cabotage? Is there not a very strong argument for saying we will put some kind of time limit on this because of what is happening to our own coastal shipping, which has not exactly been turned down in previous Ministerial statements but it has been suggested is a possibility? May I put it to you, Minister, that perhaps the time has come to say it is more of a probability unless there is some action taken by your partners?

(Lord Brabazon of Tara) We have always said that unless we can get a cabotage deal through we might have to take other action, for instance going to the European Court of Justice, and we have looked very carefully into the matter. Unfortunately, it appears it does not entirely come up with a solution which would meet with favour by our shipowners or, indeed, ourselves. I think you will find the issue of cabotage will come up before the Standing Committee on the Bill probably fairly shortly and perhaps I had better let my colleague Mr Mitchell deal with the question then when it comes up rather than now.

Mrs Dunwoody

1509. With respect, it is actually rather fundamental to the decisions that this Committee is taking. I find it very difficult. I understand your attitude that we can, if needs be, go to the European Court, although I understood Mr Sunderland to be saying that had already happened in one case, not for cabotage but certainly in related terms. I have to say to you my experience of the European Court is that even when it takes a decision it can be anything up to four years before that decision is put into operation. When I was a Member of the European Parliament I had statistics given to me by the Commission which proved that, unlike the British, who nearly always comply with decisions of the Court quite quickly, other European nations can take up to four or five years before putting into operation the decisions that are taken against them. We are in some difficulty here because, as far as we can see, the Department is saying that the size of the fleet, even though it may in the final analysis be a matter for our defence, is not one for the Department of Trade. You can only look at the fiscal and organisational effects in relation to trade and it is not your responsibility to look at it in relation to the national interests, because if that were so, presumably you could give us an estimate of what you regard as the bottom line. I find it very difficult to work out exactly what the Department does regard as a minimum commitment because at the moment it is not clear what size merchant fleet you would accept was necessary since many of the things you said, frankly, are conditional — *if* there were an emergency and *if* we had sufficient ships readily available, then we *could* conceivably take them over. I would like to know what the Department regards as a workable, viable merchant fleet and that I am not clear about. For example, I understand you said in another place in a debate on the mercantile marine that there had not been enough structural change to meet the competitive challenge of even larger units of international shipping. What kind of structural change are we talking about and what more can you expect in terms of structural change than has already taken place? You said you want us to look at different sections of the industry and I understand the logical approach from that point of view but since we cannot, as a Committee, seem to find out what your interpretation of that is, it makes it a little difficult for us to decide how you have come to those conclusions.

(Lord Brabazon of Tara) I understand we have in fact produced evidence to the Defence Committee on what we consider to be a size of fleet which is needed for strategic purposes, and I understood those figures had been made available to you. If they have not, I will make sure they are. I understand they have been.

1510. I am sorry, but we have been told that the General Council are concerned about fiscal advan-

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[**Mrs Dunwoody** *Contd*]
tage. The Department presumably is interested in the trade involvement. That must be your responsibility. The GCBS said that in the future the UK-owned and registered fleet would contain no more than one hundred ships by 1995 of more than a particular tonnage. Is that a forecast you agree with? It must be a forecast obviously, but is it something you accept? Does it worry you? Do you think that you can reverse that situation by further legislation or are you really content that the very marginal changes — it seems to me — that you are suggesting will actually have the effect which you seek? What is the attitude of the Department towards the maintenance of a viable fleet?

(Lord Brabazon of Tara) I had hoped I had said something about that at the beginning, with respect. Our job is to make sure that there is a sufficient supply of ships for defence and strategic needs and that is what we have done. We have produced the figures — incidentally, which are confidential, so I cannot go into them here now, but you have got them. On the question of whether I accept the GCBS figure of one hundred ships, obviously if that was the case that would be extremely alarming and we would before that happened had to have taken further steps than we have already. So I think I do not accept that figure at the moment, no. We have seen the decline in any case flatten out perhaps over the last couple of years or so, but as I say, we keep a close eye on the numbers. We know — the Ministry of Defence lets us know — what we need, and if the situation arose where the measures that we have taken or are in the process of taking at the moment do not turn out to help stop the decline, then obviously we would have to think about taking further measures, yes.

1511. Which is it that has happened: we have not got a plateau and the decline has stopped or you feel you must take more measures because the decline will continue?

(Lord Brabazon of Tara) I said we appear to be on something of a plateau at the moment but, having said that, I do not want to sound complacent about the issue.

Mr Trotter

1512. We hear suggestions from time to time that we should have a Ministry for the Marine in this country. There are, I think, a number of our European competitors in the marine field who do have such a ministry. One suspects it is not as simple as that name on the door would imply, that those ministers have many other responsibilities as well, but are you able to tell us anything about the Department's thinking on that? Could there be advantages in having a single Ministry for the Marine, dealing with everything to do with marine matters?

(Lord Brabazon of Tara) I am not sure. We deal with most of the things to do with marine matters. We do not deal with the defence side of it directly. I do not know of any European country which combines those two. We do not deal with fishing.

1513. Ship-building?

(Lord Brabazon of Tara) Or ship-building. Fishing: I know the French combine their Ministry to include fishing. I do not know whether there is any particular advantage in that or not. I would not have thought there was necessarily. Ship-building: I do not really see that there would be any great advantage in that particularly either. The interests of shipping and ship-building, as you will all be aware, do not necessarily always run together. Certainly they have not run together over the last few years.

1514. When we had the EEC Commissioner before us last week I pointed out to him that the French petroleum industry was complaining at the current time that it was an obligation imposed on it that two-thirds of the oil brought into its refineries from overseas should be carried in containers under the French flag. I suggested that was contrary to the EEC rules. The gist of his reply was that no official report of that transgression had been made. Would it not be open to our people to make such a complaint if this is in fact true?

(Lord Brabazon of Tara) I would have thought it would be, yes. I wonder if I might ask Mr Sunderland to comment on that. He is the expert on European matters.

(Mr Sunderland) Yes. The position in practice is perhaps not quite as you have stated, Mr Trotter. I believe that oil companies can transport in the course of a year oil equivalent to two-thirds of their imports into France — it does not matter where in the world they carry it, and that is slightly different from a law which says that a given quantity of imports into France should be carried in French-flag vessels. Nevertheless, other members of the Community have pointed out to the French that its effect is equivalent to that of a cargo reservation law, and the matter is being looked at now in the light of the Freedom to Provide Services regulation which came into effect last year. I am not quite sure how the lawyers will finally resolve it.

1515. It is very interesting to have your more detailed explanation of what the law actually says. One would think a fit description would be to say it is a typical Gallic law and extremely clever to get round the problem we are addressing. I suppose it would be open to other countries to do the same thing.

(Lord Brabazon of Tara) I would hope that was one of the reasons why we got those four regulations through in the Community a couple of years ago. It is just the sort of thing we ought to be able to catch.

1516. The Commissioner, when one put it to him after one had run off the seas hopefully all the badly-maintained and badly-crewed ships we would still be left competing with the well-maintained and well-managed ships with third world crews, perfectly happy with that standard of wage, I think was saying that might be something the EEC should tackle and he was using words that implied some fiscal support. Is there not in fact perhaps a very good argument for the Common Market taking this on board, because we are dealing with such an international problem? It is probably the most international problem there is in commercial life. Would not the EEC be the right body to handle this?

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[Mr Trotter *Contd*]

(Lord Brabazon of Tara) I think there is a lot to be said for that. The Commission is bound to come forward now with the second stage of Community shipping proposals to cover just those sort of issues, and I very much look forward to seeing what they do propose on an EEC-wide basis covering fiscal measures, tax, etc. I think that is the right way forward.

Mr Dicks

1517. Sitting through some of the evidence from your colleagues in the Department one would be forgiven if one thought there was a touch of complacency. There was a television programme called "It Will Be All Right On The Night", which shows you what goes wrong before the actual programme goes out. Listening to the views put forward about the defence implication, it is like this: "What about the crews?" "Don't worry. We will get that sorted out on the night." "What about cabotage?" "We think we can sort it out." "How many ships in the fleet?" "Don't worry. We think the number will sort itself out in due course." We had last week the EEC Commissioner talking about getting things right: "Where there is a political will coming from all the countries, it should be okay. We must wait for the countries to get together. We, the Commission, have not got the power. It is up to the countries." I get the feeling that on the night the whole thing is going to fall apart if we are not careful. That is the impression some of my colleagues get, listening to all this. You said you thought — one specific example — that the industry would like to see the coastlines opened up rather than us closing down ours. If that is not successful — and it is not going to be; after all, the Community said they would keep their spending within certain guidelines and they have forgotten that. They spend like there is no tomorrow, so if that goes wrong, I cannot see there is going to be any coming together of the EEC to do anything constructive. Have you asked the industry what they would like to see the Government do if the southern European states are not going to open their coastlines? Have you said to them, "What would you like us to do within a certain time-scale and how would you like us to do it"?

(Lord Brabazon of Tara) We have spent the best part of the last getting on for two years now discussing with the industry and others about how we might proceed on the cabotage issue and we have come up with some pretty difficult things, which are not really likely to be that successful. I am talking about the European Court of Justice route. So we are, yes, in constant touch with the industry about how they would like us to proceed in this matter, but unfortunately we have not been able to come up, at this stage anyway, with what would be a really satisfactory solution to it.

1518. The point I am making is this: you said you have been looking at this for two years. You have now said, "We have had no success under the British presidency. We are hoping for success under the German presidency", although we have a vested interest in keeping things as they are. When is tomorrow going to come, when somebody wakes up in your Department and says, "For God's sake let us see action, and action now" about anything to protect the decline of the fleet, to protect us in the EEC, to do anything constructive, for somebody in the industry to look up and say, "At last we are making a move forward positively?"

(Lord Brabazon of Tara) We have brought forward the measures which are contained in the Bill at the moment. That is a positive step forward as far as the industry is concerned. It is the first effort, I suppose you could call it, at subsidy that the Government has produced for the industry. So far as cabotage is concerned, I can assure you that the contacts we have had with the industry indicate that they do not want the closure of our coast. They would much rather that we succeeded in opening the coasts of those countries which are closed. That is very certain.

Chairman

1519. Could I return to another question from Mrs Dunwoody when she quoted your arguments in the House of Lords that there had not been enough structural change to meet the competitive challenge of even larger units of international shipping. I am not sure you fully explained to the Committee exactly what kind of structural change was required.

(Lord Brabazon of Tara) I am not sure I can remember the reference Mrs Dunwoody made to the speech I made and when I made it. I wonder if I could be reminded.

1520. It was a quote from one of the speeches you made in the debate on the mercantile marine in July 1987.

(Lord Brabazon of Tara) I think we obviously have seen a good deal of structural change within the industry in the first few years and one of the good things, I am bound to say, about the British shipping industry is that we have not seen the bankruptcies that have taken place in other countries, some of which have been most spectacular. As I said earlier, the industry has adapted itself to those areas in which it can profitably trade. There might still be some further progress to be made in that direction as to further structural changes. There have been recent mergers and consolidation, which is all to the good if we want to have a strong, competitive industry.

Mr Fry

1521. Can I follow that up because when the Chairman of the General Council of British Shipping was giving evidence he made that very point, that they were not all actually on the breadline or going into bankruptcy, but he did make it quite clear that that was largely because those companies were diversifying and were not, in effect, relying so much upon shipping for their income. I put two points to you. One is, I hope the Government is not taking comfort from the fact that the shipping companies are not going bankrupt and, therefore, feels that it does not need to do any more to help the shipping industry. The other point is that it was made quite clear by the General Council of British Shipping that they were not encouraged to invest and it does seem to be this area where there is a broad disagree-

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[Mr Fry *Contd*]
ment, a very fundamental disagreement, between the Government and the General Council. They are saying, "We will carry on in business but do not expect us to be the kind of companies that we were in the past, owning as many vessels, employing as many British seamen. We are going to need some kind of alternative financial structure if you expect us to go back into the market of ordering ships." I would be very grateful for your comments on those two points.

(Lord Brabazon of Tara) It is definitely fair to say that the GCBS generally did not welcome the 1984 fiscal changes which took place so far as capital allowances were concerned, although there were certain special measures included in those to assist the shipping industry. On the general point of those measures, of course they have been found to be successful elsewhere in industry. There is no doubt about that. I do not think anybody could argue that, so shipping does seem to be a unique case in not having been advantaged by the 1984 removal of capital allowance or overall first-year capital allowance. I point out at the same time that that was accompanied by a fairly substantial reduction in corporation tax. I accept that since that time there has not been very much investment in new shipping but we have, as I said earlier, begun to see a little bit now. You will have to ask yourself the question whether you want to encourage companies to invest in what has been an unprofitable area up to now or not. Obviously where shipping companies can see a profit in their particular trades then if they want to stay in that they will eventually need to re-invest, but I do not think we desperately want to encourage companies to invest in something which is fundamentally unprofitable.

1522. But do you see any difference in principle in a Government investing in areas of high unemployment or even inner city decline because it feels that that kind of investment is necessary to the well-being of that area and investing in an industry which it has now been accepted may well be vital to the needs of this country? Is there any real difference in principle? In both cases the Government is surely investing in its own best long-term interests and surely any attempt to pretend there is a difference between the two kinds of investment is only going to blur the whole issue?

(Lord Brabazon of Tara) I was talking about investment in industry generally. As I said earlier, we introduced a couple of measures to assist in the Merchant Shipping Bill and, as I said, if we find that the situation deteriorates still further and we get to the danger point in the number of ships available, we may very well have to look at other means.

Mr Fry: May I finally put to you very much the point that Mr Dicks was making. This Bill, which we accept is of value — although it is doubtful how great that value is — is welcome. The trouble is that the Bill has come after a period of tremendous decline in British merchant shipping and surely the real danger is that there is not enough urgency about it. You have not yet really given us any idea of the timescale you have when you think you are actually going to do more than you have in the Merchant Shipping Bill which is before Parliament. You are going to wait much longer. At the current rate of decline we shall reach the 100 and shall wait longer. I must put it to you, Minister, that our concern in this investigation is the fact that the Government has tended to react too late and without the degree of urgency and this has been mirrored by this sharp and very tragic decline in British merchant shipping.

Mr Bevan

1523. I would like, if I may, to put it to you another way, in boxing parlance which you will understand. Are we not counterpunching all the time instead of punching? I suggest everywhere we look there is deterioration, there is decimation in shipbuilding, there is demise in shipowning, there is deregistration in ship operation, there is now new promotion to prepare for a revival in modern shipbuilding in a multinational way away from us overseas. Our flag has been seduced away by others and is in dramatic decline and we are now like the man who is going downhill; he is going downhill at such a speed he cannot correct. We are correcting by counterpunching or attempting to correct by counterpunching rather than putting in some of our own blows. I am rather of the opinion that we are leaving it to such a time that the decline is now terminal and that unless there is some real strategy immediately in terms of attacking parlance we shall not be able to make it reparable.

(Lord Brabazon of Tara) I am afraid I would disagree. As I said earlier, we appear to be on some sort of a plateau at the moment. The size of the fleet on the British Islands register has been static now for the last six months or so and we have begun to see one or two companies ordering new vessels. The most important point to make is the one of world markets and we have now at least begun to see a slightly better trend in rates in the world. Do not forget, all this goes back to the profitability of the companies at the end of the day and whether they can actually make money out of their shipping activities. They have been through some very bad times over the last few years caused by low charter rates which are nothing to do with the Government and nothing to do with any Government really, except those who have, for whatever reason, encouraged their shipbuilding at subsidised prices which has added to the over-tonnaging in the world market. We have now, I hope, begun to see some recovery in rates and that is what it is all down to at the end of the day, whether shipping is going to be profitable or not.

Chairman

1524. With respect, Minister, you said the decline over the last few years had nothing to do with the Government. What has the Government done to try and arrest the decline, which seems to be the main question, and what does it intend to do? So far, to be absolutely frank, we do not seem to have any positive, definite answers.

(Lord Brabazon of Tara) I did not say the decline in the last few years had nothing to do with the Government. I said that the bad rates in world shipping markets had nothing to do with governments except for those who had encouraged cheap,

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[**Chairman** *Contd*]
subsidised ship-building. That is what has been the cause of most of the shipping industry's problems. Over-tonnaging and consequent low freight rates have really been the problem and I do not think the Government could take any blame for that.

Mr Conway

1525. Minister, I think the point you make about the 1984 Budget has been taken on board by many members of the Committee and the fact we now have the lowest corporation tax in the industrialised world. I am sure the ship owners will appreciate that point when deciding where they should be registered. Your Department on 10th December last year issued a press notice reminding the public that UK shipping had made a £0.7 billion contribution to the balance of payments for 1986. Do you consider that contribution to the economy as of significance when we look forward to perhaps a bullish Budget in the middle of March, and can you give the Committee some idea of how much of a loss this country has sustained in terms of balance of payment earnings, tax, employment, etc., due to the decline of the fleet if we have gone from that kind of contribution in the economy in 1986 to the present contribution?

(Lord Brabazon of Tara) I have not got the figures with me at the moment. I am not certain they were not in the evidence that we gave to the Committee, but obviously the overseas earnings of shipping are not as great as they used to be in the old days, but that is true of a number of industries in the country and a number of other industries have come up and made up for that. I do not think that one can justify subsidising a fleet to the extent just so that you get a positive balance of payments in that particular sector. Mr Sunderland would like to add a point.

(Mr Sunderland) I think it is true to say that the industry's contribution to the balance of payments in 1986 was its best for some five or six years, so this is an area where we are not in fact seeing a continued decline.

Mr Fry

1526. Not seeing a decline? Surely that is over a very, very short period of time; if we go back five, ten years we must be seeing a decline.

(Mr Sunderland) Perhaps I could say then that the decline in the contribution that the industry makes to the balance of payments is nothing like proportional to the decline of the tonnage. It has in fact turned up in 1986 while, as we all know, the number of ships on the British register was declining, so there is not an immediate correlation.

Chairman

1527. Could I come to the question of the supply of officers and crew, Lord Brabazon, and say that in evidence on 25th March last year given by Mr Dempster of your Department, he said that the Secretary of State's objective is to train cadets in larger numbers than those that are now entering the merchant service. What those numbers should be is still a matter for consideration. Now, the number of UK seafarers decreased between 1975 and September 1987 by some 70 per cent, and perhaps the most worrying aspect of all of this contraction has been the virtual disappearance of cadets and trainees. Cadet numbers have fallen by some 93 per cent since 1975 to a total of less than 500 and, as Mr Sunderland pointed out in evidence on 9th February, only 189 cadets entered training in 1987. Will the training assistance in the Merchant Shipping Bill be sufficient to ensure an adequate and continuing supply of cadets or have you yet decided what number of cadets is required?

(Lord Brabazon of Tara) Certainly we do not regard the present number of 189 as being at all satisfactory, and we would obviously like to see a substantial increase in that number. Now, the assistance, if the Bill goes through intact, will be £3.5 million a year in the first full financial year, and that should go quite a long way to increase those numbers quite considerably. I cannot say that it will happen overnight. Obviously there has got to be the desire for people to go into a seafaring career and therefore the industry and various other societies, etc., will, I hope, be promoting the sea as a career again and encouraging people to take up training, but I would very much hope that within a fairly short space of time we would at least see a doubling in the number of officer cadets going in for training.

1528. In a speech to the GCBS in December the Secretary of State announced that the Government was aiming to publish its plans for the training scheme for cadets early in the New Year. Can you tell us what are the special features, if any, of that scheme?

(Lord Brabazon of Tara) Basically, we would like to build on what is currently available under the YTS scheme, which I think is a two-year scheme only. Now, the training of an officer cadet takes four years as a minimum, I think. We would obviously like our assistance to be able to pay for in any case a substantial part of the second two years of that training. We would also set quite a bit of store by giving assistance for serving officers in training up to a higher standard, getting on to their next qualification, and we would like to make assistance available for that as well.

1529. Are you able to give any indication at all of numbers? Will it be roughly the same as before; will it be a small increase or a substantial increase? Do you have any target figures in mind?

(Lord Brabazon of Tara) As I said, we will have to see how it develops, but I would very much like to see at least a doubling in the present number of cadets — at least a doubling.

Mr Dicks

1530. Just to follow up on the answer you gave to the first part of the Chairman's question, you said that people have to see a future in the industry. We keep coming back to this. You cannot expect people to come into an industry that is in a rapid state of decline, however short-term the plateaux are. The Government has got to do something to encourage young people to come forward to train as officers. In terms of employment, let alone the industry, the Government has a duty to see there is a future. How can you expect somebody to take up a career in the

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[Mr Dicks *Contd*]
merchant marine if the whole industry is declining — I do not wish to be disrespectful — and there seems to be this touch of complacency; "Everything will be all right tomorrow"? How are you going to encourage people to join the marine? What input are you going to put into that equation?

(Lord Brabazon of Tara) As I said, some British companies are very profitable at the moment in the shipping industry. There should be a good career for young people to get into. It is to a certain extent, up to the Government to give encouragement. I would have thought the fact that we were providing this special assistance for training — it is not something we do in many other industries, if any; I do not know what happens elsewhere. It is pretty unique — in one sense did indicate the Government's commitment to the future employment of British seafarers, and secondly, as I said, the fact that there are some profitable, good British shipping companies around. There are also, of course, opportunities for service on non-British ships, where British officers are highly valued still.

(Mr Sunderland) Could I add two points on this, Chairman? First, I think there is a sense in which the industry's own predictions about the future have been self-fulfilling. I have spoken to people in large and successful shipping companies who have bemoaned the fact that good quality cadets are not coming forward because school-leavers have been told that there is no future in the industry and they have been told that there is no future because their careers advisers have read in the newspapers that the industry itself is forecasting its own demise. Some people in the industry I know are not very happy about some of the statements that are made on their behalf. The second point I would like to make, in case there is some misunderstanding about the Minister's reference to the YTS scheme, is that our scheme of assistance for training will cover all four years of the training. Although it is modelled on the YTS scheme the intention is that we should make the assistance available throughout the period of the cadets' training.

Mr Fry

1531. Could I follow that up because in some evidence we received a long time ago, before the election, we were told two things: firstly, there was now no national scheme and even if a youngster was interested it was very difficult indeed for him to find out how he could get training. That was the first point. The second point was that although I am sure I welcome and the industry welcomes the Government's intention to increase the number of cadets — and you did say, Minister, you hoped for a doubling — I think my memory serves me right that we were told that even to maintain the current level of the merchant shipping fleet approximately 500 cadets per year would be needed. Either that estimate is wrong — you might take that view — or even on your hopeful estimate of 378, which is twice the current level, that will still be 25 per cent. below the number of cadets that is considered to be the minimum for the present fleet. Does that mean you are expecting the fleet to reduce further or would you feel that further steps might well be needed to increase from 378?

(Lord Brabazon of Tara) Let us get to the 378 first and then see where we go from there. We have a bit of a way to go to get there.

1532. But you would not argue about the fact that there has been a lack of national policy in relation to training and, indeed, the fact that your 378 may still be too few?

(Lord Brabazon of Tara) I would not necessarily argue that 378 would still be too few. I only used the term "doubling" in a wide sense. I think it is a good first step to aim for. When we get there let us see if we can get up to 500.

1533. But before you embark on a national policy of trying to do that, is it not a good idea to try and find out exactly how many you are going to need? What is the point of leading youngsters up the garden path and they discover they have not got a job or, what could be even worse, training youngsters and then they discover they have not a job to go to? If I may say so, there does not seem to have been sufficient investigation in depth as to how many cadets really are going to be needed because that is exactly what a young man wants to know. He wants to know what his future is going to be.

(Lord Brabazon of Tara) You yourself have quoted a figure of 500 cadets a year being needed, so we could comfortably double the present figure. I would not guarantee that they would all get a job because one could not do that but there would obviously be an opportunity for them there. So I do not think there is any danger at the moment that those who do take part in this training and do get qualified would not be able to find a job at the end of the day. I think there is obviously every chance that they would.

Mr Mudd

1534. While the Minister has steadfastly rebutted all the suggestions of the Committee that the British Merchant Navy has virtually reached the point of no return, it seems that even he is prepared to concede that we are closing on that very fast indeed and one must now look at the world attitude towards the attitude of the British Government towards maritime matters. It does seem that we are being lackadaisical; it does seem that we are not providing incentives; it does seem that we are prepared to live with the continued erosion of such of our Merchant Navy as exists. Can we ask the Minister to contrast this with the attitude of the French? Monsieur Guellec, the Secretary of State for the Sea, in October of last year totally eclipsed Moses by laying down 23 specific aids for the French maritime industry, and I quote from *Lloyd's List* of 4 February: "By the end of 1987, 11 companies had already qualified for government grants totalling French Frs. 128 million, while another nine had been declared eligible for aid and a further six applications were under consideration. Whilst no one in France, least of all M. Guellec, would claim that the merchant navy plan alone had put a stop to the rundown in the French merchant fleet, it does seem to have contributed to the creation of a climate

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[**Mr Mudd** *Contd*]
in which shipping companies have felt encouraged to take the often drastic measures which they felt were needed to adapt their activities to the requirements of the international maritime freight market." I would simply ask the Minister this: what earnestness, what evidence is there that in the Department of Transport there is now the determination to press the Treasury, the Department of Trade and Industry and all other sources to give the British Merchant Navy the signs of encouragement and support that M. Guellec managed to find in his 23-item shopping basket that has led at least to a more sustained initial recovery on the part of the French Merchant Navy over the last four months than we have seen in the British Merchant Navy over the last four years?

(Lord Brabazon of Tara) Before I comment I would like to ask Mr Sunderland to comment on some of the aspects of those French proposals. I would say we have made some commitment through the measures we propose in the Bill to give assistance to the fleet, and I have tried to make it clear that obviously we keep a close eye on the situation as it is at the moment. If the situation does deteriorate further from the present, we may very well have to take further measures. I have already said that. I think some of those French proposals were not quite as new as they seem.

(Mr Sunderland) There is no doubt the French Merchant Marine Ministry has done a very good job of advertising its package of measures, but if you look at them you will find they fall into at least three categories: first, re-affirming old measures such as the adoption of an international register to allow French shipping companies to employ foreign seafarers rather than French, which may not be interpreted in all quarters as support for the French merchant marine; continued support for the loss-making national line — the great bulk of the revenues earmarked for the French merchant fleet were of that order — and some extremely minor measures which I am sure, had they been proposed as elements of a package to say, the British merchant marine, would probably have been ridiculed. So I do think one has to look at the detail of these before coming to the conclusion that the French merchant fleet has been turned round with a massive programme of government assistance.

Mr Mudd: With respect, though, Mr Sunderland has touched upon some of the less attractive and perhaps more negative aspects of M. Guellec's package, but the fact still emerges that the French Merchant Navy, which was probably heading for the same rocks of disaster that lie inexorably ahead of our own Merchant Navy, has now been given the power and the ambition to steer clear of that disaster. It does, therefore, seem in the French Merchant Navy there is a new confidence and an upturn that sadly is a mirrored reflection of the low morale that seems to exist within the British Merchant Navy sector.

Chairman

1535. You have no answer to that?

(Mr Sunderland) I did not think we were being asked a question, Chairman.

Mr Bidwell

1536. Are you able at this time to say anything about the GCBS's proposals with regard to National Insurance contributions? The GCBS has recommended that the employers' contribution to National Insurance be reduced by 50 per cent. Are you able to comment on that?

(Lord Brabazon of Tara) I cannot comment on that any further than to say that we have seen them and the Chancellor of the Exchequer has seen them. I cannot comment any further than that really.

1537. We will have to wait until after the Budget, will we? I have a question on safety. The Committee has been told that the Association of Board of Trade Marine Surveyors opposes delegation of passenger ship surveys because "the standards of classification society surveys are not uniform resulting in an overall decline in safety". The UK, however, permits four out of five annual surveys of cargo ships to be carried out by classification societies. Does not this also have implications for safety? What we are worried about is reductions of standards coming into line with economies in shipping and so on. We are worried about the prospect of a decline in safety.

(Lord Brabazon of Tara) Can I say that we take safety extremely seriously in the Department. At the same time, we obviously have tried to reduce over the years the burdens of costs on our ship owners, and we have been able to avoid a certain amount of duplication by allowing certain classification to be taken by the classification societies rather than by our own marine surveyors. I think our classification societies certainly are of a very high standard indeed, and I would have no doubts about their abilities. However, we have not extended that to the classification of passenger ships, and we have no present intention to do so.

Mr Trotter

1538. Can I turn briefly again to the subject of flags of convenience? I think Mr Sunderland referred to the French having found this as one of their 23 steps. The place they have chosen is Kerguelen, which I believe is an unpleasant, uninhabited rock in the South Indian Ocean almost on the edge of the Antarctic. I suppose Rockall might be a similar place in Britain, but we have in fact got the Isle of Man as a register. That is seen as one of the more hopeful signs to the members of the Committee when we went there. What is the Department's view on the development of the Isle of Man? Surely, one of the advantages of it is tied up with this question of National Insurance and tax payments. Is this something on which the Department has a view as opposed to the Treasury?

(Lord Brabazon of Tara) We certainly are very pleased with the development of the Isle of Man registry, and it is true to say certainly in recent years that a good deal of shipping leaving the UK mainland register has gone to the Isle of Man and therefore is as available to us in time of emergency as if it were still on the mainland register. I think I am right in saying that so far as National Insurance contributions are concerned, there is no difference

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[**Mr Trotter** *Contd*]
between the Isle of Man and the UK. I think the Isle of Man has to pay the same as we do. With tax, yes, there may be an advantage there on collection of PAYE. Whether the company is responsible for paying or the seafarer himself is responsible for paying as a resident of the United Kingdom does not alter the fact that somebody has to pay at the end of the day. The main advantage of the Isle of Man register appears to be the way that the companies can renegotiate their crewing agreements, which for some reason they do not appear to be able to do on the mainland register so easily, and it seems to have been successful on the whole, and we are very pleased that it has grown as a register.

1539. I think the Norwegians have not bothered to go to Spitzbergen as their equivalent of Kerguelen; they have an international register too. It does make one wonder whether one has to find a rock off an off-shore island. Have you given any thought to an international register based in Cardiff or London?

(Lord Brabazon of Tara) We would reckon with the Isle of Man register we have largely got all the advantages which the French perhaps have with Kerguelen or the Norwegians with their own off-shore international register. I am not saying they are exactly the same, but I think there are many advantages.

1540. Would the Department be in a position to help us in discovering the situation so far as tax-collecting and insurance-collection in the Norwegian and French off-shore registers are concerned?

(Lord Brabazon of Tara) I do not know that we can do that at the moment. We can certainly produce evidence probably of that and send it in fairly speedily before you conclude your inquiry.

Chairman: That would be helpful. Thank you.

Mr Dicks

1541. I would like to come back on one point Mr Mudd made. You said about helping the industry and the problems about doing this and it is a free market. What I find surprising is that over the last few years the Government has written off £1 billion to developing countries in overseas aid. Do they now receive that money back if they have called it gifts? £256 million in the current financial year has been written off in that form. That is to people in a sense; we get no work out of those loans. The money just goes out there. Yet we are asking, or the industry is putting forward a view that the Government should be doing something in terms of help — financial, yes, of course — and the points Mr Mudd made were valid. How can the Government wipe out in the last two or three years £1 billion of loans because they know they will not get repaid and so call it a gift, forget about it? Why is it not the Department's policy to be fighting its corner for the shipping industry, as Mr Mudd rightly said, with the Treasury, Department of Trade and whosoever else? If the Government can help with £1 billion in two years, £256 million this year, why can they not help our own industries? Sometimes it is because of support given to shipping lines by other countries themselves, as Mr Mudd rightly said about France.

(Lord Brabazon of Tara) I do not think I can comment on that.

1542. It is the principle I am talking about.

(Lord Brabazon of Tara) We may write off £0.25 million a year on overseas aid. A matter for my colleagues, and I would quite like to hear the answer which they might put forward, but where would you stop? You are talking about subsidising the shipping industry to that extent. What other industries would come up and say they would like the same treatment?

1543. Here is an industry that is in decline largely through no fault of its own in many ways, because of the point you raised earlier. You were saying that the Department's attitude is "We cannot help. We cannot do this. We must wait for the EEC to come together. We must wait for the Merchant Shipping Bill to come through." That is touching the edge of the problem. I am saying money is obviously available because you can just cross it off as though it does not exist — £256 million this year. I want from you. Minister, is you saying, "We will fight our corner for the industry we represent in Government." I am not getting that message. We did not when we had your officials here before. We are not getting it today. There will be people reading the minutes of this hearing and they are going to go away — and the industry itself — with the same feeling.

(Lord Brabazon of Tara) When you are looking at the subject of Government attitude to public expenditure, we have kept a tight rein on it over the last eight years, and we have seen the benefits of that in the economy as a whole. I hope you will not disagree with that. Our interest in the shipping industry is obviously of great importance to us. It is a question of where you think public expenditure is best placed. Is the shipping industry a good haven for public expenditure?

1544. Can I ask a final question: how much of our exports is moved by ships?

(Lord Brabazon of Tara) A good many.

1545. Exactly.

(Lord Brabazon of Tara) I think the figure is 90 per cent, but that does not necessarily mean that we have to have our own ships to do it.*

1546. I accept that, but what I am saying is we need a backbone of our own ships and industries.

(Lord Brabazon of Tara) We need a backbone of ships for our strategic and defence purposes. We have that at the moment. We have covered that ground, I think, this afternoon. Whether you need a shipping industry to carry your own goods around the world is another question. I believe that very early this afternoon you referred to the British Shipping Council. You said that they did not feel there was any direct need to have a shipping

**Note by witness:* The Department of Transport has since confirmed that the figures are 98% by weight, and 76% by value.

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[**Mr Dicks** *Contd*]

industry. They were quite happy to use the services of the cheapest available shipper from wherever he came, so I do not think that we can accept necessarily that economic argument.

(Mr Sunderland) I wonder if I might add a point in reply to Mr Dicks' suggestion that the Department of Transport does not fight the corner of the shipping industry in Whitehall or anywhere else around the world. I would remind the Committee of the remarks of the President of the GCBS in his inaugural address last year, when he commented in extremely favourable terms on the support which the Department gives to the industry at every opportunity.

Chairman

1547. Minister, you have said many times this afternoon that if the decline continues you will have to take further measures, but I certainly feel that specifics have been rather lacking. Could you perhaps tell us what exactly you have in mind, it may not be this year, but next year or the year after? What further measures do you envisage having to take if the decline does continue?

(Lord Brabazon of Tara) That is a very difficult hypothetical question to ask and I really do not think I can answer it this afternoon.

1548. This is probably the last time we are likely to meet before drawing up our report. Is there anything more you would like to tell us or any of your colleagues would like to add to what has already been said?

(Lord Brabazon of Tara) No, I do not think so. I very much look forward to reading your report when it comes out, which I gather is going to be at Easter time — I do not know if that is right or not — and I very much look forward to hearing what you have to say. No doubt you will give us a lot of food for thought. As I said at the very beginning of the afternoon, we were pleased to be able to act on the recommendations in your interim report pretty speedily. You reported just before the election and we introduced the Merchant Shipping Bill within a very few days of the beginning of this present session. Whether we shall be able to act in the same way on the recommendations you make this time around remains to be seen. Thank you.

Chairman: Thank you, Minister. The timescale for our report will be the end of April/beginning of May, hopefully. It only remains for me to thank you and your colleagues very much for your attendance before the Committee this afternoon, which no doubt will play a part in our final deliberations and in our report when it is produced. Thank you very much.

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TUESDAY 22 MARCH 1988

Members present:

Mr David Marshall, in the Chair

Mr David Gilroy Bevan
My Sydney Bidwell
Mr Jim Callaghan
Mr Terry Dicks
Mrs Gwyneth Dunwoody
Mr Peter Fry
Mr Neville Trotter

Memoranda submitted by Inland Revenue

TAX INCENTIVES AND THE SHIPPING INDUSTRY

BACKGROUND

1. Under the present system, a company pays corporation tax at 35 per cent. (27 per cent. for a small company*) on all its taxable profits, whether distributed or undistributed.

2. The starting point in calculating a company's trading income for tax purposes is the commercial profit in its accounts. That profit is then adjusted in accordance with tax law and practice. In particular, depreciation of fixed assets charged in the accounts is added back and instead a deduction is made for any *"capital allowances"* which are due. These allowances are deducted as a trading expense of the business so that they either reduce the taxable profits or augment (or create) an allowable tax loss.

3. Capital allowances are, broadly speaking, a standardised form of depreciation and are intended to take account of capital consumed in the earning of taxable profits. Ships qualify for capital allowances as items of plant and machinery. In brief, this means that under the existing system 25 per cent. of the capital expenditure is allowed for tax purposes each year on what is known as the "reducing balance method".

4. For example, in a simple case where there has been no previous expenditure qualifying for capital allowance, a ship is purchased in Year 1 for £1 million.

(a) In *Year 1*, the capital allowances due are £250,000 viz –

Cost	£1,000,000
25 per cent.	£250,000
Unrelieved expenditure	£750,000

(b) In *Year 2*, the capital allowances are £187,500 viz –

Unrelieved expenditure brought forward	£750,000
25 per cent.	£187,500
Unrelieved expenditure	£562,500

THE PRE-1984 SYSTEM OF CAPITAL ALLOWANCES

5. The concept of enhanced rates of capital allowances to provide an incentive to investment was part of the capital allowance system introduced in 1945 to assist post-war reconstruction. By 1984 the incentive element had been increased to provide a 100 per cent. first year allowance in respect of qualifying expenditure on plant and machinery, including ships.

6. This meant that the full cost of a ship could be fully written off against tax in the first year if profits were sufficient to absorb the whole allowance or if other income was available – including, in the case of a company, the income of other companies in the same tax group – against which any excess of the allowances could be offset by way of loss relief.

7. A special facility known as "free depreciation" was available to UK traders in respect of qualifying expenditure on new (but not secondhand) ships. In general terms, under this arrangement the whole of the 100 per cent. first year allowance could be claimed and used in any year in which the trade was continuing. If the first year allowance was not claimed, an annual writing down allowance of 25 per cent. of the qualifying expenditure was available instead on the reducing balance basis.

1984 BUSINESS TAX REFORMS

8. The 1984 Budget and Finance Act included provisions for a comprehensive reform of business taxation. The objective was to create a more neutral tax system based on significantly lower rates of tax coupled with allowances for depreciation at rates more closely linked to useful asset life.

9. Introducing the reforms in his Budget Speech, the Chancellor of the Exchequer said

"The current rates of corporation tax are far too high, penalising profit and success, and blunting the

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cutting edge of enterprise. They are the product of too many special reliefs, indiscriminately applied . . . My purpose, therefore, is to phase out some unnecessary reliefs in order to bring about, over time, a markedly lower rate of tax on company profits.

First, capital allowances. Over virtually the whole of the post-war period there have been incentives for investment in both plant and machinery and industrial, although not commercial, buildings. But there is little evidence that these incentives have strengthened the economy or improved the quality of investment. Indeed, quite the contrary: the evidence suggests that businesses have invested substantially in assets yielding a lower rate of return than the investments made by our principal competitors. Too much of British investment has been made because the tax allowances make it look profitable, rather than because it would be truly productive. We need investment decisions based on future market assessments, not future tax assessments.

I propose to restructure the capital allowances in three annual stages. In the case of plant and machinery, and assets whose allowances are linked with them, the first year allowance will be reduced from 100 per cent. to 75 per cent. for all such expenditure incurred after today, and to 50 per cent. for expenditure incurred after 31 March next year. After 31 March 1986 there will be no first year allowances, and all expenditure on plant and machinery will qualify for annual allowances on a 25 per cent. reducing balance basis". (Hansard 13 March 1984, cols. 295 and 296)

10. The Chancellor went on to say that when the proposed changes had taken place, tax allowances for assets such as plant and machinery would still on average be rather more generous than would be provided by a strict system of commercial depreciation.

11. Thus, the 25 per cent. writing down allowance means that nearly 60 per cent. of the cost of an asset can be written off against tax over the first 3 years and 90 per cent. over 8 years. The remaining 10 per cent. is generally reckoned to represent residual scrap value. In other words, the system reflects an average asset life of about 8 years. The shipping industry expects a ship to have a normal useful life of about 15 years so that the annual capital allowances will normally exceed the actual depreciation each year.

12. The UK's main rate of corporation tax was reduced progressively from the pre-1984 Budget rate of 52 per cent. down to 35 per cent., while the rate for smaller companies was cut in 1984 with immediate effect from 38 to 30 per cent. (and has since been reduced in line with the basic rate of income tax). As the Chancellor explained at the time, it was the changes in the capital allowances regime, together with the abolition of stock relief, which enabled him to achieve the significant reductions in company tax rates. His objective was to increase post-tax profitability and so provide greater incentives and rewards for enterprise.

FLEXIBILITY OF CAPITAL ALLOWANCES

13. The 1984 changes also provided a greater degree of flexibility in the use of writing down allowances. (Improvements were also made in the use of the first year allowance during the transitional period — these are not described in this paper).

14. The rule that writing down allowances, unlike first year allowances, only became due when an asset was brought into use for the purposes of the trade was changed so that writing down allowances became available from the time expenditure was incurred. This gave earlier relief in cases where stage payments were made during the construction of, for example, a ship.

15. A new application of "free depreciation" was introduced for expenditure from 13 March 1984 on a new ship: "rolled up" writing down allowance. This allowed the taxpayer to postpone any part of the writing down allowance, and then make use in subsequent years of as much of the accumulated allowance as he wanted, provided that he was still carrying on the trade. This new facility was extended to secondhand ships from 1 April 1985.

BALANCING CHARGES

16. The capital allowance system includes provision for "balancing adjustments" designed to bring allowances given into line with actual depreciation. These adjustments reflect the fact that the capital allowances can only be an approximation of the amount of capital consumed each year in the earning of the business profits. The actual depreciation incurred cannot accurately be determined until an asset is disposed of or scrapped.

17. Thus a "balancing charge" may arise where an asset on which capital allowances have been given is sold for more than the unrelieved expenditure. In the simple example in paragraph 4, if the ship were the trader's only item of machinery or plant and it were sold at the beginning of *Year 3* for £600,000, a balancing charge of £37,500 would arise (unrelieved expenditure £562,500 less £600,000) and this amount would be treated as a trading receipt increasing taxable profits or reducing an allowable loss.

18. If, on the other hand, the ship were sold for £500,000 it would have depreciated by more than the total allowances given for years 1 and 2 and the 25 per cent. writing down allowance would continue to be given on the balance of £62,500 expenditure unrelieved.

19. However, most ships in the UK merchant fleet will have been acquired before Budget Day 1984 and are likely to have attracted a 100 per cent. first year allowance, so the unrelieved expenditure will usually be

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nil. If such a ship is sold, there will in all probability be a balancing charge of up to the amount of the sale proceeds.

20. In practice, however, because of what is known as the "pooling system" — see the Annex for a description — balancing charges would not normally arise in respect of disposals of plant or machinery. The sale proceeds would simply reduce the balance of unrelieved expenditure in the "pool" on which further 25 per cent. allowances were due. But as all past expenditure on ships will probably have been fully allowed for tax purposes, there will usually be no unrelieved expenditure in the pool. For the present therefore, shipping companies may face balancing charges, depending on the timing of disposals.

21. *Disposal and replacement of ship in the same year.* In these circumstances a balancing charge is not likely to arise. If, for example, a company bought a ship in 1983 for 100, obtained 100 per cent. first year allowance and sold it in 1988 for 80, there would be a potential balancing charge of 80. But if a replacement ship were bought for 120 in 1988, the cost (120) would go into the pool of qualifying expenditure. As in the example in the Annex, there would be no balancing charge and the 25 per cent. writing down allowance would be available on the balance of expenditure in the pool of 40.

22. *Disposal and replacement in different years.* Where, in the above example, replacement occurs in 1989 (the year following disposal), a balancing charge of 80 will arise for 1988. But if there was a trading loss in 1989 (either created or augmented by the 25 per cent. allowance on the cost of the new ship) which could not be used against other profits of that year, the normal tax rules allow the loss to be carried back and set against the 1988 profits *including* the balancing charge. Where however the replacement occurs, say, 3 years later in 1991, any loss for that year cannot be carried back for relief against the balancing charge as losses can be carried back for only one year.

23. In the longer term, the ability of ship owners to roll-up writing down allowances and take them at will, coupled with rates of capital allowances more closely reflecting useful asset life and significantly lower rates of tax, will reduce the incidence and impact of balancing charges.

BUSINESS EXPANSION SCHEME

24. In 1986 the Government extended relief under the business expansion scheme to cover investment in companies providing ships on charter. Tax relief is available to individuals at their full marginal rate for investment of up to £40,000 per annum.

SHIPPING INDUSTRY REPRESENTATIONS

25. The General Council of British Shipping (GCBS) has suggested certain relaxations of the new capital allowances system to allow greater flexibility for the shipping industry. The first of these would allow a balancing charge to be "rolled-over" against future expenditure.

26. Under the proposal, the proceeds from disposal of a ship in year 1 would not give rise to a balancing charge in that year but would be rolled forward. Provided the proceeds were reinvested in a new or secondhand ship acquired within 3 years of the end of the year of disposal, a writing down allowance would be given on the cost of the replacement ship as reduced by the disposal proceeds rolled forward. Thus, in the above example, the sale proceeds of 80 in 1988 would be netted off against the purchase price of 120 in say, 1991. There would be no balancing charge and a writing down allowance would be due in 1991 of 25 per cent. of 40.

27. In substance, this would amount to the reintroduction of accelerated capital allowances in the form of a 100 per cent. first year allowance for so much of the expenditure on the replacement ship as is necessary to eliminate the balancing charge. A tax charge for the year of disposal — normally required to withdraw any excess allowances and so equate the tax relief for depreciation to the actual depreciation in the value of the ship — would only crystallise if no replacement had occured by the end of the permitted roll-over period.

COST

28. The GCBS put the cost of their proposal at *£12 million* for every 100 ships. This implies an annual cost of some *£77 million* to maintain the UK-owned fleet of some 640 trading ships of over 500 grt at its present level.

29. Our estimate of a possible profile for the cost of roll-over relief using the basic GCBS data and assuming the measure took effect for accounting periods ending in the year 1988/89, is:-

1988/89 negligible
1989/90 £35 million
1990/91 £55 million
1991/92 £55 million

declining thereafter to an eventual £10 million a year.

FURTHER GCBS PROPOSAL: A SPECIAL SHIP ALLOWANCE

30. The second GCBS proposal is the introduction of a special 50 per cent. tax allowance for the cost of

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a new or secondhand ship. Thus, a special 50 per cent. first year allowance would be due in respect of investment in ships. This, together with the existing 25 per cent. writing down allowance, would mean that 75 per cent. of the cost of a ship could be written off against tax in the first year. The effect would be to reintroduce an investment incentive in the form of accelerated capital allowances and, like roll-over relief, would run counter to the objectives of the Government's 1984 business tax reforms.

31. On the GCBS assumptions about numbers of ships replaced etc., *the cost* of this proposal is estimated as likely to rise to £200 million in 1990/91 and the following year, and then decline to around £90 million in 1995/96.

ANNEX

The Pooling System: A Simplified Example

A new business spends £1 million on plant and machinery at the beginning of YEAR 1. Subsequent transactions are as shown. Capital allowances are 25 per cent. writing down allowance.

Year	Opening Value of Pool (a)	Acquisitions/ Disposals (b)	Capital Allowance (c)	Unrelieved expenditure in Pool
			25% of (a)&(b)	(a)+(b)−(c)
1	—	1,000,000	250,000	750,000
2	750,000	None	187,500	562,500
3	562,500	New machine *bought* for £200,000	190,625	571,875
4	571,875	A machine *sold* for £50,000	130,469 (25% a-b)	391,406
5	391,406	None	97,852	293,554

In YEAR 6 business ceases and all plant and machinery sold for —

(a) £100,000 : balancing allowance of £193,554 given in that year (ie £293,554 less £100,000).

(b) £350,000 : a balancing charge would be made in this year to recover the excess capital allowances of £56,446 (£350,000 less £293,554).

In example (a), the value of the assets was *less* than the unrelieved expenditure, so further capital allowances of £193,554 were due.

In example (b), the value of the assets was *greater* than the unrelieved expenditure, so the excess allowances were recovered by the balancing charge of £56,446.

16 March 1988

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TAXATION OF SEAFARERS AND PAYE

1. This note describes briefly the taxation of seafarers, and the arrangements for collecting their income tax through the operation of PAYE by shipping companies.

A: TAXATION OF SEAFARERS

GENERAL POSITION

2. The tax treatment of a seafarer (or any other employee) depends on whether or not he is resident in the United Kingdom.

- If the seafarer is *resident* in the United Kingdom he is taxable on all his earnings, subject to the general relief which applies to the overseas earnings of people who work for long periods abroad (described below).
- If the seafarer is *not resident* he is only taxable on earnings for duties performed, or treated as performed, in the United Kingdom.

RESIDENCE RULES

3. Whether a seafarer is resident in the United Kingdom or not is determined principally by the amount of time he spends in this country. Broadly, he will be non-resident if

- he is physically absent from the United Kingdom for the whole of an income tax year
- he does not visit the United Kingdom for more than 182 days in any year, or more than 90 days on average, during *either* a period of more than 3 years in which he is employed wholly abroad, *or* a period in which he is serving on a ship which does not visit the United Kingdom.

LIABILITY OF NON-RESIDENTS

4. A non-resident seafarer's duties are regarded as performed in the United Kingdom where they are within United Kingdom territorial waters or a designated Continental Shelf area (if they are in connection with gas or oil activities), and on any voyage which does not extend to a foreign port. Earnings in respect of any such duties are chargeable to tax.

RESIDENTS — RELIEF FOR LONG ABSENCES OVERSEAS

5. Seafarers resident in the United Kingdom (which of course *excludes* the Isle of Man) are chargeable to tax on all their earnings including those for duties performed overseas. There are, however, special rules (dating from the 1970's) which relieve from tax certain overseas income earned during the course of long absence abroad.

6. A seafarer is entitled to this relief where the duties of his employment are performed partly or wholly outside the United Kingdom in the course of a qualifying period of at least 365 days. A qualifying period consists of 365 or more consecutive days during which:-

(i) not more than 62 consecutive days are spent in the United Kingdom; and

(ii) the time spent in the United Kingdom does not exceed one-sixth of the total number of days since the period began — this test is applied at the end of each overseas visit as shown in the examples below.

The earnings relieved from tax are those attributable to the qualifying period.

EXAMPLES

(a)

Days Out of UK	Days In UK	Cumulative Total	1/6 Rule
40			
	20		
30		90	15

Days in the United Kingdom (20) exceed 1/6 of the cumulative total (15) so this cannot be part of a qualifying period.

(b)

Days Out of UK	Days In UK	Cumulative Total	1/6 Rule
30			
	20		
255		305	50.8
	50		
80		435	72.5

The days in the United Kingdom are less than 62 consecutive days and less than 1/6 of the cumulative total at the end of each overseas period, so the whole period is a qualifying period.

7. A day of absence from the United Kingdom is any day when the seafarer is outside the United Kingdom at the end of the day — at midnight. A ship would normally be taken to have left the United Kingdom at the moment at which it leaves its berth or anchorage (whichever is the later) to proceed on its voyage. Arrival times are similarly defined.

8. The days of absence from the United Kingdom do not need to be spent on duties of the employment. But no relief is given for a part of a qualifying period in which no duties are peformed abroad if that is the only part of the qualifying period in a particular tax year. Thus, for example, if in a qualifying period running from

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1 March 1987 to 31 March 1988, the period 1 March 1987 to 10 April 1987 consisted of a period of leave spent abroad no relief would be due for the period in 1986-87.

9. Seafarers are among the main beneficiaries of this tax relief. A seafarer who spends long periods overseas will generally pay no tax on his earnings. This relief is, in effect, an extension of the rule that an employee who is absent from the country for a complete income tax year is not resident for tax purposes and therefore not liable on his earnings from foreign duties.

TRAVEL RELIEFS

10. Since 1986 special relief has been available for travelling expenses of United Kingdom resident employees who work overseas. This enables them to receive from their employer, tax free, the cost of an unlimited number of journeys to and from the United Kingdom while working abroad.

B: PAYE

11. Pay As You Earn (PAYE) is the system by which income tax liabilities on earnings from employment are collected. Employers are required by statutory regulations* to deduct tax from payments to employees and to account for that tax to the Inland Revenue. (Normally employers' and employees' national insurance contributions (NIC) are collected alongside income tax through PAYE. But the two do not always march in step, and this note does not cover the NIC liability and collection rules, for which DHSS are responsible).

BACKGROUND

12. In the past, UK shipping companies generally employed and paid their own crews and deducted PAYE tax from wages paid. In recent years growing numbers of these companies have contracted with manning agencies to engage, employ and pay crews for their ships. Most of these agencies have been based overseas or off-shore — some, but by no means all, in the Isle of Man. The arrangements made by each company with the crewing agencies vary in detail. One common feature has been that, prior to these new crewing arrangements, PAYE was operated but subsequently it was not.

13. Although many of the shipping companies also re-flagged their ships at the same time as they entered into crewing agency arrangements, the flag under which the ship sails is not relevant either to the question of the seafarer's liability to tax or to the operation of PAYE.

14. Some major companies have made changes of this kind in recent years. The Revenue decided last year that, in view of the amount of tax possibly involved, a fact-finding exercise should be mounted (with DHSS), with a view to achieving a consistent treatment of the shipping industry as a whole. This concentrated on the larger companies and its findings are currently under consideration.

THE LEGAL POSITION

15. PAYE is a means of collecting UK income tax liabilities on earnings from employment. Generally speaking therefore we are only concerned with officers and seamen who are resident for tax purposes in the UK and who are therefore liable to UK tax on their earnings.

16. Collection of employees' tax is achieved by placing on employers an obligation to deduct tax under PAYE and to supply information about employees' earnings. The statutory regulations define the employer for this purpose as:

a. the person paying the employees; or

b. any person who, although not the employees' immediate employer, has general control and management of the work being done by the employees.

17. If the seafarer's actual employer, ie the manning agency, is not within the UK jurisdiction he cannot be required to operate PAYE. However, under the regulation mentioned in paragraph 16.b. (Regulation 3 of the PAYE Regulations) a person other than the manning agency ("the immediate employer") may be regarded as the employer for PAYE purposes if he has general control and management of the employees' work. The actual arrangements operated between the shipping companies and agencies have therefore to be examined to establish whether, in the circumstances of each case, the shipping company retains the necessary measure of general control and management over the way the crews of its ships carry out their work to bring it within the scope of PAYE.

18. When earnings are liable to tax but the tax due cannot be collected through PAYE — because, for example, there is no employer within the UK jurisdiction who is liable to operate PAYE — it can be collected directly from the employee. But (with some minor exceptions not relevant here) there is no entitlement to collect tax from the employee himself in this way where an "employer" should have operated PAYE. So, if the Revenue conclude that a shipping company is liable to operate PAYE, that is strictly the only way in which the seafarer's tax liability can be collected. Leaving the collection of this tax as a matter simply between individual seafarers and the Revenue is thus not an option if there is an "employer" within the meaning of the PAYE Regulations. Such an arrangement would, in any event, be inherently inefficient, and in the absence of an obligation on an "employer" to provide information about earnings there could be a

*The Income Tax (Employments) Regulations 1973, (SI 1973 No 334) as amended.

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significant and, over time, a growing loss of tax.

PRESENT POSITION

19. PAYE is not currently being operated where foreign and offshore crewing agencies are involved. The shipping industry is aware of the Inland Revenue's enquiries and is waiting to hear their outcome.

20. We hope to be in a position to tell them soon. If the decision, in any particular case, is that PAYE should be operated, the Revenue would put their view of the legal position to the companies concerned and ensure that they had all the necessary documentation to enable PAYE to be re-introduced as soon as possible. Any disagreement about PAYE obligations would normally be resolved in the course of discussions; but if agreement could not be reached, the question could be determined by the independent Appeal Commissioners.

21. If it were established that a shipping company had no PAYE obligations, it would be necessary to seek to collect the tax directly from the seafarers themselves.

POSSIBLE REPERCUSSIONS

22. There have been suggestions that, if the Revenue conclude that PAYE should be operated, some owners may decide to move their operations further afield, since there are already a number of other factors encouraging them in that direction. As explained below, it is not clear why the operation or non-operation of PAYE should be a significant factor. But in any event, the Revenue has no option but to apply the law to shipping companies in the same way as it does to all other employers.

23. The question of PAYE concerns *the mechanics* by which shipping crews pay their tax; it does not in any way affect the *amount* of tax for which they are liable. Given that the same amount of tax is legally due, whether it is collectible by PAYE or otherwise — and it goes of course without saying that the shipping companies would not condone or encourage illegal tax evasion by their employees — the operation of PAYE should have no implications for the level of pay that the shipping companies would need to offer the crews in a competitive labour market.

24. Similarly, it is not expected that the operation of PAYE would involve substantial administrative costs for the shipping companies. Independent studies have shown that for larger employers (particularly those with computerised payrolls) the administrative costs are normally relatively small and in practice are largely offset — or more than offset — by the cash flow advantages of only remitting the tax due to the Revenue some time after it has been deducted from employees' pay.

March 1988

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Examination of Witnesses

MR P LEWIS, Director of the Personal Tax Policy Division, Inland Revenue, MR E MCGIVERN, Director of the Business Profits Tax Division, Inland Revenue, MISS C E C SINCLAIR, Fiscal Policy Group, Treasury, and MR MICHAEL LLOYD, Department of Health and Social Security, were examined.

Chairman

1549. Good afternoon. This is the last evidence taking session of the Committee in this particular inquiry. We are grateful to you for coming along. I would repeat a special word of thanks to Mr Lloyd of the DHSS for coming at such short notice. Could I start by referring to the question of tax incentives in the shipping industry and say that the Committee has read your paper on Tax Incentives with great interest. Can you tell us why the Government decided in the recent Budget not to give any form of tax relief to the shipping industry?

(Mr McGivern) The Chancellor explained in 1984 that his objective in introducing a new system of business taxation was to move towards a more neutral scheme of tax by removing special tax reliefs in favour of substantially reduced tax rates. The changes which were introduced in 1984 did contain certain measures to take account of the special position of the shipping industry, but the tax incentives you are referring to, I presume, were those which were suggested *inter alia* in the blue book produced by the GCBS in December 1987. Those reliefs, in particular the roll-over of balancing charges and the special 50 per cent. first year allowance for ships, would have re-introduced an element of incentives into the tax system that would have run counter to the objectives of the 1984 reforms.

1550. In respect of roll-over relief, in your paper you explain the difficulties of conceding roll-over relief for shipping and in paragraph 29 you estimate the expenditure it would require, but if we are going to retain a merchant fleet has not some such measure as this got to be conceded?

(Mr McGivern) The roll-over relief is, of course, a limited measure of deferral of tax. The pre-1984 tax regime contained very significant incentive reliefs for the shipping industry and, indeed, for industry generally; amongst those were the 100 per cent. first year allowance for investment in ships. It is, I think, rather interesting to look at what happened to the fleet over the period in which those reliefs were available. That first year allowance of 100 per cent. expenditure on ships was available throughout the whole of the period from 1975 to 1983. I think 1975 was the year when the size of the fleet was largest; yet during that period the fleet declined by some 54 per cent. in terms of gross registered tonnage. Referring to the pattern of expenditure which the GCBS very helpfully set out in their report in Annex E, it will be seen there that, notwithstanding that accelerated capital allowance, the expenditure on new and secondhand ships declined by something like 58 per cent. over the period from 1977 to 1983, and declined further over the two transitional years 1984 and 1985, although there was a temporary increase in 1984. Whilst a roll-over relief might encourage replacement of ships, it is not clear that it would in fact encourage additional investment in ships.

1551. Your estimate of the cost of roll-over relief is significantly different from the GCBS's. Can you explain why this should be?

(Mr McGivern) Yes, Chairman. The costings are done, I think, on different bases and are not strictly comparable. The GCBS costs are based on what I might call the hypothetical first full year cost which in practice will not arise. It is based also on the assumptions set out in their policy paper of December 1987. By contrast, the costings which we have produced show the profile of the cost over a number of years, and they have been refined to take account of two factors: one is that we would expect that some balancing charges which would arise when ships are disposed of would be set against new expenditure in the same year under the present arrangements, so there would not be an additional cost where that happened; secondly, there would be some loss of writing down allowances on that part of the expenditure used to cover balancing charges. So there is a difference in the base.

Mr Fry

1552. Might I just follow this on a bit further and say that taking paragraph 29 the figures you give us are that in the next financial year the costs will be negligible. Although there is £35m in the next year and £55m in the next two up until 1992, you state that it would decline thereafter to an eventual £10m a year, which does seem a fairly modest cost for renewing a British merchant fleet. Is it not a point to be made that, perhaps without some kind of incentive, those ships will not be replaced at all. If the shipowners cannot afford to do it instead of saying, "There we are", we shall end up with an even smaller merchant fleet. In your estimation do you think the cost you have worked out is large, or would you consider it a fairly reasonable one for any government to consider?

(Mr McGivern) I think as to the reasonableness or otherwise of the cost that is a matter Ministers would want to decide in relation to their overall fiscal and other policies. I would just make the point that this does, of course, refer to the cost of roll-over relief, and whether, in fact, the ships would be replaced simply because of the existence of a tax relief of this kind is perhaps open to question because in other evidence which I think was given to the Committee, a factor which was brought out time and time again was that investment would be encouraged by profitability and that tax considerations would be only one of the factors to be taken into account.

1553. Surely, if the ships were not replaced there would not be any roll-over relief? Either they would replace the ships and buy them and get relief, or they would not do it and would not get relief?

(Mr McGivern) Yes, it is quite true. Obviously if the ship is not replaced then the roll-over relief would not apply. It would also be for consideration whether the existence of the roll-over relief would actually encourage the replacement of ships which would not otherwise take place in, for example, the

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[Mr Fry *Contd*]
sectors where the run down had been greatest and which continue to be unprofitable.

1554. Could I follow this on further and say, obviously the Inland Revenue are not very happy with roll-over relief. May I say in this day of standardisation in the Common Market, as I understand it, the current practice in the Federal Republic of Germany and the Netherlands is that there is a degree of roll-over relief and that, apparently, is also mirrored in Japan, Spain, Norway and Sweden, therefore it does seem this particular way of trying to assist or maintain the merchant fleet is fairly modern practice in countries with which we would seem to have a great deal in common. Would you accept that is true?

(Mr McGivern) Could I perhaps just comment on one of your opening remarks where I think you said the Inland Revenue are not in favour of roll-over relief. I do not think the Inland Revenue have a policy here at all. The question of whether there should be a roll-over relief must be one for Ministers. I hope I have not given the Committee the impression that it is the Revenue's policy to be in favour of or against a particular relief. International comparisons in the field of taxation are extremely difficult to make and can be misleading. If I could, for example, pick up the point you make in relation to Germany. Yes, it is true that they have *a* relief which allows in effect for the deferral of a balancing charge, and so too do some of the other countries which you have mentioned. But those countries are in the main, with some exceptions, countries which have a high rate of tax on business profits and a system of special incentives which is the kind of tax system which the Government abandoned in 1984 as a result of its business tax reforms. So if one picks up a particular tax relief it is possible to find that there is not now that equivalent in the United Kingdom system. But the reliefs are only one side of the coin. The countries that you have mentioned have, on the whole, higher rates of tax, including higher rates of tax on shipping profits, than the United Kingdom. The exceptions, for example, are the United States, which has a 34 per cent. rate in comparison with our 35 per cent. rate, if you ignore the state taxes which some American states charge in addition to the federal tax. Spain also has a 35 per cent. rate. The Netherlands has recently announced proposals to reduce its corporation tax rate from 42 per cent. to 35 per cent., and is abolishing, as I understand it, some other reliefs which have been part of the old system. In particular, the special tax credit which was available for investment, I gather, is no longer available to shipping from 1986, and in its place is an investment grant for five years. It is possible to single out a particular aspect of another country's tax system, particularly one which has the kind of structure which there was in this country in 1984 and find a special relief is not now available in the United Kingdom to match that.

1555. You keep coming back to this change in policy in 1984 as the key reason why proposals put by the General Council of British Shipping and others is not acceptable. Is it because of that change that you see that there would be some kind of difficulty in giving such reliefs to the shipping industry not generally available to other industries in this country?

(Mr McGivern) I think any proposals for a new tax incentive would be considered by Ministers against the objectives that were set out at the time of the 1984 business tax reforms. In addition, in this instance I think Ministers would have regard also to what happened to the fleet, ie to the significant decline that occured in the fleet during the whole of the period the 100 per cent. first year allowances were available to the shipping industry and to industry generally.

1556. The General Council of British Shipping made the point very strongly that they were doing quite well, largely because they diversified. Would you say that the very fact that the shipping companies have now diversified into interests other than ship owning would make it even more difficult to apply any kind of special relief to shipowners?

(Mr McGivern) Do you mean in policy terms, or as a matter of operational feasibility?

1557. I think what I am getting at is that obviously one would not want to see special incentives given to an industry which perhaps might not be entirely used by that particular industry but to further the interests of the group, part of whose activities were ship owning?

(Mr McGivern) Certainly I would expect Ministers to take into account the extent to which any additional relief would spill over into the related activities of the group of companies, of which shipping was a member. It would be a factor which Ministers would take into account. The answer would depend, obviously, on the nature and form of the particular relief.

Mr Bevan

1558. I find it difficult to pose these questions because we come across this holy edict of 1984, which apparently overrides all further Budget considerations. This cannon law that was enunciated on taxation in 1984 would seem to pre-empt any other form of differentiation or consideration thereafter — is that what you are saying?

(Mr McGivern) I hope I am just explaining to the Committee what the reasons were behind the 1984 reforms. The extent to which those reforms might be modified or special reliefs introduced to take account of the particular factors which have led to the relief being proposed is, of course, a matter for Ministers.

1559. I have noticed you are bland, you say, you are not in favour and you are against a form of tax, you merely react to a political requirement so, therefore, one has to try and frame a question in another way to get the information which one wants. The information I want is: was shipping and taxation thereon or thereof either in roll-over relief or initial tax relief discussed in the terms of this Budget between you and the Treasury?

(Mr McGivern) I hope the Committee will understand that I cannot really reveal the policy

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[**Mr Bevan** *Contd*]
advice that civil servants give to Ministers. I would say that the proposals in the GCBS policy document formed the basis of their Budget representations to Treasury Ministers in the run-up to the Budget, and they also made those representations to the Inland Revenue. The issues were before Ministers in framing their Budget proposals. They were also considered at the time of the 1984 reforms. In particular the proposed special ship allowance was considered at the time of those reforms, and the then Financial Secretary explained that it ran up against the difficulty that in the form proposed, it would amount to a first year allowance of 62.5 per cent. and would, therefore, re-introduce the incentive element which had been removed as a result of the 1984 changes. Ministers recognised the position of the shipping industry at that time by making changes to those reforms.

1560. Thank you, that is one stage of it. We are not talking about that time, but talking about this time. Were they taken into consideration this time?
(Mr McGivern) Ministers had the proposals of the GCBS before them when they were considering their Budget package.

1561. One must assume, must one, that they were not sufficiently front-ranking to transcend the enunciation of 1984 in the terms of those who decide upon the policy?
(Mr McGivern) I think all I can say in response to that is that in the absence of specific proposals in the Budget, Treasury Ministers have not been persuaded that changes which were proposed in that particular document should be made.

1562. Well, it remains to be seen whether this Committee is of that opinion when it comes to the deciding factor, and this is what motivates my questioning. Could I then turn to the other proposal by the GCBS and that is of a 50 per cent. initial ship allowance? Would not this measure have been of particular use in an up-market situation and, if so, why was advice not proffered by you to that extent?
(Mr McGivern) I hope you will understand that it is not possible for officials to say what advice was given to Treasury Ministers in relation to any particular proposal. I am not trying to be evasive, but that is the position that I am advised I should take in matters relating to advice given to Ministers on particular policy issues. Could I just say, to try to help the Committee, that the factors which I think would be relevant in considering a proposal of this kind, which, as I say, did come up in 1984 at the time of the business . . .

1563. 65 per cent. in 1984?
(Mr McGivern) Well, the 50 per cent. ship allowance can work in two ways. If the allowance were given, 50 per cent. of the cost of the new ship, let us say 100, and in addition in the year in which the new ship was bought there was to be a writing down allowance of 25 per cent. of the 100, then obviously the total relief in the first year would be 75. If, on the other hand, the normal writing down allowance of 25 per cent. were to be given on the balance of the expenditure after the 50 per cent., then that would mean a total first-year allowance of 62.5. That is the basis of those figures. In essence, of course, the effect of such a relief would be to provide a specific investment incentive in favour of investment in shipping. That is a factor which I think would be relevant in the Minister's decision as to whether or not that should be accepted. It is also, I think, a relevant factor that during the transitional period — that is the two years after 1984 when the tax changes were introduced, that is the year to March 1985 and the year to March 1986 — the capital allowances regime provided for a first-year allowance of 75 per cent. in the first of those years and 50 per cent. in the second year. Perhaps a factor which would be relevant in considering how effective such a measure would be would be to look at what happened to expenditure in new and second-hand ships during that period, and you would see that it did decline. That in itself might not be a decisive factor, but I am simply trying to be helpful to the Committee to indicate some of the factors which Ministers might want to take into account in deciding whether or not to restore an investment incentive.

1564. Surely you would agree, would you not, that if the size of the British Merchant Fleet is to be retained, if the tonnage of the British Merchant Fleet is to be retained, and if this is important, a measure such as this is imperative in its retention?
(Mr McGivern) I find it difficult to support that conclusion when the figures for investment in the fleet, and the size of the fleet, over the period when not a 50 per cent. but a 100 per cent. first-year allowance was in force, showed a continuing decline due, I accept entirely, to changes in international trade, over-tonnaging, et cetera. But during that period from 1975 to 1983, 100 per cent. first-year allowances were available and that was not sufficient to halt the very significant decline in the fleet and the question I am posing is whether it would automatically follow that the restoration of an incentive allowance would have the effect which it is suggested it would have.

1565. Would it have part of a package effect?
(Mr McGivern) That, I suspect, would depend on what the other elements in the package were. I cannot say what the package might be.

1566. Would you agree, for instance, with regard to the bus industry that the specific bus grant, which is now removed, when initiated, working down from 100 per cent. through 75 per cent., 50 per cent., had a very significant effect on the production of the new type of integrated buses at that time?
(Mr McGivern) I am sorry, I am not familiar with details of that particular industry, sir.

Mr Trotter

1567. You referred to the United States as having no tax relief for shipping, but, of course, as I understand it, there is a subsidy of nearly $500 million a year given by the American Government to the shipping industry, so they may not give it in tax relief, but they certainly give a great deal of

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[**Mr Trotter** *Contd*]
assistance to that industry which is competing with our own.

(Mr McGivern) I am not aware of what the non-tax arrangements to support the American fleet are, Mr Trotter.

1568. Coming back to 1979/83, the decline went on despite the allowances, but of course one could argue it would have been even greater had there not been allowances.

(Mr McGivern) Indeed there is no way of knowing what would have happened if the allowances had not been in force.

1569. Many people think that the circumstances in the world shipping scene have changed from what they were in 1979/83. Could it not be argued that it is worth trying allowances of this nature? They may not work, they may not lead to an increase in construction or purchase in the British Merchant Fleet, but surely it is worth trying and surely it is self-evident that the British Merchant Navy is rapidly disappearing?

(Mr McGivern) I have tried to explain the considerations which underlay the 1984 tax changes and some of the factors which I would expect Treasury Ministers to take into account. I think that is not a question which an official could reasonably answer.

1570. You cannot move a factory from the United Kingdom to Bermuda or anywhere else in the world, but you can move a ship overnight from the United Kingdom to many places all over the world and many of those places overseas have no tax at all on the profits of shipping. Is this not a factor which perhaps advisers might offer in advice to Ministers?

(Mr McGivern) We do, of course, explain to Ministers what the international tax treatment of any particular industry is to help Ministers to formulate their decisions on tax policy but, as I mentioned, international comparisons can be very difficult. You are quite correct in saying that some countries do not impose any tax on shipping, but if a shipping company in this country flagged out a ship, the mere flagging out of a ship would not affect the liability of the United Kingdom company to United Kingdom tax. A company which is resident in the United Kingdom for tax is liable to tax on its worldwide operations. The fact that a ship might be flying another country's flag would be irrelevant in determining the extent of the UK profits liable to tax.

1571. Even if it was owned by a company that was itself based in Bermuda, if the eventual ownership of that company came back to London?

(Mr McGivern) If the company itself was not resident in the United Kingdom then it would not be liable to United Kingdom tax and obviously tax reliefs would be of no help to that company.

1572. If they are not paying any tax on their profits then they do not really need tax relief, do they?

(Mr McGivern) The question is, if they are not profitable whether the tax relief could have any effect.

1573. I am sorry, I am not making myself clear. They are making a profit, they are registered in Bermuda and probably paying lower wages as a result of that, but they do not have to pay any tax on the profit because the subsidiary itself is based in Bermuda?

(Mr McGivern) That would be the case if the company was not resident in the United Kingdom: it would not be liable to United Kingdom tax.

1574. It is not very difficult for them to get around the tax net in those circumstances. You simply put your subsidiary in Bermuda instead of Gracechurch Street?

(Mr McGivern) There are of course proposals in the Budget, of which you will be aware, relating to the change of residence of United Kingdom companies.

Mr Trotter: I suspect that in that respect the shipping industry will be able to keep on as it is now.

Mr Fry

1575. Therefore from the Inland Revenue's point of view, it is far better for a British shipping company to flag out its ships and make a profit and therefore pay tax than not flag out and not make a profit and therefore not pay tax?

(Mr McGivern) What I was trying to convey was that the liability to tax of a United Kingdom company is based on its worldwide operations, so the fact that some of its ships may be carrying the flag of another country, and some carrying the United Kingdom flag, is not relevant in determining the measure of its profits for UK tax purposes.

1576. Therefore, you agree with what I have said, forgetting the policy point of what Ministers ought to do, strictly from the Inland Revenue point of view, in other words, the income coming into the Exchequer, it wants companies making profits and paying tax on those profits; therefore, really it is probably better from the Inland Revenue's point of view, in terms of advising Chancellors where they would get more revenue or less revenue, for British shipping companies to be profitable even if they flag out, rather than not flagging out and not being profitable?

(Mr McGivern) The profits that result from the company's worldwide operations will be charged to tax, irrespective of the changes — I am ignoring the implications of double taxation agreements etc. If a company takes measures which increase profitability and those profits are within the scope of UK tax, it must follow that there will be a higher tax charge as a result of that.

1577. You are saying that flagging out is irrelevant to the Inland Revenue?

(Mr McGivern) It does not affect a company's tax liabilities.

Mr Trotter

1578. Can I come back — it is surely possible for a company to find a way round that. Surely by having

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[**Mr Trotter** *Contd*]
a subsidiary registered in a country which pays no tax the trading income of that ship can be free of UK tax?

(Mr McGivern) Yes, that is the case. In response to the last question I was replying in terms of a United Kingdom company resident in this country, and chargeable to tax in this country. If you are referring to a subsidiary company which is not resident in the United Kingdom and is not trading in the United Kingdom through a branch or agency, then of course it will not be liable to UK tax on its shipping activities.

1579. In those circumstances, what Mr Fry said would not apply and you would get nothing out of the profits?

(Mr McGivern) Because it would not be liable to United Kingdom tax.*

1580. Is there not an argument for looking at the wider economic significance of the Merchant Navy. Are there not a great number of jobs in this country and, indeed, profits, dependent on our still having a Merchant Navy? One is thinking of the activities of the City of London in terms of insurances and other marine-related activities, apart from engineering activities which must be related to ship owning. Is there not an argument for assisting and helping this industry from a wider point of view than just ship owners?

(Mr McGivern) In forming decisions about tax on any particular industry, yes, Ministers do take account of factors other than those which I have mentioned. They did indeed do so in 1984 when they introduced a new style free depreciation for the shipping industry allowing them to roll up the 25 per cent. writing down allowances on ships and to use that at will, and that is uniquely available to the shipping industry. They have also, as you know, extended the Business Expansion Scheme to companies providing ship chartering, and there is a measure in the 1988 Budget relating to that particular scheme which would make investment in ship chartering more attractive than investment in other companies attracting relief. As you will be aware, the Chancellor has decided to place a ceiling on the total amount of investment which can attract relief under the Business Expansion Scheme in any one year. That ceiling is £500,000 in the case of most companies. In the case of companies engaged in ship chartering it is £5m, so it may help the ship charterer.

Mrs Dunwoody

1581. The basis of the advice that you offer Ministers is that to all intents and purposes shipping should not be regarded as a separate element but should be regarded as a straightforward business, and the taxation that would be evolved should be more related to the reaction between investment in plant and machinery and its results going into any special category. You are saying that we are looking for forms of taxation which will not differentiate between shipping and other businesses?

(Mr McGivern) No, that would not be the way in which we would necessarily present the issues to Ministers. We would obviously rehearse particular arguments being advanced for any particular proposal. We would set out how those arguments apply generally to the tax system and generally to other industries. We would also rehearse other arguments which would be advanced by particular proponents of any particular scheme, and the proposals would be set in the wider economic context, where necessary, with help from colleagues in the Treasury.

1582. Much of the decision therefore to move from pre-1984 taxation patterns to the subsequent arrangements was dictated by your firm view that the link between investment and 100 per cent. allowances could not be demonstrated to have made a massive difference to the fleet. In other words, you are saying, as you have said more than once to us this evening, when they had very much larger concessions than we are talking about, the fleet nevertheless was not maintained and, therefore, we cannot demonstrate that investment incentives are directly related. Is that the burden of your evidence?

(Mr McGivern) Not quite in those terms. I am sorry if I have not made it clear. What we have tried to do in our evidence is to set out, first of all in the memorandum what the Chancellor's objectives were and the reasons why he introduced the 1984 business tax reforms. In commenting on the questions put to me, I have tried to indicate some of the factors which Ministers would probably take into account in reaching a view on any particular form of new tax relief, whether it be for the shipping industry or for any other industry.

1583. We are looking, as a Committee, for a means of maintaining a Merchant Fleet and obviously many of the elements which some of my colleagues have put to you this afternoon will be important to us, they will be outside the field of taxation and we are certainly not asking you to give a political explanation of why certain decisions have been taken, but would you not agree that in fact what we are looking for is a form of taxation which is efficient, which produces the results that we want in terms of the Merchant Fleet and which can be defended in terms of efficiency? When you talk about roll-over relief, for example, would you not feel that those sorts of reliefs could be tailored by the Chancellor to fit in almost any way that he wanted the results that we both are aiming at? In other words, could it not be a tax which could be very easily seen to be responding to the needs of the Merchant Fleet without failing its job as a means of collection for the Inland Revenue?

(Mr McGivern) What I have tried to do was to explain to you the issues raised by the particular proposals which have been put forward, and which I have seen, namely the roll-over relief and the 50 per cent. ship allowance; what they in fact mean in terms of present taxation rules; the extent to which they fit in with or require modification of the objectives of

**Note by witness:* UK tax would, of course, be chargeable on any dividends or other income remitted from the subsidiary to the United Kingdom parent, subject to any double taxation relief which might be due.

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[Mrs Dunwoody *Contd*]
the 1984 reforms and what the costs might be. I do not think, as an official, I can go any further than that; it is then a matter for Ministers to decide whether the reliefs themselves can be tailored in the way in which you have suggested.

1584. I accept that, but let me come back then to a question which I think you can answer. Would you agree with the Rochdale Committee's conclusions in 1970 that the investment grant system is not well suited to shipping or would you assume that shipping can in effect be treated in the same way as any other industry? Is there in the Department a link between investment grants and the changes that we need to see in the Merchant Fleet because you have quoted more than once this afternoon the fact that when much larger reliefs existed, the fleet nevertheless declined? In this Committee we might argue with you if we were in a position to argue, and that is obviously not what we are asking you to do, but we might argue with you that there are all sorts of other elements which had an immediate effect on that decline and which could not be countermanded by the degree of tax relief that we are talking about. What I want to know from you is does the Department actually accept that shipping is not an industry which can be directly linked to create a direct link between investments and investment grants and the results that we want?

Mr McGivern) The Inland Revenue, of course, was not responsible for administering investment grants, so I . . .

1585. You are playing a very straight bat, but what I am asking you for is the basis on which the Department gives its advice.

(Mr McGivern) The Inland Revenue would not be responsible for advising Ministers on the efficacy of investment grants as an aid to assisting investment. We would be responsible for advice on tax policy issues relating to incentives given through the tax system and if I understand your question correctly, you are contrasting the use of a cash grant up-front with some form of tax relief. But the Revenue would not be responsible for advising Ministers on matters relating to investment grants.

Mr Fry

1586. But are they not responsible for advising Ministers on what might be the most efficient ways to assist the industry? The cynic might say that whatever is put up, the Inland Revenue finds what is wrong with it and persuades Ministers not to do it. I hope I am not being unfair and not being personally unfair, but that is certainly the way the document may read and that is why I asked you my question. Is it not the responsibility to say, "Well, yes, there are serious disadvantages in certain measures, but some measures would be more helpful and more productive than others"?

(Mr McGivern) I hope I did not give you the impression that the Inland Revenue would present only one side of any particular argument in presenting advice. We analyse the evidence and the arguments in presenting neutral advice to Ministers on any particular technical proposals that are put to them. As regards what is the best way of assisting a particular industry, whether it be tax or investment grants, then one would expect input from the Departments which would be responsible for adminstering that grant; and, of course, Treasury Ministers will also have advice from the appropriate Treasury division, if I may put it this way, in terms of the value for money of the particular proposal put to them.

Mr Fry: Is not one of the purposes of the 1984 change that a lot of companies were not paying any tax at all and they were successfully using the system to avoid paying tax and one can understand why the Chancellor came to the decision he did and why we have the present system, but it does bring me back to the point that surely there are some methods of assisting companies which lose less revenue to the Exchequer or are less wasteful of public money than others, if you like, and all I am asking is has there been any consideration of the various alternative methods, the investment incentives for the shipping industry on that basis? Have Ministers been given different scenarios, if you like, of what would happen if certain policies were followed?

Chairman

1587. Perhaps Miss Sinclair from the Fiscal Policy Group of the Treasury could tell us something about the policy investment grants.

(Miss Sinclair) Unfortunately I am not actually the right person from that part of the Treasury, but in support of my colleague, I think it might be helpful to the Committee to remind them that, of course, Treasury Ministers sit in the Treasury and while they receive advice direct from the Inland Revenue officials on policy matters, they also receive balancing advice not only from my section of the Treasury, which is concerned with tax policy overall, but the public expenditure side of the Treasury where they have a particular interest in the general cost-effectiveness of measures, including grants, or public expenditure measures which might bear on the shipping industry, so all that advice comes before Ministers and they take their decisions on taxation policy or on grant policy with the different pieces of advice before them.

Mr Bidwell

1588. Is there not something in addition to that and that is the figure with which the Departmental Minister, the Secretary of State, presents his case in the build-up to budgetary arrangement? Surely that is the way they work in the Cabinet, is it not? If you have a slovenly transport minister, it might not be so . . . let me get an agreement , I am questioning him . . . and this turnover of transport ministers that we live through on this Committee, every now and again we get a change of Transport Minister because they want to give some shunted-out Minister a job in the Cabinet, it seems, and he is shoved from one Department to another and that must have a serious effect on the overall thrust, a change in the Secretary of State and surely that has some effect in those discussions?

Mrs Dunwoody: You cannot ask a Treasury official that.

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[Mr Bidwell *Contd*]

Mr Bidwell: Well, I am asking the question and if the young lady can give something away, so much the better.

(Miss Sinclair) You cannot expect me, and indeed I am afraid I am not in a position to comment on whether that has an effect, but what I can tell the Committee is that obviously the Secretary of State for Transport, who has the primary responsibility for shipping policy in Government, and it is not a Treasury prime responsibility, makes representations to the Chancellor and the other ministerial colleagues in the run up to the Budget and these may well cover a range of issues and are fully taken into account when the Chancellor frames his Budget judgment.

1589. What international comparisons have been made running up to this particular recent Budget? We know what kind of a Budget it is and for what purpose it is designed and we are not here to discuss that specifically at the moment, but what international comparisons and how are they presented? Are they presented with like economies and so on or is the British Merchant position looked upon as a special case in view of our special situation as an island nation and our enormous dependency on a vigorous Merchant Fleet, preferably registered in Britain? Has all that, in your view, seriously been taken into account in recent times because your evidence and the manner in which it has been presented is of enormous importance in that regard, is it not?

(Mr McGivern) When we are presenting evidence of the tax position of other countries we do, of course, target that evidence in relation to the particular proposal that is being put forward. If I may say so, you have put your finger on one of the very real difficulties of making international comparisons in the tax field. The economies of the countries can be different; the particular sector may be less important in terms of input to the national economy than the equivalent sector in this country; the rates of tax may be very different from the rates of tax in this country, and the allowance itself may be very different. We have been able, where any proposal is being put to Ministers, to advise them of what the comparable tax treatment of the particular industry or particular form of income is in other countries, and one presents that as fully and as fairly as is possible to do so.

1590. Are you satisfied that the Ministers concerned regard the merchant shipping industy as a special case?

(Mr McGivern) I have no doubt that Treasury Ministers are fully seized of the position of the merchant shipping fleet and, as I say, they made it clear in the 1984 debates, when they made special concessions and departures from the 1984 business tax reforms, that those were made because of the special circumstances of the shipping industry.

1591. We have a note that £5m has been applied to the BS shipping schemes. This has already been criticised by the Edinburgh tankers. Considering the sums required for shipping investment, it seems quite inadequate. Why was a limit of £5m chosen? Would not £10m have been more appropriate?

(Mr McGivern) In announcing the ceiling the Chancellor explained that the purpose of the Business Expansion Scheme relief is to encourage full equity risk investment in companies. When the scheme was introduced even fairly large companies had difficulties raising equity finance, but with the growth of the venture capital market it has become easier for companies to raise larger amounts of equity and the Chancellor decided, therefore, that he would focus the BES relief on smaller companies, and for that reason he introduced a limit of £½m. He decided, however, to make an exception for shipping, for ship chartering, and also for the new relief which is available in respect of investment in companies providing rented property and he fixed on a limit of £5m. It is a matter of judgment, of course, as to what that limit should be, but if you look at the amount that was raised last year for ship chartering through the BES scheme it was around £5m.

Mrs Dunwoody

1592. I am sorry to bring you back to this business of the form of taxation, but it is important for this Committee to understand whether or not the Inland Revenue feel that their existing forms of tax collection are efficient, and whether they are better in relation to this one industry, because for the moment we are talking about an industry which we regard as being different. I am not asking for personal views, but would you say that Ministers do accept that there is a fundamental difference between shipping and other industries, and that taxation is sufficiently aware of that very fundamental difference?

(Mr McGivern) Ministers are fully aware of the position in the shipping industry. As Miss Sinclair has explained, there is continuing input into the Budget decision-taking process by the Secretary of State for Transport. The industry itself is very efficient in making its position known to Ministers and, if I may say so, has presented a very cohesive and well presented argument in the blue book. Ministers are fully aware of what the position in the shipping industry is. They took special account of the circumstances of the industry when introducing the new style free depreciation which enables the shipping industry, uniquely, to roll up the writing down allowances and use them at will. That is not a provision which is available to other sectors of the economy.

Mr Dicks

1593. What concerned me, you say Ministers are aware — and some of the questions should have been directed to Ministers and not yourselves — all the advice coming in to the Department from the industry appears to be ignored in the sense that they keep saying, "Nothing you are doing is good enough and everything you are doing is inadequate and we are suffering". At what stage — you initiate policies as well as react to Ministers' requests — will an official be saying to a Minister or Secretary of State, "This industry is in such a fast rate of decline almost

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[**Mr Dicks** *Contd*]
anything has to be done"? What concerns me is that we will all sit back and say, "Now is not the right time", there is the 1984 exposition and the current approach to taxation, yet the industry is saying, "For God's sake, forget all that nonsense, we are in rapid decline". At what stage would officials say to Ministers, "Look, something drastic needs to be done. The Treasury has to bang its head together with the officials in the Transport Department, the Inland Revenue and everywhere, otherwise we will not have a British ship left." When does that sort of scenario take place? How far are you from that fatal situation?

(Mr McGivern) I hope nothing I have said has given the impression that the evidence being put in by the shipping industry itself is in any sense ignored — it is not. I would like to reassure the Committee of that. The evidence which the industry has put in is certainly well known to officials in the Treasury, the Inland Revenue and to Treasury Ministers themselves. It is the role of officials, whether it be in the Treasury, the Revenue or any other Department, to draw the facts to Ministers' attention and to present them in the context of their general policy and objectives, whichever sector of the economy they may be looking at and to do it fully and fairly. That has been done in this case as it is done in the case of other industries asking for special tax reliefs. As to when a decision is taken that an industry is in special need of tax relief, at the end of the day that is a matter for a Minister's political judgment.

1594. Is there any sort of notional point in officials' minds where the alarm bells ring as against just vaguely hearing them and say, "For God's sake, Minister, you have to look at this now because of the situation the industry is facing". The industry itself is virtually saying that the Government or Civil Service are taking no action to make any impact? That is the sort of impression we are getting from the industry.

(Mr McGivern) All I can say is that the representations which the industry have made are well known to officials and they are fully aware of them and they are taken into acount and considered very fully both in the presentation of advice to Ministers and in the formulation of policy decisions. I cannot say to you that there is a particular level of the fleet at which any official is going to say, 'For God's sake, something has got to be done". One presents the arguments in relation to the particular tax relief which is being sought in the context of the particular industry itself and to the general economic and other arguments concerned.

1595. What would you say to us if we went back to the industry and said, "We have listened to top officials from the relevant departments and they have said your points are listened to, everything is taken into consideration", and the industry would say, "We do not care about that. Nothing is being done." How do we bring you face to face with the industry to make something happen? They will say it is all words from the government and you would say it is not, "We are doing all we can", and they would say, "That is nothing". How do we get on the same lines?

(Mr McGivern) We do of course talk to the industry. Indeed, I have spoken to representatives of the industry about their policy document; it is part of the process of informing the Department about what is happening in the shipping industry. This is a common occurrence and as with other sectors of industry we do keep very much in touch. The personal advice which they give, in addition to the written representations of the kind we have before us, are taken into account, are reported to Ministers and at the end of the day, it is a ministerial decision as to whether a particular tax relief or level of tax relief is or is not to be introduced. I can assure you that the evidence which the Committee adduce is well known to officials and is taken into account in the advice we put to Ministers, in shipping as in all other aspects.

Mr Trotter

1596. Coming back to the Business Expansion Scheme, perhaps I should declare an interest, in that I think I own one link in the anchor chain of the EDINBURGH TALLA which is the only ship of any size to have been bought under this scheme. The fact that there is only one ship would seem to indicate it has not been very successful — there are two or three small coasters. Is it not an expensive use of revenue, in that this seems a very costly way of helping the shipping industry, or is the main reason not to help the shipping industry but to encourage share owners like myself?

(Mr McGivern) There is, I think, a twin objective in the BES scheme. One is to encourage the provision of full risk equity finance essentially to smaller companies which might have difficulty in raising it; and, of course, it is also to encourage investment in the particular companies concerned, so there is a dual objective there. As to whether it is an expensive form of relief, not much use is made of the scheme. It is available like other BES investment at the full marginal rate of the taxpayer and it is no more expensive or inexpensive than the cost of relief for investment in manufacturing companies or other companies which attract BES relief.

1597. Can I come back to the sort of relief that the industry is seeking? Is it not basically tax deferred rather than tax lost if they were granted the sort of relief they are asking for?

(Mr McGivern) Indeed, but the deferral of tax is still very much a revenue cost.

1598. On the basis that you never get it at all because they keep on deferring it for ever more?

(Mr McGivern) If it is continually rolled over, it would be a continuing cost.

1599. If you are right in feeling that it would not work to have this sort of relief, and I think you did start your argument earlier on this afternoon by saying it did not really work in the late 1970s and early 1980s, but if it is not going to work, surely there would not be much revenue lost, so why not try it?

(Mr McGivern) Indeed that is a factor which Ministers would take into account. Whether it would work or not, I am not, of course, in any position to say. What I have drawn attention to is what

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[Mr Trotter *Contd*]
happened to investment in the fleet and the size of the fleet during the period when the full 100 per cent. first-year allowances were due and indeed whether or not there is anything to be lost in trying it is something which a Minister would take into account, as well as the implications of that approach to a similar relief for other industries which might well advance the same argument in favour of a tax incentive.

Mr Fry

1600. One last question on this section and then I would like to turn to the question of taxation of seafarers. Reading your memorandum and listening to your evidence this afternoon, would I be right in saying that from the Inland Revenue's point of view, the proposals put forward by the General Council of British Shipping do have certain considerable disadvantages in relation to the Government's overall taxation policy and that, therefore, any change that the industry might require is basically a question of political decision and political will, nothing really to do with the Inland Revenue?

(Mr McGivern) Mr Fry, I should perhaps have made it clear earlier on, but I am sure the Committee recognises that the Inland Revenue has no view on matters independent from the views of Ministers. Of course in the final analysis it is a matter for political judgment, not only in taxation but in other areas, as to whether a particular policy initiative should be taken. Our role is to advise Ministers on the implications of any tax proposal both in terms of tax policy and also in terms of wider economic policy with the assistance of our colleagues in the Treasury. We do not have a separate view from Ministers.

1601. Can I turn now to the question of taxation of seafarers and, Mr Lewis, you too have given us a very helpful paper dated 16th March. Could you perhaps comment on the GCBS's suggestion that a percentage of the total yield of income tax paid by seafarers be returned to the Shipping Council, for example, a 75 per cent. remission of income tax would yield companies over £7½ million for every 100 manned ships in the fleet and that is what the CGBS said to us. To what extent do you think the direct return to shipowners the percentatge of the tax paid by seafarers is a feasible method of retaining UK seafarers?

(Mr Lewis) I think one of the interesting questions is that the GCBS did not, so far as I know, suggest exactly what the mechanism might be. It is not a very clear proposal, but they are simply saying that 75 per cent. of the tax on their figures comes to such an amount and if this were made available to the shipping industry, it would obviously be a help. But, as I understand it, they were not suggesting that there should be some kind of exemption for seafarers because they make the point, very strongly that there would need to be a mechanism to make sure that in effect the money did not go into the seafarers' pockets, but ended up on the shipping companies' balance sheets. It is very difficult, I think, to say very much more until there is a specific proposal on the table explaining what they really had in mind.

1602. In your paper you also deal with the question of residence. Could you tell us what consideration has been given to the length of time that people have to stay abroad to avoid liability for UK income tax?

(Mr Lewis) Yes, the residence rules which apply to seafarers — there are very few special rules, so we are talking basically about the rules for deciding residence in relation to all UK tax purposes; and certainly this, I must make clear a very simplified explanation of what the position is — can be quite complex particularly because most of these rules derive from case law rather than statute law. They have been in existence in their present form for a long time, but my impression is that the question of residence is not a very big one in relation to British seamen because usually you are talking about a seaman who has his home and family here and unless he is going abroad for three years or so on a continuous programme he is not likely to become non-resident. So my understanding is that as a matter of practice the 1 per cent. relief for overseas earnings is generally more in point for British seamen than the residence rules.

1603. We understand that Norway and Denmark have special income tax rates for seafarers and I accept the point that it is difficult to make international comparisons, but that is what the GCBS have told us. Is there any reason why we should not have a similar system in the UK?

(Mr Lewis) I think the points Mr McGivern was making about international comparisons in the business field apply equally in relation to the personal tax field because there are all sorts of differences in terms of local income tax, social security contributions and the benefits different countries provide, so it is very difficult making meaningful comparisons. And, of course, you very much have to look at the general level of tax in a country in any event because you may be better off being in a country which has relatively low rates of tax generally rather than in a high-tax country which gives some kind of marginal relief for seamen.

Mr Bevan

1604. I wonder if I could ask you with regard to the Isle of Man question. I think you maintain that if the Revenue decide that if PAYE is due, it should make no difference to firms which are flagged, but it has been reported that such firms will move their ships further and further away if that is the case and will go further afield to Hong Kong, to Nigeria, to Panama, et cetera, and it is in the Lloyd's List of the 15.1.88. How do you comment?

(Mr Lewis) Perhaps I should say first of all, in case there is any confusion, that at this point we are moving slightly away from policy advice to Ministers, which Mr McGivern has been talking about, and I have been talking about . . .

1605. To the effect of existing policy.

(Mr Lewis) Yes, that is right, and the Inland Revenue's statutory duties to administer the tax system. I think what we are saying is that in relation to PAYE, the actual tax which the employer pays

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[Mr Bevan *Contd*]
over to us comes from the employee's/seaman's gross wages and it is not an extra cost to the employer and similarly in relation to the actual cost of administration of PAYE, the system has been much simplified in recent years. It is not normally a great administrative burden and an independent study carried out a few years ago suggested that certainly for larger employers there was really often a gain from operating PAYE because the employer was able to retain the tax he would otherwise have paid over to the employee as part of his wages for a period before he paid it to us. So I think what we are saying is that looking at this as a whole, it is not too clear why operating PAYE should be a great burden on companies. It is a question of the mechanics of collecting tax. It does not make any difference to the liability of the seaman.

Mr Fry

1606. When you make the point that it does not make too much difference if British ship owners should flag out to the Isle of Man, and they are now going to find the Inland Revenue being tighter in relation to the Isle of Man, surely the ship owners will merely move further on, because the Isle of Man is more expensive than many of the other countries where there are flags of convenience and you will not have any sailors paying tax, but Philippine or South Korean tax.

(Mr Lewis) That will not make any difference. We are talking about the question of reflagging. If the seaman is a British seaman resident in the United Kingdom he is liable in the same way whether the ship is on the Isle of Man register or elsewhere. I think what we are talking about is simply the narrow question of the mechanics of collecting the tax, whether through the employer, as would normally happen with a UK company through PAYE, or directly from the seaman himself.

1607. From the seaman himself — the employer would regard that as additional cost?

(Mr Lewis) As I have tried to explain, in many cases tax is not an additional cost.

1608. Let us take the example of where the whole of the crew is supplied, which is fairly common practice now, where the ship owner takes on a crew, who effectively is taken on and is paid by a third party, surely the ship owner then should have no interest in having to pay or collect PAYE or national insurance contributions?

(Mr Lewis) As we tried to explain in the paper, under the existing regulations, it is a question of whether the ship owner in the UK still has the general control and management of his employees. I think there have already been various factors mentioned to the Committee in previous evidence suggesting that might be the case, because it is usually the case that the shipping companies are still retaining the management of the ships and they are deciding where they trade. I think evidence has been put to the Committee that marine superintendents from this country make frequent visits to the ships and that Head Office is very concerned with safety matters, for instance. This is really what we are looking at now whether, looking at all these factors together, we have to take the view that there is still general control and management of the employees or not.

Mr Bevan

1609. Management would cease if and when an owner contracted with an agent based at an exterior port miles from Britain to hire a crew.

(Mr Lewis) Not simply from hiring, no.

1610. A complete crew.

(Mr Lewis) That is what has happened.

1611. Yes, through an agency, say, in Hong Kong.

(Mr Lewis) Yes, but that does not mean to say the shipping company does not retain general control and management of the way the employees work, any more than if you have a secretary who comes from an agency — you are the person who directs how she works for you.

Chairman

1612. Coming to the question of national insurance, could I ask Mr Lloyd to explain the national insurance provisions and how they affect mariners?

(Mr Lloyd) They are very complicated. I hesitate to describe them briefly. I am going to put in a written note which explains them. In broad terms a British resident mariner who works on a British registered ship — and a British registered ship is one defined as owned or belonging to Her Majesty or a ship registered in a British port, and the employer is resident in the UK — in those circumstances full National Insurance contributions, both primary and secondary are payable. If the British resident mariner works in a British registered ship but the employer is not at all resident in any way, nor are his wages paid in the UK by anybody then only the primary contributions are payable.

1613. Can you explain the National Insurance position with regard to the Isle of Man, or is it possible for you to give us additional information on that subject?

(Mr Lloyd) I can give you some indication of the Isle of Man. The Isle of Man, in effect, has a very similar scheme, although not completely the same scheme, for National Insurance contributions as ours. The two schemes are linked by a social security agreement and, in broad terms, the same provisions relate to both. The same provisions in regard to liability apply in the Isle of Man as they do in this country. If you have an Isle of Man mariner working in an Isle of Man registered ship and his employer is resident in the Isle of Man then he pays full National Insurance contributions, and so does his employer.

1614. Thank you. We look forward to receiving papers on this. In the shipping industry National Insurance contributions are marginally abated to reflect the industry's redundancy payment system. Bearing in mind that a large proportion of UK seafarers are serving abroad for long periods of time — and therefore not at that time a liability to the

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[**Chairman** *Contd*]
NHS — is there not a case for abating further the employer/employee contribution?

(Mr Lloyd) You are aware, no doubt, that Mr Portillo announced on February 17th the fact that the abatement of mariners' contribution rates in respect of exclusion of mariners from the redundancy payments scheme would cease from April 6th. It was announced in the Hansard official report, column 632.

Mr Trotter

1615. It does seem that the nub of the PAYE situation is in paragraph 23 of your written evidence, "and it goes of course without saying that the shipping companies would not condone or encourage illegal tax evasion by their employees", surely the situation is this: if a British ship owner employs British citizens then he ought to be collecting tax from them and the only way out of that is to employ Pakistanis and Philippinos who presumably do not pay tax under PAYE.

(Mr Lewis) Or employ British seamen who are not controlled from the United Kingdom.

1616. On the NHS I do not think it as simple as that. It is possible for a Philippino crew member to have a stamp paid for him if employed by a British employer?

(Mr Lloyd) The rules on foreign resident mariners working in British registered ships are complicated.

1617. They have to be resident?

(Mr Lloyd) Yes. It is possible if a mariner is not resident in the UK neither he nor his employer makes a contribution.

1618. That would seem to be commonsense but I did not know whether it applied.

(Mr Lloyd) Yes. He has to apply for an exemption certificate.

1619. It is the same as it is for the tax situation?

(Mr Lloyd) Yes.

Chairman

1620. Why has the Government withdrawn the NHI rebate? Is that not another, albeit little, blow to the shipping industry?

(Mr Lloyd) Are you referring to the rebate given to foreign-going mariners?

1621. Redundancy payments.

(Mr Lloyd) The redundancy payment rebate was abolished because of a decision that was taken by the Secretary of State at the time of the last rerating of National Insurance contributions. In the past mariners who were excluded from the redundancy payments scheme paid a reduced rate of contribution to reflect the fact that the standard rate paid by other employers included the employment protection allocation paid into the redundancy fund, on which mariners could not always draw. In the light of the decision that no employment protection allocation was payable from the start of this coming financial year, and the fact that the employment protection allocation was disappearing, it was therefore decided that it would be illogical to continue to abate mariners' contributions in respect of a contribution which ceased to exist; that was the reason.

Mr Trotter: We understand that Norway and Denmark do have special income tax rules for seafarers and the GCBS assures us that is the case. Is that not an argument for having special rules?

Chairman: That has been discussed.

Mr Trotter: I thought it might have been.

Chairman

1622. It was answered, was it not?

(Mr Lewis) Yes, that question was put before.

1623. All that remains for me to do is to thank you once again for appearing before the Committee. It has been a most interesting and useful session this afternoon and very helpful to us in compiling our report.

(Mr McGivern) Thank you, Chairman. We look forward to reading your Report.

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APPENDIX 1

THE DECLINE IN THE UK REGISTERED MERCHANT FLEET

Terms of reference

The Committee has decided to undertake an inquiry into the decline in the UK registered merchant fleet. The areas of investigation may include the following:

(i) The increase in the practice of "flagging-out" of merchant vessels.

(ii) Protectionism, both within the UK and worldwide, and fiscal incentives offered to shipowners.

(iii) The international competitiveness of the UK fleet and ports.

(iv) Cabotage.

(v) The extent to which the structure of the shipping industry (with regard to both shippers and shipowners) militates against the practice of an effective national or European shipping policy.

(vi) The impact of the decline in the registered merchant fleet and associated trends on those who work within the industry.

(vii) The importance of the tourist industry to the future demand for shipping.

The Committee would also welcome submissions on any other related matters of substance in the context of this inquiry.

APPENDIX 2

Memorandum submitted by the Department of Health and Social Security

MARINERS' NATIONAL INSURANCE CONTRIBUTIONS

Introduction

This note describes:

a. the rules determining the liability of mariners, and their employers, to pay National Insurance Contributions (NICs); and

b. the way the National Insurance contributions system is altered in respect of mariners and their employers.

2. Mariners are one of the "special classes of earners" in respect of which the Social Security Act 1975 confers powers on the Secretary of State, to modify Parts I, II and III of that Act which deal with contributions, benefits and the determination of claims. The relevant Regulations are regulations 86 to 98 of the Social Security (Contributions) Regulations 1979 (SI 1979/591). Mariners are defined by the relevant Regulation, (Regulation 86) to include persons who are or have been in employment under a contract of service either as a master or as crew members of a ship or vessel. Mariners also include people employed on board ship in any other capacity for the purposes of the ship or vessel or for her crew or any passengers, cargo or mails she carries, *provided* that the contract was entered into the UK, with a view to its performance wholly or partly on voyage. Thus hairdressers or shop assistants on board ship may be "mariners" for national insurance purposes. Members of the Royal Navy are not mariners in NIC terms.

Residence and Employment Status

3. The general rules about residence do not apply to mariners. A mariner domiciled or resident in Great Britain will be liable to pay primary* 'Class 1 national insurance contributions, and his employer will be liable to pay secondary* Class 1 contributions if he is resident or has a place of business in Great Britain. Where an employment is outside Great Britain, the general rule is that the employee is not an "employed earner" — and therefore not within the provisions of the Act, section 2(1)(a). In respect of mariners, the Regulations provide that a mariner whose employment is outside Great Britain is nevertheless to be treated as employed in employed earner's employment in certain circumstances. These include cases where the mariner is employed on board a British ship (that is, a ship or vessel belonging to Her Majesty or whose port of registry is a port in Great Britain) and cases where although he is not employed on a British ship, the employment is on board ship and the contract was entered into in the United Kingdom with a view to performance on voyage.

* Primary Class 1 Contributions are paid by employees and secondary Class 1 contributions are paid by employers.

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There is a social security agreement between Great Britain and Northern Ireland which provides that mariners are treated the same no matter where in the United Kingdom they reside.

Examples

4. The following examples show some of the effects in particular cases of the special rules about residence and employment status for liability to Class 1 contributions:

(a) If a mariner is domiciled or resident in Great Britain and the employer is resident, or has a place of business in Great Britain and the employment is on board a British ship, both primary and secondary Class I contributions are payable. They will be collected by the shipping company (or the paying agent where applicable) by means of a PAYE scheme;

(b) similarly, both primary and secondary Class 1 contributions are payable where the mariner is domiciled or resident in Great Britain, even where the employment is on a non-British ship, if the contract of employment was entered into in the UK (with a view to its performance (at least in part) on voyage and the person paying the earnings has a place of business in Great Britain);

(c) if a mariner is domiciled in Great Britain and works on a British ship, but the person paying the earnings has *no* place of business in Great Britain, the mariner is liable to pay primary Class 1 contributions. These will be paid directly to DHSS via the mariner's home local DHSS office. No secondary (employers') contributions are payable;

(d) if a mariner, domiciled or resident in Great Britain, works on a non-British ship, the contract was not entered into in the UK and the person paying the wages does not have its principal place of business in Great Britain, neither mariner nor employer is liable to pay Class 1 contributions.

5. However, a British resident mariner who has no liability to pay Class 1 contributions may pay Class 2 contributions voluntarily to maintain his entitlement to benefits, but only for weeks of employment abroad. Voluntary Class 3 contributions may be paid where there is no liability for any other class of contributions.

6. A flow chart which describes the rules of liability is attached.

EC Implications

7. The special rules for mariners are subject to modification by EC rules. Under the terms of EC Regulations, EC nationals employed on board a ship flying the flag of a member state, are generally subject to the legislation of that state. An EC national who works on a UK flagged ship, would be subject to UK social security Regulations. A British resident mariner who worked for example on a Dutch ship would generally be subject to Dutch social security legislation, under EC Regulations. However a British resident mariner who worked in a Dutch ship, but who was paid by an employer whose registered office or place of business was in Great Britain, would be subject to UK legislation.

Reciprocal Agreement Countries

8. The UK has reciprocal agreements with a number of countries besides those in the EC. Some of these agreements contain provisions specific to mariners, which are complex and differ widely from one agreement to another. Generally where a mariner is ordinarily resident in one country which is party to the agreement, and works on board a ship owned in or registered in the other country, or, in some cases, a mariner's employer, or the person paying his remuneration has his principal place of business in the other country, a contribution liability will exist to one or other, but not both, of the countries' schemes.

The Isle of Man

9. The Isle of Man is not part of the United Kingdom. It can be described as "in some respects like a miniature state with wide powers of self government". The Isle of Man is associated with the EC, but the EC regulations with regard to Social Security do not apply to it.

10. The National Insurance systems of Great Britain, Northern Ireland and the Isle of Man were originally identical, but they now differ somewhat. (The Isle of Man has not introduced Statutory Sick Pay and Statutory Maternity Pay.) The island's National Insurance scheme is linked to Great Britain and Northern Ireland by a Social Security agreement which provides that any provisions in relation to National Insurance contributions, in Great Britain shall have corresponding effect in the Isle of Man.

11. British and Isle of Man shipping companies, and crewing agencies, are subject to broadly the same regime for mariners' National Insurance contributions. If the mariner is ordinarily resident in the UK or the Isle or Man, *and* the employing company, or the person paying the wages is resident in or has a place of business in the Isle of Man, and the ship is registered in the Isle of Man, then primary and secondary Class 1 contributions are due in the Isle of Man. If the employing company, or the person

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paying the wages is not resident nor has a place of business in the Isle of Man, and the mariner works on a ship registered in the Isle of Man, then primary (employees') contributions only are due.

12. Contributions collected by Isle of Man DHSS in respect of mariners ordinarily resident in the UK will be posted to the mariners' contribution accounts held by DHSS.

Proposal from Isle of Man Government to Abolish Secondary National insurance Contributions

13. The Isle of Man government proposed in 1986 to eliminate the Secondary National Insurance contributions paid in respect of foreign going mariners employed on Isle of Man registered ships or by crewing agencies located on the island. We understand that the Isle of Man government has since decided not to pursue further their proposals.

Special Rates of Contributions Paid by Mariners and their Employers

Redundancy Fund Rebated Contributions

14. Certain mariners are excluded from the Redundancy Payments Scheme by the Redundancy Fund (Merchant Seamen Exclusion) Order 1973. In the past these mariners paid a reduced rate of contribution to reflect the fact that the standard rate of Class 1 contributions paid by other employees, and their employers, included the Employment Protection Allocation paid into the Redundancy Fund, which finances the Redundancy Payments Scheme, from which these mariners were excluded. In the light of the decision that no Employment Protection Allocation should be paid from Class 1 National Insurance contributions into the Redundancy Fund in 1988-89, it was decided that this special rate of National Insurance contributions paid by these mariners and their employers, should be abolished with effect from 6th April 1988. Employees' contribution rates have risen by 0.25 per cent and employers' contribution rates have risen by 0.15 per cent as a result.

Foreign-going Rebated Contribution

Home Trade and Foreign Going Vessels

15. Ships are divided into "home trade" and "foreign going" categories by the Contributions Regulations. "Home trade" ships include those that sail within the following limits: the UK, the Irish Republic, the Channel Islands, the Isle of Man, and the Continent of Europe between the River Elbe and Brest inclusive. "Foreign-going" ships sail outside these limits. Separate rules, based on latitude and longitude determine whether or not a fishing vessel is a "home trade" ship.

Special Rebated Contribution for Foreign Going Mariners

16. Employers' contributions are reduced by 0.5 per cent where a mariner is a master or crew member of a foreign going ship. Employers will therefore pay secondary contributions at a rate of 9.95 per cent of all earnings in 1988-89 in respect of all foreign going mariners earning more than £155 per week. This rebate reflects the fact that employers provide medical care to seamen whilst they are on board ship. It also reflects the fact that foreign going mariners, who are not entitled to Statutory Sick Pay, but are eligible for sickness benefit, can claim sickness benefit only when they return to the UK.

17. It is estimated that the rebate is worth about £1 million in lower NIC in 1988-89.

Differences between Personal Tax and National Insurance Contributions

18. Earnings are subject to two charges: income tax and employees' national insurance contributions (NICs). In addition employers' national insurance contributions are levied on earnings. Other types of income are subject to income tax, but they are not subject to NICs.

19. There are several differences between the two charges, which can be summarised as follows:

a. NICs are charged on earnings of all employees and the self-employed, with the exception of those over pensionable age. NICs are not charged on other types of income, whereas income tax is.

b. NICs are due in each pay period (a week or a month but for mariners the pay period can be extended to the voyage). Each pay period is assessed without regard to the previous earnings record. A person is only liable to pay tax when his total income for the tax year exceeds personal allowances, but NICs are paid on all earnings (subject to an annual maximum in all employments for employees' contributions) once the Lower Earnings Limit is passed.

c. NICs are deducted on a non cumulative basis; each pay period is treated separately. PAYE tax is calculated on a cumulative basis.

d. Entitlement to national insurance benefits depends upon the payment of the appropriate amount of contributions in each financial year.

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Liability of Residents and Non-residents for Tax and NIC

20. The Inland Revenue paper *Taxation of Seafarers and PAYE* describes the taxation of seafarers and the arrangements for collecting their income tax through the operation of PAYE. It will be clear that the rules for determining liability to pay tax and NIC differ in some respects. Non-resident seamen are only taxable on earnings for duties performed, or treated as performed in the United Kingdom; non-resident mariners who work on British registered ships can apply for a certificate of mariner's non liability from DHSS, and then neither he, nor the employer, is liable to pay National Insurance contributions.

Absences Overseas: Implications for Tax and NIC

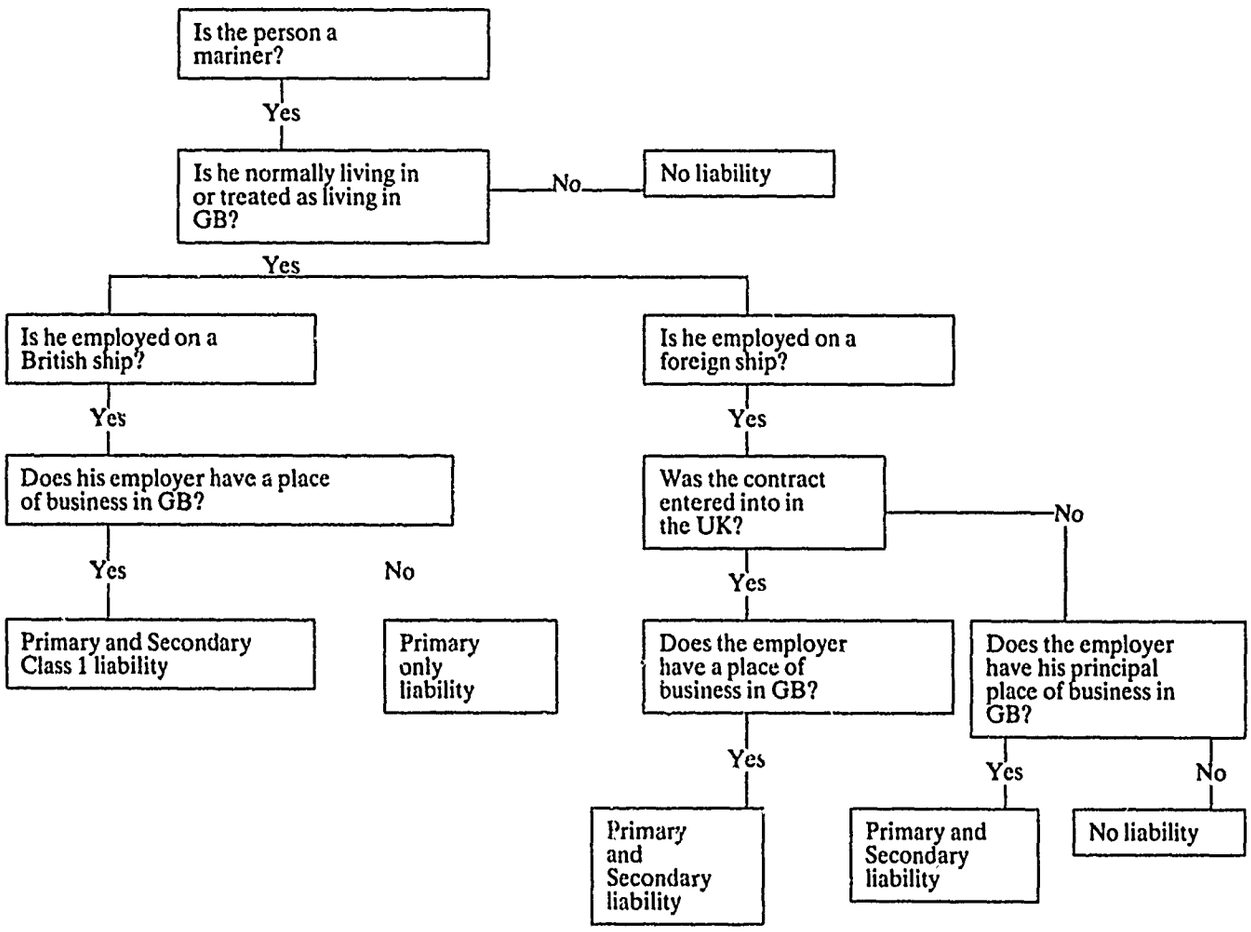
21. There is no NIC concession equivalent to the income tax relief that seafarers enjoy when they are abroad for more than 365 consecutive days. National Insurance contributions are payable for each earnings period, which may be extended, for mariners who are paid by the voyage, to the 'voyage period'. A mariner who is ordinarily resident in Great Britain and his employers will be liable to pay contributions for each earnings period that he is in employed earner's employment. This differs from tax because if the mariner did not pay contributions throughout the tax year, he might not be entitled to contributory benefits.

PAYE

22. In the past tax and national insurance contributions were deducted by shipping companies by PAYE schemes from the wages actually paid. The Income Tax (Employments) Regulations 1973 require employers to deduct tax and earnings-related contributions which the employee is *liable* to pay under Section 4(3) of the Social Security Act, and to pay over employers' contributions. The rules that determine mariners' liability to pay National Insurance contributions have been described in the first part of this paper. These rules are distinct from the obligation to administer PAYE schemes. The DHSS participated in the fact finding investigation of shipping companies to ascertain whether the new crewing arrangements (particularly flagging and crewing out) affect the *liability* to pay National Insurance contributions. Arrangements already exist for employees to pay National Insurance contributions directly to their DHSS local office, if the mariner who works on a British registered ship is resident in the UK, and the employer, or his paying agent, is not resident in the UK, and only primary contributions are due.

23. The DHSS is still investigating the question whether the operating shipping companies are "controlling" employers, and in what circumstances they might be liable to deduct primary NIC and pay secondary NIC.

FLOW CHART WHERE CONTRIBUTION LIABILITY IS IN QUESTION



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APPENDIX 3

Further Memorandum submitted by the Department of Transport

In his evidence on 23 February to the Committee, Lord Brabazon promised to provide details of the situation on tax and national insurance in relation to the French and Norwegian offshore shipping registers. Set out below is the available tax information on the French Kerguelen Islands register and the Norwegian International Shipping Registers, together with details of the main French and Norwegian registers for comparison. It should be noted that the Kerguelan Islands register is restricted to a maximum of 30 ships not in the liner or petroleum sector and only French ships which satisfy the ownership requirements for the main French register may be registered in the Kerguelen Islands.

FRANCE: INCOME TAX AND NATIONAL INSURANCE PROVISIONS FOR SEAMEN

ORDINARY REGISTER	KERGUELEN ISLANDS REGISTER
(i) *Income Tax* All employees pay between 0%. and 65%	As for Ordinary Register
(ii) *National Insurance* The same rates are payable as for all other employees but seafarers can retire on full pension at 55, as against 65 under the general social security scheme, or at 50 or 52½ on a reduced pension. For the pension fund and sickness, invalidity and injury benefit fund the employer's costs are approximately 34% of salary and the employee's costs approximately 17% of salary.	For French seamen as for Ordinary Register. However French shipowners usually employ foreign seamen through a manning agency to which they pay a fixed sum to cover salaries and social security contributions. We have no specific details on the rates but they are thought to be lower than for the Ordinary Register.

NORWAY: INCOME TAX AND NATIONAL INSURANCE PROVISION FOR SEAMEN

ORDINARY REGISTER	NORWEGIAN INTERNATIONAL SHIP REGISTER (NIS)
(i) *Income Tax* All employees average 10-15% (maximum rate applicable to all seamen is 46%, according to the level of income).	(a) Norwegian employees and employees resident in Scandinavia (Norway, Sweden, Finland, Denmark and Iceland) — as for Ordinary Register. (b) Foreign employees resident outside Scandinavia — as for Ordinary Register, but in addition there is an extra tax free deduction of NOK 6000 (USD 950) per month. (c) Seamen resident in countries with which Norway has a taxation agreement may be fully exempt from Norwegian taxation.

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NORWAY: INCOME TAX AND NATIONAL INSURANCE PROVISION FOR SEAMEN *(cont)*

ORDINARY REGISTER	NORWEGIAN INTERNATIONAL SHIP REGISTER (NIS)
(ii) *National Insurance*	
(a) Scandinavian citizens, foreign nationals resident in Norway and Portuguese nationals resident in Portugal pay 4.8% (injury and sickness element) and 6.8% (pension element). In addition there is an employers contribution of between 4.1% and 17.3% for seamen resident in Norway or 17.3% for seamen resident outside Norway.	As for Ordinary Register
(b) Foreign nationals resident outside Norway — nil National Insurance contribution, but only partly covered under Norwegian national insurance. There is a flat-rate employers contribution in respect of such seamen of NOK 130/month.	

APPENDIX 4

Memorandum submitted by the Association of Board of Trade Marine Surveyors

The decline of the United Kingdom merchant fleet is of concern to members of the Association. One of the arguments put forward to support the reduction in Marine Directorate staff is the decline of the UK fleet. The Association does not agree with the claims by the General Council of British Shipping (GCBS) that Department costs are an unnecessary burden. The United Kingdom Government is obliged to make regulations to implement international coventions adopted by the International Maritime Organisation. The cost of complying with these regulations is necessary if the United Kingdom is to maintain the high standard of safety which the public and the law demands.

I regret that this Association has no new arguments to present which will assist in halting the decline in the size of the United Kingdom fleet. The Association's comments on relevant sections of the Interim Report are attached.

COMMENTS ON APPENDIX 1 OF THE INTERIM REPORT ON THE DECLINE OF THE UK REGISTERED FLEET, DATED 13 MAY 1987

Para 6(d) — UK Regulatory Standards

United Kingdom national regulatory standards implement the minimum standards adopted by the International Maritime Organisation (IMO). The limited areas where standards and practices exceed Convention standards are where the UK Government considers that public safety justifies this. The legislation emerging from the "HERALD OF FREE ENTERPRISE" inquiry is a topical example of this. The design of this ship, which met minimum international standard, was considered by the Court of Inquiry to be inadequate.

Para 18 — Duplication of Surveys

The Department of Transport has co-operated in accepting some survey work undertaken by classification societies on passenger ships. This Association is opposed to delegating this important safety responsbility to private enterprise because we believe it will result in a decline in standards.

Para 28(d) — Excessive National Requirements

The Department of Transport policy is to implement IMO Convention standards. Higher standards are only implemented when there is a clear need to safeguard the public, seafarers and the environment.

The cost difference between Department of Transport and classification society surveys is insignificant when compared with overall costs.

Para 69 — Secondhand Ships Flagging-In

The Department has issued Guidelines to Surveyors which have liberalised the procedures for accepting non-UK approved equipment. United Kingdom legislation requires UK approved safety equipment because this is a measurable standard of safety. British Industry is at a disadvantage if there

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is a wholesale acceptance of foreign equipment when foreign administrations refuse to accept UK approved equipment on their ships. There are a few reciprocal agreements for the approval of ships' safety equipment.

Para 70 — Duplication of Safety Surveys

Classification societies are not primarily engaged in the survey of safety equipment. Their primary responsibility is ship construction. Therefore, there is no duplication of safety equipment surveys. The UK permits 4 out of 5 annual surveys of cargo ships to be carried out by classification societies. This concession is of particular advantage to those ships which seldom call at UK ports.

Para 126 — Cost of Surveys and Delegation

The Association is of the opinion that the additional costs of the United Kingdom's implementation of IMO Conventions is a minor factor in the overall cost of a ship and justified if a high standard of safety is to be maintained. The Association opposes delegation of passenger ship surveys because the standards of classification society surveys are not uniform resulting in an overall decline in safety.

28 January 1988

APPENDIX 5

Further Memorandum submitted by NUMAST (National Union of Marine Aviation and Shipping Transport Officers)

Safety

1.1 Approximately 50% of NUMAST members are now serving in non-UK ships. This has widened our knowledge and experience of the international shipping industry. It is clear to us that despite the activities of IMO (International Maritime Organisation) and ILO (International Labour Organisation) the operating standards aboard ship are deteriorating in many repects. Employment conditions, including the overall social environment in which seafarers must live and work, are also under extreme pressure.

1.1.1. The blame for the deterioration in operating standards and in employment/social conditions of seafarers has been placed squarely on commercial pressures and the efforts by shipowners, and administrations to compete with the low cost operator.

1.1.2 The UK seafarers have suffered from this pressure. The evidence given by some UK shipowning companies including Sealink, P & O etc. confirms that such companies seek a more relaxed and flexible approach by the Department of Transport.

1.1.3 We maintain that much of the criticism directed towards the Department is ill-considered. While we recognise the frustrations felt by some shipowners we cannot agree that it is proper to expect the Department to vary its interpretation of the spirit and application of safety related Conventions when those interpretations have been based on thorough consideration of the issues involved.

1.2 It cannot be acceptable to seek to persaude the Department to delegate to Classification Societies all safety survey functions currently retained by the Department's own surveyors. If all administrations adopted this practice then administrations would have to rely totally upon the Classification Societies for advice on important safety issues debated and decided at IMO and other forums.

1.2.1. Classification Societies are in competition with each other. The proliferation of Societies in recent years has focussed attention on the ease with which owners can switch from one Classification Society to another; this in turn puts pressure on those Societies which seek to maintain the highest standards. The Chairman of Lloyds Register of Shipping has stated that Lloyds Register must compete on quality rather than cost.

1.2.2. It would be a backward step to delegate all work to the Classification Societies thereby denuding administrations of the experience and professional knowledge on which to base independent decisions and policies. The eventual outcome of this would be to place the international shipping industry in the hands of commerical organisations, which are themselves under the influence of their shipowner clients, in a position of dominance within IMO. (See also article by T. Macallister in Lloyds List, 12 December 1987.)

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1.2.3 It is of relevance to note that in an effort to improve its image and reputation, Liberia set up a Bureau of Maritime Affairs and employed its own surveyors. That effort was largely successful and is reflected in an improved safety record for ships on the Liberian register. It is the case that shipowners operating ships under Liberian flag are now seeking to persuade the Liberian authorities to revert to a system of safety surveys being conducted by Classification Societies. This is on grounds of cost.

1.3 There must be a point at which the desire to match the lowest cost operator must not be allowed to dilute well established practices involving the implementation and enforcement of Conventions and related Instruments.

1.3.1 It was alleged in a submission that DTp surveyors were sent all over the world on first class "freebies". In fact, on ships which have not been surveyed in the UK for four consecutive years a DTp surveyor is sent out on the fifth year to conduct a DTp survey, the previous four annual surveys having been delegated abroad. This is good practice, checking not only on the ship itself but ensuring that previous delegated surveys have been to the desired standard. The shipowner pays for the transportation and the method of transportation which is usually economy class and sometimes with little known air-carriers.

1.3.2 In recent years after considerable discussion, the DTp has accepted equipment which has gained the approval of reputable maritime administrations and at the time of those discussions we were led to believe that the shipowners were satisfied with the outcome.

1.3.3 It should be noted that on 26 December 1986, all 12 seafarers from the Gibraltar registered "Syneta" died from drowning when their SOLAS approved lifejackets failed to keep them afloat in an upright position. Those lifejackets had the approval of a Scandinavian administration. So far as we are aware lifejackets of this type are not in use on UK registered ships, however, this case does illustrate the dangers of unquestioning acceptance of essential equipment on the grounds that it has gained the approval of some other administration.

1.4 While we are supportive of the Department in some respects it is a matter for regret that the long established trust between the Department on the one hand and our members is in danger of breaking down. We believe this is due to the policies of the Department rather than any change in attitude on the part of staff of the Marine Directorate. The following factors illustrate the developing situation.

1.4.1. Deregulation — this policy is seen as transferring "the burden" from the shipowner to the seafarer. It is being achieved principally by amending the Crew Accommodation Regulations and Regulations governing the provision of food and water. In the case of Crew Accommodation Regulations it has been confirmed by the Minister that NUMAST and our members have displayed a most cooperative attitude in situations in which owners have felt obliged to seek exemptions from the Regulations due to practical problems incurred during construction or acquisition of a ship. The dilution of the statutory requirements is related to a desire to equate more closely with ILO minimum standards. The basis for such standards was set 40 years ago with some revisions in the 1970s. It is difficult to accept that in a socially advanced country such as the UK seafarers should be expected to accept a deterioration in their living environment aboard ship.

1.4.2. Deregulation has not led to a reduction in the number and level of penalties against the master. In fact new offences and increased penalties were introduced prior to the tragic loss of "Herald of Free Enterprise".

1.4.3. Surveyor General's Organisation — the present senior appointments are unbalanced in that they do not include a Deputy Surveyor General from the nautical discipline. This serious omission comes at a time when the Merchant Shipping Bill is seeking to place duty on masters for "good management" and "safety of operation of the ship" in addition to additional responsibilities and increased penalties for yet more offences. Without specialised nautical knowledge allied to command experience at a senior level within the Department how can NUMAST and our members have confidence in the logic behind those particular clauses in the Bill? How can we have confidence in the interpretation and implementation of the legislation once enacted? Evidence given during the Formal Investigation into the "Herald of Free Enterprise" disaster revealed that this absence of nautical knowledge at an appropriate level within shore management was a very serious omission on the part of the ship operators. The DTp is now drafting regulations to ensure that in the case of companies operating passenger ships a person of appropriate experience occupies a responsible position within shore management yet we are deeply concerned at the imbalance within the Surveyor General's Organisation.

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1.4.4 Fatigue — in 1979 the Department commenced consultations prior to the hoped for introduction of regulations governing hours of work of watchkeeping personnel. In 1982 the Department confirmed the existence of an "indisputable case" for such regulations and prepared a further draft. Yet in 1988 we are still awaiting progress in this matter.

1.4.5 The Department has generally been viewed by our members as supportive of seafarers. It has been seen as a protection against the excesses of some owners, yet with the authority, experience and the will to ensure that seafarers have the training and competence to function in a shipboard environment. That perception is now under threat.

Employment

2.0 The inference was given by some witnesses that officers were content to accept reductions in employment conditions such as the removal of pension provisions and redundancy arrangements. This being allied to reductions in manning and in some cases the introduction of Third World junior officers and ratings following reflagging. It is true that such changes have been introduced but it would be quite wrong to assume that such changes are accepted willingly or are seen by officers as being anything other than a desperate attempt on their part to retain their jobs.

2.1 Rather than force seafarers to accept reductions in their conditions, generally allied to reflagging, it would make sense to introduce a special tax and National Insurance contribution regime for seafarers.

2.2 We are now experiencing a critical shortage of junior certificated officers. This is due to the virtual absence of a training programme in recent years and a sense of disillusionment and loss of morale which has prompted many young officers to leave the industry.

2.3 We welcome the proposals contained in the Merchant Shipping Bill for assistance in training costs but have noted the request made by the President of the General Council of British Shipping for assistance towards covering the cost difference between employing British junior officers and the low cost officers from the Third World.

MN Reserve

3.0 We continue to maintain that identification and retention of a UK flag core fleet would make the establishment of a Merchant Navy Reserve unnecessary.

3.1 The suggestion that UK owned but reflagged ships, manned by foreign nationals, could be brought back under direct UK control relies upon the existence of legal ownership. However it totally ignores the practicalities of such a situation. Foreign nationals cannot necessarily be coerced into taking a ship into an area in which hostilities have broken out.

Fiscal Provisions

4.0 While welcoming the financial assistance towards training and repatriation costs as proposed in the Merchant Shipping Bill, it must be recognised that the level of assistance is minimal and will do nothing to deter a UK shipowner from either reflagging away from the UK register or outright disposal of ships, usually by sale to foreign competitors.

4.1 It remains our view that the eventual demise of the UK-registered fleet can only be averted by identification of a UK core fleet and the introduction of a fiscal regime to stabilise the UK fleet at that point.

4.2 Retention of a core fleet depends upon a recognition of the fact that the UK industry is in competition with foreign operators who benefit from covert and overt assistance by way of subsidy or protection.

4.3 The survival of the UK flag fleet rests upon a Government with the will and determination to formulate and carry through a survival plan. No such policy exists at this time therefore the decline will continue.

January 1988

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APPENDIX 6

Further Memorandum submitted by the National Union of Seamen

Thank you for the opportunity to submit further evidence to the House of Commons Transport Committee.

Since our original submission in January, the decline in the UK-registered Merchant fleet (and corresponding job losses for our members) has continued.

In June 1986, the number of ships over 500 GRT on the UK mainland register was 672. In December 1987, according to the General Council of British Shipping, only 430 remain.

The case for urgent action, along the lines suggested in our original submission has become even more urgent. The new Merchant Shipping Bill is welcomed in so far as it acknowledges the decline of the industry, but the remedies proposed can only be described as cosmetic.

In terms of jobs, the past year has been a disaster for our members. Over 800 jobs have gone following Cunard's decision to replace NUS members in the "QE2" and "Countess" catering departments with cheap, non union labour. P & O have announced their intention to make some 400 NUS members redundant in Dover to meet the threat posed by the Channel Tunnel.

In the long term, the NUS would like the following measures implemented:

1. All shipping companies in receipt of investment incentives (such as the business expansion scheme) required to retain their vessels under the UK flag with full UK crews.

2. All government cargoes to be carried on UK flag vessels.

3. All MOD charters to be awarded to UK flag vessels.

4. Rigorous inspection of foreign vessels entering UK ports to ensure compliance with ILO standards.

5. Provide grants to improve coastal shipping facilities along the lines of Section 8 and Section 36 grants (which provide grants for rail sidings and island waterway freight facilities).

6. Provide tax incentives for scrapping older vessels and building new ships in UK shipyards and for use with UK crews.

7. Create a discretionary scrap only tax incentive, to reduce the suplus of old laid up shipping tonnage.

8. Ensure that our shipping policies are co-ordinated with policies to maintain an effective shipbuilding and ship repair industry.

9. Reserving all coastal shipping for UK ships or for ships from countries which allow the UK free access to their coastal shipping. This will apply to the offshore oil sector.

10. Taking powers to allow the Secretary of State to create a socially-owned short sea shipping company. If the Channel Tunnel threatens the viability of our ferry companies, these plans will be accelerated to ensure continued cross Channel choice.

In the short term, H.M. government could implement the following measures:

1. The provision of a 50% allowance to shipowners investing in new or second-hand tonnage. *On condition*, British seafarers are employed.

2. Income tax and social security relief to shipowners employing British crews.

3. "A Merchant Navy Reserve allowance" paid by the government to a ship owner employing ratings belonging to the proposed Merchant Navy Reserve.

23 December 1987

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APPENDIX 7

Memorandum submitted by the Association of Marine Electronics and Radio Colleges

1. FLAGGING-OUT

The increase in flagging-out is to be deplored, arising as it does from financial pressure to meet the regulations imposed on ship owners operating from within the UK. Standards of safety should not be compromised in this way and there are examples, such as that reported in the Telegraph in January, which highlighted the problems of a British crew taking over a ship which had been originally manned by Korean officers and which was expected to operate with insufficient staffing. Everyone in the industry is concerned that by flagging-out, safety standards will be compromised.

2. PROTECTIONISM

The present Governent policy which requires commercial organisations to completely pay their way without any assistance or subsidy from the Government is hardly appropriate to the merchant fleet for two main reasons:

(i) shipping companies do not operate within a closed market limited to the UK. They do in fact face extremely unfair competition from companies of other countries whose Governments are prepared to subsidise the shipping operations and are therefore able to undercut those prices set by UK companies. It becomes unrealistic to talk about efficiency in these circumstances. There are examples of British manufacturing companies entering into contracts with overseas countries and where the terms of that contract require the British manufactured goods to be carried in the ships of the contracting country. We need to match our level of co-ordination between our trade and our shipping interests and without some form of support there is simply no way we can hope to match the other countries' activities.

(ii) whether or not we regard ourselves as a maritime nation, the fact remains that we are an island nation. Shipping is the only economic or practical method of importing or exporting heavy goods and bulk material. If our ships are allowed to reduce in number to the point where we are unable to move these goods using our own fleet, then in peace-time we have no bargaining power over shipping costs whilst, in the times of conflict, we have insufficient support for the Royal Navy.

3. COMPETITIVENESS OF FLEET AND PORTS

The handicap suffered by the United Kingdom fleet in relation to other fleets, receiving the assistance of their Governments, is discussed above. Plainly there is a knock-on effect on UK ports as the number of UK ships declines, which will not be completely counter-balanced by trade via foreign vessels negotiating alternative arrangements with continental ports.

4. CABOTAGE

Cabotage is in fact protectionism in a more limited form. This is the system under which some countries, but not the UK, reserve their coastal trade to ships of their own flag. There have been moves by some countries within the EEC to oppose the proposals to abolish cabotage. Regarding the present rate of decline of the UK fleet, any delay in changing the practice, even within the EEC, is not acceptable. Discussions currently taking place within the EEC are protracted and delays are being experienced which are affecting our own fleet and which are continuing the practice of unfair competition. It is felt within the industry that the time has come for the British Government to impose some retaliatory measures. Such measures must be taken during all such current and future negotiations to lend impetus to these proceedings. After all, the attitude of the other countries concerned must be contrasted by their lack of enthusiasm for changing the current arrangements.

5. EFFECTS OF THE DECLINE

Clearly, the confidence of trainees and existing personnel is being affected, not only by the decline in the UK fleet, but even more by the apparent lack of concern shown by the Government. It is difficult to predict the response to any upturn if this should come but it seems likely it would be much slower in terms of personnel than in the rate at which personnel are currently leaving the sea. Once members of staff are established in shore-side occupations, it is unlikely that they will trust the maritime industry again until it has clearly settled down. There is obviously a delay in gearing navigation and engineering cadet schemes due to the loss of colleges. Because of the decline in training need, there has been considerable contraction in the provision of training places within the UK. Since these training places often require considerable financing in terms of equipment and other resources, it is unlikely that once lost these resources can be provided on a suitable level in the future. This loss also represents a loss to our export industry, since this country was once renowned for its quality of training for the maritime service.

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The average age of sea-going personnel has now shifted markedly upwards with fewer appointments of new trainees. This shifted the balance considerably in reducing the normal influx of up-to-date knowledge and expertise gained from trainees passing through the maritime centres.

Finally, the closure of courses and colleges is deemed to be a process difficult to reverse if the need should arise. Apart from being inherently slower, the re-introduction of courses would face the handicap of purchase and update of expensive equipment in an unsympathetic financial climate. It is already apparent that colleges are receiving far fewer applications for courses covering maintenance and operation of complex equipment, significantly increasing the probability of human error and compromising safety at sea.

The general contraction and disappearance of marine education departments is resulting also in the loss of well qualified and experienced staff. These academic staff have generally not been replaced by others with recent sea experience.

The Marine Radio Electronics Officer has traditionally completed his sea-going career relatively early in his working life. These people have formed a pool of highly trained, experienced radiocommunications engineers, and their high degree of responsibility and experience of maintaining and operating complex systems, has been of immense benefit to shore-based industries. Government organisations such as GCHQ and FCO are already beginning to feel the effects of the diminishing numbers with marine communications expertise.

6. TOURISM

Whilst it is true to say that there has been an increase in certain types of vessel in the passenger fleet, mainly car ferries, this type of increase is not in keeping with the general increase taking place internationally. Some larger nations are now developing a cruise liner business which is an additional support for any country's maritime activities. Although the passenger trade is unlikely to compensate for lost trade in cargo vessels, it is felt that some support and encouragement from Government would help to see a development in the tourist side of the industry. In the past, companies such as P & O Orient Lines maintained the passenger side of their fleet for prestige and for profit, and one feels that this should be encouraged.

26 February 1987

APPENDIX 8

Memorandum submitted by South Tyneside College

1. This submission is made by one of the four major centres for advanced marine education in England designed by the National Advisory Body for Public Sector Higher Education (NAB) in 1984. Scotland and Wales possess, respectively, one such advanced College. This College was established as the Marine School of South Shields in 1861, and continued as an independent institution until 1951 when it was taken over by the Local Authority to become South Shields Marine & Technical College; its range of work then expanded encompassing subjects taught in a normal Technical College. The name of the College was changed in 1984 to South Tyneside College when it merged with Hebburn Technical College.

2. Over the past few years the College has become increasingly concerned at the decline in size of the British merchant fleet and the consequent decrease of recruitment of cadet deck and engineer officers into the merchant service.

3. The effect of this decline on College enrolments is as follows.

(a) In 1985-86 approximately 45% of the student hours taught were concerned with maritime education and related studies (e.g. shipbuilding). In 1977-78, which was a peak year for recruitment into the Merchant Navy, the figure for South Shields Marine & Technical College was 63%.

(b) The figures below show the change in marine student enrolments for the deck and engineering disciplines.

	1977-78	1985-86
Senior Marine	1611	1599
Cadets	1220	265
Short Courses	815	2250

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4. As it takes eight to ten years to train a ship's officer to Master or Chief Engineer status the effect of the decline on senior marine course recruitment has yet to be fully felt. Furthermore the College has had an active marketing campaign to recruit students from 'third world' countries, particularly in Africa and the Indian sub-continent. At present approximately 40% of our senior marine/marine students are from overseas. Specialist short courses have been developed; several for the North Sea off-shore industries. The figures clearly indicate the serious decrease in cadet numbers and this will in future years have an effect on the numbers qualifying for the various DTp Certificates of Competency. The College supports the representations made by the industry and other marine organisations that there will be a shortage of ships officers in the 1990s. In spite of the decline in the fleet size the intake of cadets has to match the number of officers leaving the sea for various reasons.

5. The College has unique facilities for the education and training of Merchant Navey cadets and officers. These include the following.

Seamanship Centre
Training Vessel
Radar Station
Marine Plant Workshops, including a working Doxford marine engine.
Marine engineering control laboratories
Nocturnal Ships Bridge Simulator
Radar simulation facilities
Satellite communication system
Sea survival facilities
Planetarium and astronomical telescope
Full telecommunication facilities and navigation electronic equipment laboratories.

These resources will be increasingly under-utilised if means are not found to increase recruitment of marine cadets.

6. We maintain that the College is an important national asset in terms of marine training and it is feared that if the present decline in recruitment continues some of our specialist marine facilities could be lost. LEAs are under continual pressure to improve cost effectiveness, and although this is supported in principle, the consequent effect on marine resources could lead to a reduction in specialist marine provision which it might prove impossible to restore at some time in the future.

7. In addition to physical resources it is worthwhile considering the effect on teaching staff in Nautical Science and Marine Engineering. From 1977-78 to 1985-86, the full time staff in post in these disciplines has fallen from 140 to 103. This corresponds with the fall in student recruitment. However, the most serious aspect is the fact that the age profile of marine staff is increasing; less than 15% of the staff are now under the age of 40. As older staff retire they are not being replaced by younger lecturers with up to date practical marine experience. This at present causes problems with respect to staff development and in the long term it is doubtful if there will be adequate staff with appropriate industrial and teaching experience to fill senior positions. The recession in the Merchant Navy has resulted in a break in the pattern of normal lecturing staff recruitment and development.

8. The Secretary of State for Transport offered to the General Council of British Shipping on Wednesday, 10 December 1986, financial assistance to the shipping industry to train seafarers. We warmly welcome this initiative. However there are many possible channels of giving financial support but the nation should be interested in using the most economical method. Setting up a statutory training board and re-introducing a grant levy scheme topped up with direct funding from central government, while being effective, would be costly. We would suggest that the existing machinery available in further education should be adapted to solve the problem, with assurances to the shipping industry that such funding would be available for some time into the future. An active programme of recruitment of deck and engineering "trainees" should be followed by shipping companies with UK flag and flagged-out fleets. The "trainees" could be funded by the Manpower Services Commission during the first two years while studying for National Diplomas and by the Local Authorities on mandatory awards while studying for the Higher National Diplomas. The Machinery now exists to fully implement such arrangements and the savings for the industry would be of the order of 55% on the cost of traditional cadetships.

9. The greatest problem facing the industry is its inability to recruit school leavers into shipping as a career. The last five years have seen an industry portraying itself in the worst possible light. To attract capable young people into the Merchant Navy as a career, will require an initiative from central government to assist the industry repair its image and to provide funding for this purpose.

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Conclusion

10. The views of the College may be summarised as follows.

(i) Current levels of recruitment into the Merchant Navy will result in manpower shortages in the early 1990's.

(ii) The current levels of recruitment into the Merchant Navy will result in manpower shortages in marine related industries, i.e. ports, harbours, ship related businesses, etc. in the next decade.

(iii) Courses developed by marine colleges to meet the changing needs, e.g. Maritime Technology, will be wasted.

(iv) Marine College resources are being under-utilised at present and, indeed, could be lost.

(v) The recession is resulting in future manpower problems in relation to marine lecturing staff.

(vi) The recruitment situation will not improve until there is a nationally agreed system of financial support for new entrants (cadets) into the Merchant Navy.

April 1987

APPENDIX 9

Memorandum submitted by Dr I L Buxton*, Reader in Marine Transport, University of Newcastle upon Tyne

THE IMPORTANCE OF THE UNITED KINGDOM MARITIME INDUSTRIES

All who have investigated the subject are well aware of the steep decline in the UK registered fleet since 1975. But of course every other related maritime activity has been affected. Figure 1 illustrates the interdependence of these activities, all of which are represented in the north-east of England. This is an inverted pyramid which, for transport vessels, shows that all depend on world trade and the necessary fleet of ships. A similar dependence diagram could be drawn for the offshore or military maritime scene. Indeed it is significant that any nation wishing to *develop* a maritime capability *starts* with a fleet, and then builds up this sort of infrastructure, which takes a generation or more. It is fair to say that the whole is greater than the sum of parts. It is also fair to say that if there is a healthy balance between supply and demand, then the rest of the maritime industries are likely to be healthy too.

Since it is self-evident that an island nation must retain a maritime capability, it is important that the UK Government recognises this interdependence, and encourages the key element: shipping. The lead times in the marine industries are long: 2-3 years to build a ship, 3-4 years to build new port facilities, 5-7 years to train skilled personnel, over 20 years to build a balanced capability and age structure of skilled people. And cycle times are long too. Freight market cycles are 5-10 years. So survival in lean years requires building up both the fat in the boom years and also the will to continue in business, despite short term pressures — difficult in today's climate when long term considerations are brushed aside both by Government and by companies.

There is also a 'critical mass' in shipping (as in other industries associated with capital goods). Below a certain size, an organisation has no long term survivability, and has to eat the seedcorn. It cannot support for example a proper technical department (an overhead cost avoidable in the short term) or an adequate training or career structure. This applies particularly to flagged-out operators. Let me quote one example. In the 1960s, British Petroleum developed the inert gas system for making oil tankers safer. It had then a fleet of over 100 ships and a staff which could develop the system. The work they did initially for their own fleet was of immense benefit to the entire maritime world. The present slimmed-down flagged-out BP Shipping is in no position to undertake such a long term responsible task today. Small companies simply do not have the resources individually or the will collectively to support such research and development.

Yet we are moving into areas of much higher technology. The engineering input per unit of output is rising; witness the offshore industry with sophisticated support vessels. Cutbacks are everywhere; anything that does not provide an immediate pay-off is being sacrificed.

Certainly British shipping has been technically efficient compared with some of its competitors. Some of the latter have advantages of not having to cover all their costs (eg. state owned) or able to offload some of their costs, e.g. insurance premiums do not discriminate fully between good and bad operators; someone else will provide the search and rescue facilities or pollution clean-up in the event of a casualty.

* Now Professor Buxton

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For these sorts of reasons, plus the defence requirement, which others have emphasised, I believe that there is a threshold level below which the UK maritime industries should not be allowed to fall. That level is close to our present level, so that with current steep downward trend, action needs to be taken *now* to restore the situation, to show the maritime industries that the Government does believe in their long-term survival, and inspire confidence.

There is of course no single magic cure, and of the various means of assistance, not all are within a Government's control. The Committee will already have had many suggestions put to them. I would pick out three main themes for support.

First must be every means to expand world trade and restore the supply/demand balance in ships, e.g. by reducing tariff barriers, by accelerating scrapping and by discouraging elderly ships.

Second must be to expedite and reinforce the EEC Common Maritime Policy: internal liberalisation, e.g. cabotage relaxation, retaliation against unfair competition, even stronger action to eliminate unsafe ships — Port State Control has made an encouraging start, but needs to be more rigorous with stronger powers.

Third mechanisms are needed to tide UK shipping over prolonged slumps; which only those with bottomless purses could otherwise survive. This is not a new proposal. The Government in the slump of the 1930s recognised the national importance of shipping. In 1935 it introduced the Shipping Assistance Act. One of its provisions was a subsidy to tramp ship operators if the market fell below a certain threshold value, i.e. to carry owners through a severe trough but not provide a continuous subsidy. This support ensured that there were just enough British ships in WW2 to tip the Battle of the Atlantic in the Allies' favour.

Figure 2 shows just how close is the parallel between today's freight markets and the 1930s. The corresponding date to 1935 is 1987. The message is clear. Obviously any such support should be targeted on certain ship types, eg. those with defence potential, and high technology designs (in which the Efficient Ship project has an important role). It should also be conditional on, for example, operators taking on significant numbers of trainees, and operating wholly within a UK context.

What might such support cost? Depending on how support was determined, how many and which ships were supported, an approximate calculation suggests that about £100m a year would be needed, only of course as long as the market remained below the threshold level.

Finally a more concerted effort is by required by all Government departments and agencies concerned with maritime affairs to look at the overall picture from a *UK Ltd* point of view, not narrow departmental interests. They need to look ahead, to propose and evaluate alternative strategies, to avoid complacency and short-sightedness based on previous years figures (as opposed to the trend), to recognise that international industries face different and more difficult problems than more domestic ones.

The Committee's investigations are very timely and will sharpen everyone's awareness of the importance of the UK maritime industries; it is not too late to help them out of their present difficulties, although time is short.

18 March 1987

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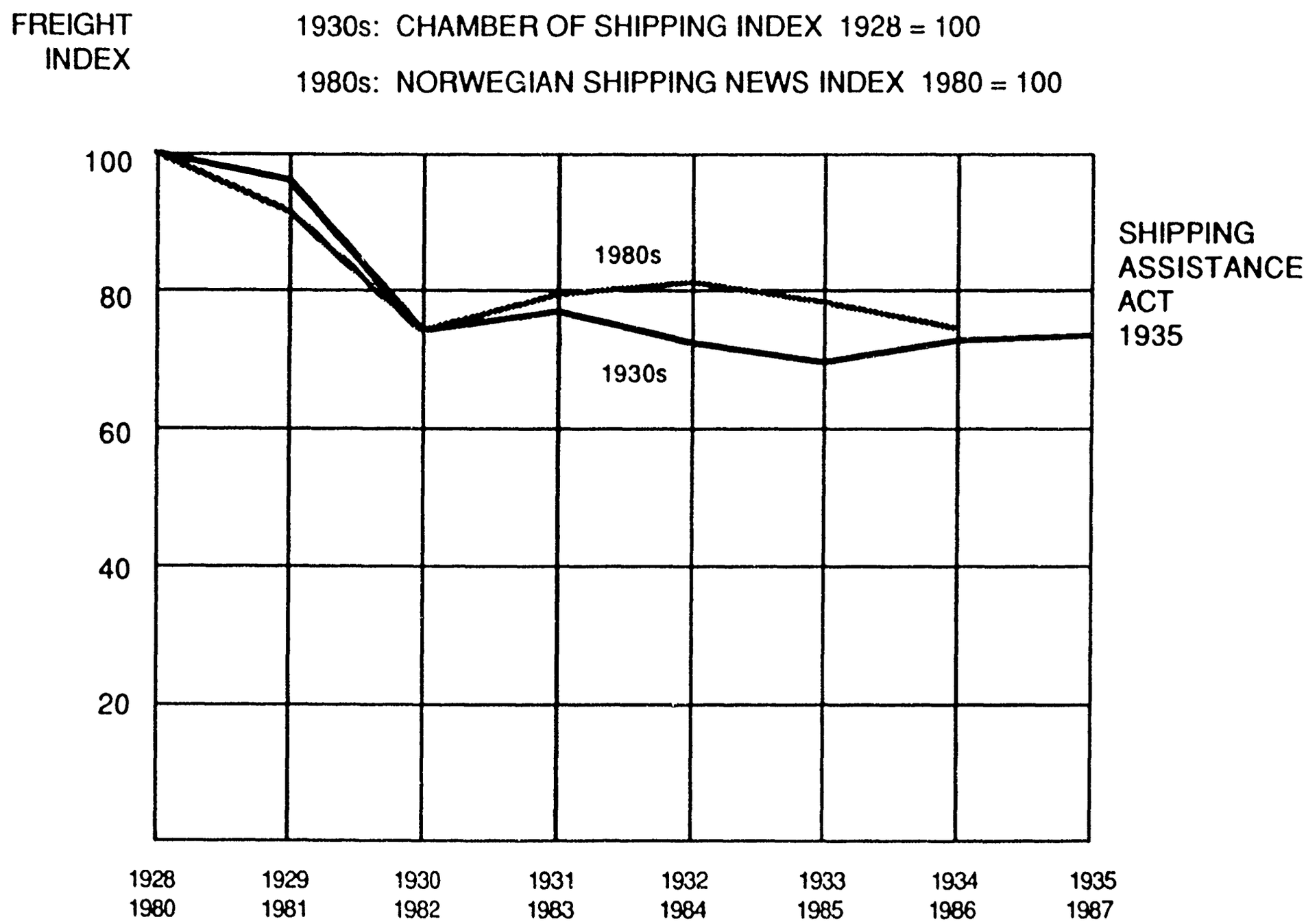

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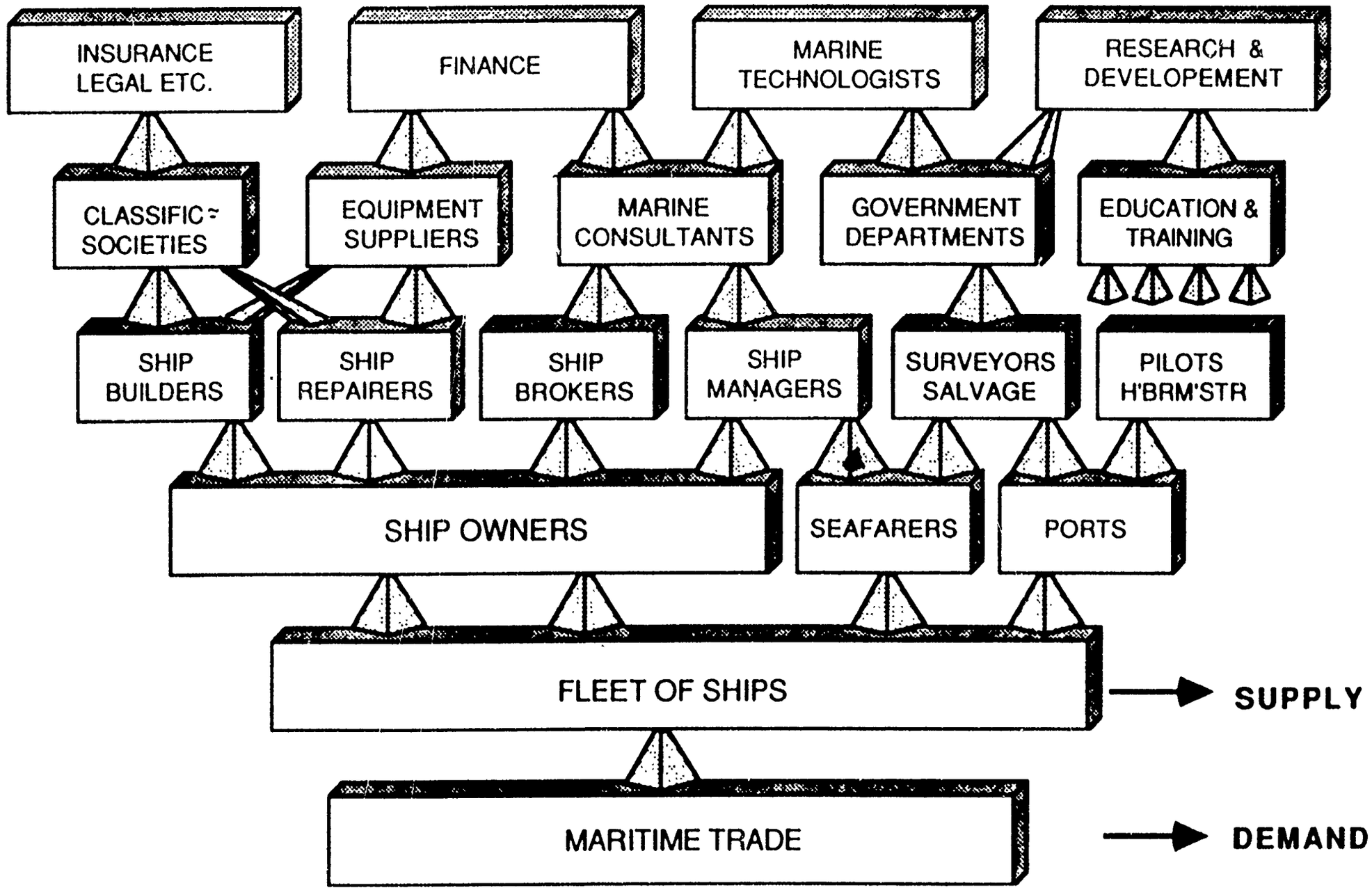

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OF MARITIME INDUSTRIES

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APPENDIX 10

Memorandum submitted by Professor Richard Goss MA PhD FNI Master Mariner, Department of Maritime Studies, University of Wales Institute of Science and Technology, Cardiff

I INTRODUCTION

The Committee wishes to enquire into the decline in the UK-registered merchant fleet and, in particular, into:

1 'flagging-out';

2 protectionism;

3 fiscal incentives in shipping;

4 the international competitiveness of the UK fleet and ports;

5 cabotage;

6 the consistency of the structure of British shipping and shippers with efficient British or European shipping policies;

7 the effects of the decline on those employed; and

8 the importance of tourism in the future demand for shipping.

(This is a paraphrase of the Committee's terms of reference but separates protectionism — eg flag discrimination — from fiscal matters because they are different in their nature, costs and effects.)

This memorandum will deal with only the first four of these and then not with ports, they being a different industry with problems of its own. Of the remainder, 5 is of minor importance to UK shipping as a whole, the meaning of 6 is unclear to me, 7 follows fairly obviously from earlier parts and 8 is of relevance only to ferry services, most of which are currently well-run and all the better for having been forced, by the Office of Fair Trading, to give up their cartels and adopt peak/off-peak pricing in a trade that was crying out for it. (Their labour relations, however, leave much to be desired.)

These and other topics could, however, be covered if the Committee wishes.

The Department of Maritime Studies in the University of Wales Institute of Science and Technology is well-placed to assist the Committee since it is Britain's only university department in the field and has a substantial record of teaching, research and published studies. We run under- and post-graduate interdisciplinary courses, diploma and short courses in the field, often for developing countries. We undertake the usual range of research, most of it applied and covering a wide range of maritime topics, far beyond any narrow conception of shipping as the centre of maritime activities. (Eg we include ports, fishing, coastal zone management and other marine resources.) The journal of *Maritime Policy and Management* is edited in the Department.

The Committee will doubtless receive voluminous memoranda from other bodies, and they will cover much of the factual ground in some detail. It is not the purpose of this memorandum to duplicate all this: rather, it is to concentrate on providing economic analysis leading to new bases for policies towards British and European shipping. Some of these ideas have been recently developed and have been, in earlier forms, circulated to the Minister of State for Shipping (the Earl of Caithness), officials in the Department of Transport, the President of the General Council of British Shipping and the trade unions concerned, besides others.

The general position is, in any case, quite clear. First, there has been a general and substantial decline in the UK-registered merchant fleet, both absolutely and as a proportion of the world fleet. At the same time, and especially since 1945, there has been a growth of the so-called flags of convenience (FOC) — Liberia, Panama and so on. More recently, there has been a growth of such far Eastern flags as the Republic of China and South Korea.

This has appeared in most ship types but especially in tankers and in bulk carriers. Although British owners used to deplore the existence of these flags they have recently started transferring their ships to them — 'flagging-out'. The causes of this are not as simple as the omnibus term 'crew costs' would imply and will be examined below. Similarly, it is not sufficient to assert that FOC fleets pay no taxes and the fiscal treatment of shipping will also be examined below, particularly in the light of the reforms embodied in the Finance Act of 1984.

Secondly, there have been several prolonged slumps in shipping freight rates, relative to costs; and consequently in the levels of profitability. There has been some misunderstanding about their nature

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and causes; sometimes they have been portrayed as if they were universal, ignoring the evidence of continued technological development in shipping and therefore, of continued opportunities for making money and providing employment.

The Committee will rapidly become aware, if it is not already, that there is a well-established body of shipping policies in this country. largely devised between officials in the Department of Transport and the General Council of British Shipping. It is bi-partisan — except that, under Labour governments there is a somewhat greater tendency to consult the trade unions as well. Many of the people concerned are very experienced; their expertise is highly regarded throughout the world, even by those who disagree with their ideas. These policies have, however, been largely developed in a purely shipping context, ie in isolation from other trade and economic policies; and this memorandum contends that this isolation has led to important inconsistencies leading, at least in part, to the decline of the UK-registered fleet.

The overall tenor of the following arguments is, first, that the analysis of economic effects and policies in shipping requires more care and depth than they have generally received hitherto; and, secondly, that a substantial part of the decline in the UK-registered fleet comes from government policies which have placed unreasonable burdens on the industry.

II PREVIOUS STUDIES

The Committee will know that there have been three earlier studies of this subject. This first, Dr Sturmey's book *British Shipping and World Competition*[1], is largely historical. The second was a more descriptive and policy-oriented Report by an official Committee of Enquiry.[2]

Both examined the (then) standard contentions of the spokesmen for the British shipping industry, namely that the decline of British shipping was caused by unfair competition from foreigners, mainly by flag discrimination but also by way of FOC fleets and subsidies and exacerbated by British taxes on profits. Both found that the quantitative effects of flag discrimination — the proportion of world seaborne trade affected by it — were modest, leaving plenty of other trade in which to engage. With the aid of detailed studies of British and other corporate taxation regimes the second concluded that British shipping ought not to suffer any disadvantages; and, when it came to the point, no one really pretended that subsidies could be a significant factor since they were paid mainly to high-cost fleets such as those of the USA and then only so as to equalise their costs with ours. They also imposed various bureaucratic procedures and rigidity on the recipients.

None of these factors seemed to have limited the growth of certain other fleets, eg that of Norway, and some were inconsistent with each other. For example, if flag discrimination constrains British shipping, why does it not limit the growth of FOC fleets? Why are they not equally hit by subsidies? If flag discrimination hits British cargo liners, why not expand the fleet into other ship types, like tankers and bulk carriers. (Some British shipping companies did this, but rarely with success; they seem to have underestimated the management learning effort required, eg in getting the ship selection and timing right.)

This left Dr Sturmey, for one, concluding that the reasons for the decline of British shipping lay in its own backyard. It lay, he thought, in such internal factors as the neglect of tankers when they were profitable; in persisting with steam propulsion when diesel was becoming better; in a general failure to build ships that were as fast and as big as their competitors; in the failure to use standard designs (he may have meant series production, a distinct concept which leads to much greater economies); in continuing to build in British yards when others were more efficient; and in continuing to blame others for its misfortunes.[3] This was doubtless exacerbated by a failure (at that time) to make use of the highly favourable shipbuilding loans which were then becoming available through export credit and similar schemes. Sometimes, too, there had been excessive nepotism and complacency, the latter appearing particularly in speeches made by spokesmen for the industry.

A subsequent essay, vividly entitled 'Blood on the Thames'[4] records some of the vituperation Sturmey received. One writer told him that, although he had not read the book, he felt that it ought never to have been written; many others joined in attacking him and on a variety of grounds. Yet the industry never published any well-considered response.

One can well understand the attacks, for each of his criticisms amounted to an accusation of bad

1. Athlone Press, 1962
2. *Report of the Committee of Inquiry into Shipping*, (The Rochdale Report), Cmnd 4337, HMSO, 1970
3. This passage summarises pp 400-401 of Sturmey, *op cit*
4. The text, largely composed afterwards *(sic)* of talk given to the Honourable Company of Master Mariners on 13 March 1963 and published in S G Sturmey: *Shipping Economics: Collected Papers*, Macmillan, 1975

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judgement or management and likely, therefore, to be resented by those accused. The absence of any serious response might be taken as confirming another of Dr Sturmey's comments, namely that the British shipping industry lacked any strategic machinery for collecting, analysing and making available information for the acceptance of its persistent complaints. In fact, as I know very well from several years' experience in the Civil Service, it persistently underestimated the quality of its audience, both in the public and among the policy-makers in government. (To this day, it is often embarrassing to try to explain some of the more naive statements to UWIST students.)

The Rochdale Report was couched in terms so understated that, misunderstanding, *The Times* which the industry would hardly have accepted. Nevertheless, though expressed quite differently, the Rochdale Report came to much the same conclusions as Dr Sturmey. In respect of flag discrimination, for example, (which the industry had represented as one of its most serious and intractable problems)[6] they concluded that:

> "only a small proportion of seaborne trade is affected by it at present . . . (and) we do not consider that its total impact on British shipping has, so far, been particularly serious".[7]

They also went on to say that it had had serious effects on particular trades and was a danger for the future.

They also went on to make a large number of recommendations, most of which have been quietly watered down or allowed to gather dust. Nevertheless, though the Rochdale Report made few direct accusations of inefficient management, this — or some form of X-inefficiency — remains as the residual explanation.

Yet, it may be asked, is management so much more inefficient in British shipping than in other industries? Is the capacity of technical adaptation less and, if so, why? Is the extent of nepotism greater? Are industrial relations worse?

The third study 'Why the Ships Went'[8], was produced earlier this year by the British Maritime Charitable Foundation (BMCF). They (or the British Maritime League) will doubtless be giving evidence to you and their work can best be summarised as saying that they found that much of the UK-registered merchant fleet had gone because it was obsolete and replaced by more productive (ie fewer) ships, or because of high crew costs: but that the most common reason was a simple shortage of profits resulting from a world surplus of shipping and the resulting low freight rates.

They also studied 'flagging-out'[9] and found that:

> ". . . ships leaving British registry are not just changing their flag. Well over three quarters of them are being sold abroad and mainly to competitors not scrapyards."[10]

Whether 'flagging-out' or 'selling out' is the primary effect, there seems little doubt that there are important forces at work. It is doubtful whether a shipping slump, or series of slumps, can be the cause, since this does not explain the relative growth of FOC fleets, nor of those based in the Far East. The most important of these forces are examined in the sections that follows: others have been examined elsewhere, notably in 'Why the Ships Went'.

III 'FLAGGING-OUT'

a) *Free Trade in Shipping*

A major component of the bi-partisan shipping policies referred to above is that of 'free trade in shipping'. This is modified so as to lend support to shipping conferences (the cartels concerned with most liner services) but these are not directly relevant here. The doctrine, of successive British governments as of the recent EEC paper[11], is consistent with the theory of comparative advantage. Thus, given each nation's endowments, abilities and policies if we all specialise in those activities to which we are best suited, exchanging the resulting outputs of goods and services whenever it is advantageous to do so, we will all be better off. There has been much discussion of this theory since it was first developed and there is wide agreement amongst economists that there are few exceptions to it. Nor, as far as I know, are they relevant to shipping.

5. *The Times*, 7 May 1970, Leader
6. *Report*, para 148
7. *Ibid*, para 161
8. Ed R woolrych, pub Lloyds of London Press, 1986
9. *Flagging-Out or Selling Out*, BML Research Paper 22/9/84, August 1984
10. *Cit*, p10
11. EEC: *Progress Towards a Common Transport Policy: Maritime Transport*, Brussels, 1985

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I contend, however that these ideas are of general validity and that it is wrong to apply them, in a myopic fashion, to shipping alone.

Were this a world generally characterised by free trade then it would be easy to demonstrate that a deviation from free trade in respect of any given industry would generally tend to lessen economic welfare; and conversely, that the correction of such an error would improve matters. This may not be true for everyone, since the gains and losses are likely to be unevenly distributed, but it can be shown that those who gain could compensate those who lost, while still remaining better off themselves. The fact is, however, that we do not live in such a world and the EEC is itself highly protectionist. This is so in respect of most agricultural products, where the Common Agricultural Policy maintains support for European farmers which reduce imports of such competing goods as sugar-cane, butter and lamb, thus raising internal prices, benefitting EEC producers and harming both its own consumers and competing producers from outside. Such policies regularly (and predictably) lead to embarrassingly large surpluses which are difficult to disperse without undermining the original policy. In general, protection is also applied to manufacturers, in aid of whose producers tariff walls surround the EEC. If, for any particular product, these are overcome on a large scale they are often supplemented by import limitation agreements having much the same effect. (Textiles and Japanese cars are examples.) The exporters of such goods are often willing to agree to these schemes because their prices also rise and the increased profit per unit sold may well be sufficient to compensate them for the reduced volume. Consumers, however, continue to pay more and to have less choice.

If, however, we have an economy surrounded by a protectionist wall which is markedly uneven — in the sense that some industries are protected much more than others — then resources will be attracted into those industries which are protected and away from those which are not. (Of course, if the protected industries were declining anyway then this would tend to be slowed, stopped or reversed so that they would still attract or retain more resources than without the protection.)

If, therefore, we are to have substantial levels of protection for many industries then it is desirable to consider any particular industry in the light of this and not in isolation. To be specific, one of the many reasons why European shipping is contracting and suffering is that European farmers may expand and benefit.

Shipping is an industry which, of necessity, operates internationally, selling its services in many countries and, correspondingly, buying such factors of production as insurance, fuel and the ships themselves on a world market. For most traditional flags, such as those of Britain and other traditional maritime countries, trade unions, custom and common language needs, if not governments, have generally ensured that most of the crew usually have much the same nationality as the ship. Yet, in order to attract people to work in shipping for any length of time (ie in order to become trained and skilled) they must be provided with net advantages (including pay, leave, other fringe benefits and living conditions) broadly equivalent to those which they could obtain in the protected industries.

We thus have a position in which shipping employers will typically negotiate with seafarers' trade unions, claiming that low profits, essentially derived from low-wage competition from elsewhere, prevent them from increasing their own wage rates. The trade unions will probably be seeking increases in their members' pay etc consistent with the rewards obtainable elsewhere in their homelands. In such circumstances, both parties are right and the conflict between them, arising essentially from the inconsistency of government policies, in applying different levels of protection to different industries, can be removed in only two ways: by modifying those inconsistencies; or by a large-scale decline of the unprotected industry.

Other countries, especially in the developing world, see the situation differently. They see their economic development, and especially their exports, limited by the protectionist policies of the developed world. They see that shipping is one of the relatively few industries to which entry is easy and in which protection currently extends to only modest proportions of output. Thus they may decide to enter it; often with the aid of flag discrimination, seeing this as balancing the protectionism that we apply not to shipping but to our agriculture and manufacturing. For developed countries like Britain then to lecture them on the evils of their ways, publicly or through diplomatic approaches — or to offer aid instead of trade — is worse than being patronising: it is analytically wrong; and from our point of view as well as theirs'.

In short, it may be argued that one powerful reason for the decline of the UK-registered merchant fleet is the inconsistency of the policies applied to it and to other sectors of the economies, both of Britain and the EEC. The obvious cure is to achieve greater consistency in those policies.

b) *Non-wage Crew Costs*

As shipping is an essentially international industry its prices, or freight and charter rates, are

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determined internationally. For much the same reasons, so are many of their costs. Thus, even though shipping is generally a capital-intensive activity, the levels of crew costs become significant if there are international differences. This is particularly so when profits are low, since the proportionate significance of crew costs is then greater.

There has, therefore, been much development in recent years of crewing agencies who specialise in the supply of cheap — they would say cost-efficient — crews, often from developing countries with large populations and modest accumulations of capital. It is not difficult to learn most of a sailor's skills, nor does it require much education or intelligence — as I learnt from my own seamanship instructors. Some education — literacy and numeracy — is needed for officers, including engineers, but the technical training can easily be acquired, often in the schools of developed countries. None of this is remarkable and, with higher education, I can observe from my own students that there is nothing they cannot learn as well as British ones.

Most of these crewing agencies — and many British ship operators — would add: "and they do it cheaper". Discussions of this subject often concentrate on the obvious subjects of wage rates (together with such fringe benefits as leave and other conditions of service) and productivity — for which manning scales are often used as a rather inferior proxy. There is, however, a third component, consisting of what are sometimes termed non-wage costs and which is usually ignored or not separately identified. This is why, I believe, it is seriously underestimated.

These non-wage costs are often considered to consist of the social security, pension scheme and other costs which are explicitly incurred by a British employer, whether in shipping or elsewhere. Certainly, these are substantial: but my contention is that the existence of international competition in shipping, and particularly that of the FOC fleets, effectively shifts on to the employer the burden of the deductions from the seamen's pay for similar purposes and also for income tax.[12]

Suppose a British sailor to have a nominal wage of £100; it is then demonstrable that he will cost his employer about £125 but will receive a take-home pay of some £77. An FOC employer, who may care little for any such schemes may then pay (say) £85, with the extra £8 going to compensate for the absence of a pension scheme. The British employer thus has wage costs almost 50% higher; moreover, since he will have to pay all this out in cash he will certainly regard it as part of his operating costs: yet, in economic terms, most of it represents transfer payments, ie payments not willingly made for specific goods or services received in return.

In other words, a large and important crew cost advantage may go to the FOC operator and it is related to transfer payments, not true economic costs. It is, therefore, hardly surprising that the ingenious British ship operator follows suit, often transferring the registry of his ships abroad or using an off-shore crewing agency which may re-employ the same British seamen at much lower cost, partly because they need not experience deductions for social security nor, if they time their own visits to Britain appropriately and have no home here, income tax. Often, the expensive fringe benefits are abolished and they are expected to make their own pension arrangements.[13] Numbers of brokers have sprung up to help him in this and their advertisements may be found in the appropriate journals.

The Committee will wish to consider if anything might be done about this. As noted above, employers increasingly avoid these costs; it follows that to relieve shipping of those burdens need not significantly alter the public sector borrowing requirement. Arrangements could thus be made for relief of social security and income tax for British-resident seafarers working for British shipping companies with only insignificant repercussions on the aggregate balances of central government revenue and spending. There might also be some economies in administration, which is currently quite remarkably complex and expensive to administer.

There is no real difficulty in making special arrangements to overcome such problems; many OECD member countries already do so in respect of personal income tax or social security deductions. On grounds quite different from those argued above and to minimal extents, the UK has done so for both of these, so precedents exist.[14]

It will be appreciated that this point is separate from and additional to the previous point concerning the inconsistency in applying free trade policies to some industries whilst protecting others. Since this

12. The subject has been explored more fully in: 'Social Cost, Transfer Payments and International Competition in Shipping', *Maritime Policy and Management*, Vol 12 No. 2, pp 135-143
13. With commendable frankness, much of this has been described publicly, eg in *British Shipping Review*, 1985, pp 7-8. For a specific example, see *Lloyds List* for 10 January 1986
14. *Maritime Transport, 1984*, OECD, Paris, gives a curiously bureaucratic view of the taxation arrangements for shipping in most OECD member countries — all description and no analysis or conclusions. However, right at the end of the relevant chapter (pp 143-144) there is a brief section on the differences between the tax and social security treatment of seamen and other working citizens. The contrast between this and the 43 pages devoted to corporate taxation provides a fine example of the bias which often appears in discussions of international competition in shipping.

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point concerns non-wage labour costs (for which there is a significant literature concerned with other industries), it is important to discuss it separately from the issues of wage rates and productivity levels. Unfortunately, regular wage, earnings and productivity statistics are all deplorably absent for British shipping.

IV PROTECTIONISM

Protectionism in shipping generally takes two forms: flag discrimination and subsidies.

a) *Flag Discrimination*

Apart from a few well-publicised exceptions where Britain was unlikely to be able to compete anyway, there is little flag discrimination in the carriage of oil or such dry bulk cargoes as ore, coal and potash. However, even in the liner trades it probably does not amount to more than 15% of world trade; the main reason is that most of these cargoes are traded between developed countries who practise flag discrimination but little and in most instances not at all. Further calculations may be put to you by the expert economists of the Department of Transport.

There is, it is true, much talk of trade being divided 40-40-20 between the importing and exporting countries, and with the last figure being left for the third flags acting as cross-traders. A large proportion of the gross earnings of British shipping stem from cross-trading but much of this comes from calls made by British ships in the course of voyages to and from the UK. For example, a ship sailing from New Zealand to the UK via Panama may well carry cargo from New Zealand to Panama; and this will appear in the statistics as cross-trading — ie as if similar to voyages mainly between two foreign countries — though it is really only incidental to a direct voyage which would have taken place anyway. Your Committee should beware of the problem being exaggerated by the inclusion of such figures in any presented to you.

It is also true that there is a very large number of statutes, measures and agreements in or between other countries providing for flag discrimination. Most of them are never exercised because the countries in question do not have the ships required. Many of these arrangements have been in force for many years without being implemented.

Overall, there can be no doubt that — except in specific instances — flag discrimination can have done little to diminish the British fleet, certainly by comparison with the effects of containers, which have so improved efficiency that many fewer ships are needed. (A ratio often quoted is 1 containership replacing 6 of what used to be regarded as a traditional design; though there are very few of these left in the UK-registered fleet today.)

Your Committee may enquire, if flag discrimination is as bad as the representatives of British shipping suggest, how did the FOC fleets come to expand so much — for it is certain that no one discriminates in their favour.

b) *Subsidies*

In the conventional sense of the term — the making of outright subventions on current or capital account — very few countries subsidise their shipping industries. The USA is a noteworthy exception, though to a diminishing extent. To the best of my knowledge, no nation with a substantial programme of shipping subsidies has found it a successful long term policy. It is possible that some system of franchising, with competitors bidding for what would otherwise be unprofitable services, might avoid the ossification of cost structures and the disincentives to efficiency that are likely to follow, but I am not aware of any instance where this has been tried.

It is often suggested that Communist fleets are subsidised, eg in having foreign exchange premia applied to their earnings, in not paying for insurance, or depreciation, or in having conscripts in their crews: but this is a controversial subject on which direct evidence is hard to come by. Such measures would, in any case, tend to be countered by the old-fashioned designs and over-manning of many of their ships, besides their occasional use for political or other purposes, as distinct from earning profits.

There is, however, a wider sense in which many state-owned shipping companies may be said to be subsidised: it is the acceptance of low or negative profits whilst still continuing to operate ships and even to invest in new ones. (The legal and accounting senses may be different but the economic effect, and that upon the taxpayer, is much the same.) Many South American companies are in this position, as is the Australian National Line, though it would be fair to add that few of them intended it. Neither did many British shipping companies who, with or without assistance from the state, have found themselves in much the same position.

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It is very doubtful whether subsidies, at least in their conventional sense, have had any significant effects on the size of the UK-registered fleet.

V THE FISCAL TREATMENT OF BRITISH SHIPPING

In order to consider and compare the fiscal treatment of an economic activity in different countries and at different times it is necessary to take into account such factors as the rate of tax and any allowances which may be set against it. Because these may well take effect at different times it is necessary to discount these to present values. Only then, and with appropriate assumptions on profitability and the rate of inflation can overall comparisons be made.[15] Though some of the formulations may appear complex the principles and applications are simple. For ease of presentation it is usual to express the present values per £1 million of investment in ships.

Such techniques are consistent with standard investment appraisal methods and are, by now, sufficiently well-known for them to be employed within many British and foreign shipping companies and their advisers, as well as within the Government Departments concerned. They have also been employed by EEC, OECD and certain foreign governments, often using UWIST staff as consultants.

Both before and after the Finance Act of 1984 there were three fiscal effects applied to shipping companies liable for taxation in Britain: the corporation tax itself, levied at a specific percentage on the whole of the company's taxable profits; and the tax allowances for depreciation and for the payment of interest. By using appropriate formulas, the present values of these may be calculated for any given rates of profit and inflation. The rate of profit is conventionally and conveniently expressed as an internal, or discounted cash flow, rate of return broadly equivalent to the 'yield to maturity' concept used when buying bonds. It is not equivalent to the accountancy concept of 'rate of return' on capital employed, nor could it be, since that is bound to vary over the ship's life as depreciation accumulates and book values decline. In the following calculations a ship's life of 20 years is assumed and I shall use the government's test discount rate of 5% per annum in real terms to produce our present values, pre-tax profit rates of 5%, 10%, 15% and 20%, all expressed in real terms, and inflation rates of zero and 5%. I shall also assume that the ship is financed on standard 'export credit' terms of 8% interest charged on the outstanding balance and with the loan repayable over 8 years. For our purposes, reasonable changes in such assumptions (such as the ship's life) generally produce insignificant effects; they can, in any case, be explored by sensitivity analysis if the Committee wishes.

Before the 1984 Finance Act[16] the fiscal regime for ships owned by British-resident companies was fairly simple. There was a 'depreciation' allowance of 100% in the first year of a ship's operation, interest was deductible and the remainder, if any, was subject to corporation tax at 52%. The first year allowance could, of course, be carried forward by way of tax losses, but it was obviously more valuable to use it as soon as possible and a number of arrangements were made in order to achieve this. All of these took advantage of the fact that the tax is levied on the company and not on the ship which, despite the existence of legal actions *in rem,* is not a legal person. They included company mergers, eg between property companies with good profits and small tax allowances and shipping companies in opposite circumstances; and leases by which the ownership of the vessel was taken by another company, eg a bank, which was able to take full and immediate advantage of the 100% allowance, the benefits of which were duly shared between the partners to the deal. Such arrangements were quite legal and highly respectable companies entered into them. They were sometimes termed 'tax-efficient', though the Treasury may have viewed them differently. So may the rest of us when we have to make up the lost revenue.

The 1984 Finance Act introduced a general series of reforms into corporate taxation, the general philosophy of which was that the Government no longer believed that favourable tax allowances stimulated overall investment; rather that, when combined with the tax-deductibility of interest payments, they would distort the pattern of company investment, eg by inducing investments which produced less advantage to the economy as a whole than to the company making them.

For shipping these changes involved the substitution of a 25% reducing balance depreciation allowance for the 100% first year allowance and reducing the rate of corporation tax (eventually) to 35%. The tax-deductibility of interest was continued but its value was reduced by the fall in the rate of corporation tax. Obviously, this series of changes has the effect of making companies better off at the higher rates of profit and worse off at the lower ones.

15. For an extended discussion of this subject in a maritime context, see B M Gardner, R O Goss and P B Marlow: 'Ship Finance and Fiscal Policy', a paper prepared for the Nautical Institute and published as a special issue of *Maritime Policy and Management,* Vol 11 No. 3, July-September 1984

16. For simplicity I omit such previous regimes as those involving investment grants, the transitional arrangements of the 1984 Budget, the complication of Advance Corporation Tax and some minor amendments to the post 1984 regime. I also assume that taxes are collected with an average lag of 1½ years and omit the technical amendments to the 1984 and subsequent Finance Acts allowing for some freedom in the transfer of depreciation allowances between companies in the same group. None of these affects the substance of the argument.

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This is demonstrated in Table 1 below. Part A of this presents the results of the calculations specified above at zero inflation and part B with 5% inflation. The left-hand side of each part shows the pre-1984 regime and the right-hand side the current one. The three lines represent respectively the present values of the tax allowances for depreciation and interest, which do not vary with profitability, and the present value of the corporation tax, which does. The columns represent the four different levels of pre-tax profitability specified above. In the 'total' line plus signs represent net fiscal incentives to invest and minus signs net fiscal disincentives.

TABLE 1

Present values of pre-and post-1984 budget UK tax regimes, by item and profitability, per £1 mn invested in a ship, discounting at 5% (£000's).

	Pre-1984 100% 1st Year Allowance 52% Tax Rate				Post-1984 25% Reducing Balance Allowance 35% Tax Rate			
	Rate of Return							
	5%	10%	15%	20%	5%	10%	15%	20%
Part A: Zero Inflation								
Item								
Deprec	+483.3	483.3	483.3	483.3	+270.8	270.8	270.8	270.8
Interest	+118.6	118.6	118.6	118.6	+ 79.8	79.8	79.8	79.8
Tax	−483.0	−707.1	−962.4	−1237.1	−325.1	−476.3	−647.8	−832.7
Total	+118.9	−105.8	−360.5	−635.2	+ 25.5	−125.7	−297.2	−482.1
Part B: 5% Inflation								
Item								
Deprec	+450.7	450.7	450.7	450.7	216.6	216.6	216.6	216.6
Interest	+ 96.1	96.1	96.1	96.1	64.7	64.7	64.7	64.7
Tax	−450.5	−660.9	−897.6	−1153.8	−303.2	−444.2	−604.2	−776.6
Total	+ 96.3	−114.1	−350.8	−607.0	− 21.9	−162.9	−322.9	−495.3

Note: Signs follow cash flow conventions
+ for incomings and
− for outgoings

The results are summarised in Table 2 below, which shows the differences between the old and new regimes for each of the 8 sets of circumstances considered in Table 1. It will be seen that the change has made investments in ships less attractive at the two lower rates of profit but more attractive at the higher ones. This, of course, is consistent with the Chancellor's announced intentions but anyone in shipping may well retort that it is a long time since they saw rates of return like 15% or 20% **in real terms.** The present Chancellor, in turn, might respond that he is trying to induce high-profit investments and not the reverse.

TABLE 2

Differences between present values of pre-and post-1984 UK tax regimes, by inflation rate and profitability (£000's)

Rate of Inflation	Tax System	Rate of Return 5%	10%	15%	20%
0%	Old	+118.9	−105.8	−360.5	−635.2
	New	+ 25.5	−125.7	−297.2	−482.1
	Difference	− 93.4	− 19.9	+ 63.3	+153.1
5%	Old	+ 96.3	−114.1	−350.8	−607.0
	New	− 21.9	−162.9	−322.9	−495.3
	Difference	−118.2	− 48.8	+ 27.9	+111.7

Source: Calculated from Table 1

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Apart from providing systematic and objective comparisons between the pre- and post-1984 fiscal regimes these tables also provide comparisons with the FOC situations. FOC ships pay modest tonnage dues initially and annually thereafter, so they are not strictly tax free. Moreover, FOC governments cannot be parties to agreements for the relief of double taxation, while the UK has an extensive network of them. Some governments attempt to tax ships calling at their ports, mainly liners. (FOC fleets are not mainly liners, though they have some.) Even, however, if these two points are ignored, Table 2 shows that, for the (at best) 5% rate of return obtained in shipping over the last few years, the UK fiscal system has provided a positive incentive to invest in ships before and after the 1984 Finance Act, except at 5% inflation, when the result is a small negative figure (0.002% of the £1 mn investment). At higher rates of profit, of course, there is always a fiscal burden, but the 1984 Act reduced this.

Had the analysis been extended back in time it would have been possible to show that the institution and loss of investment grants had much bigger effects; and that these did affect the size of the UK fleet.

Overall, therefore, comparisons with FOC fleets are only unfavourable to British shipping at rates of profit which, at least on average, have not been achieved in recent years. It follows that British shipping is unlikely to have been damaged by the status of FOC shipping in being free of corporate taxes. Indeed, the main problem for British shipping is not that too much of its cash flow has been mulcted by the Government: it is simply that it has been unable to make sufficient profits to survive. I suggest that this is likely to be largely because of the factors described in Section III above.

VI THE INTERNATIONAL COMPETITIVENESS OF THE FLEET

Various aspects of the UK fleet have been dealt with in other sections of this memorandum, particularly the preceding ones. Other witnesses will probably produce for you other arguments, some accompanied by figures; and you may well conclude, like those who have preceded you, that much ordinary statistical information on this industry is lacking. The Rochdale Committee said:[17]

> ". . . we have been surprised by the absence of statistical information in a number of areas of major significance and by the presentation of some existing information in forms which . . . fail to present the underlying data in the most useful form".

But some topics can only be dealt with in qualitative form, and amongst them is the factor of enterprise. If we have a private, profit-seeking industry serving international trade in largely free competition in a period of technological advance then enterprise, accompanied by business, technical and economic judgement of a high order is needed. Apart from speculating in ships (which, increasingly, seems to require selecting the right kinds of ships), it is hard to secure profits by doing the same things as other people, even if you try to do them better. This leaves the selection and development of new business, or new ways of carrying existing trades, as the main chances of making money.

In the immediate post-war years the frontier of technical development in shipping lay in using larger ships. Thus, D K Ludwig, Aristotle Onassis, Stavros Niarchos and Erling Naess sought to own the largest tankers or bulk carriers and searched the world for the shipyards capable of building them.[18] Subsequently, some owners took this too far and were caught by the oil crisis of 1973, which reduced both the absolute demand for tankers and their optimal size on most routes. In other trades the technical frontier lay in cargo-handling. Today we are familiar with containers; but the early steps were taken, by two American companies, with great courage and determination. Several British shipping companies have followed the example thus set and some of these (Overseas Containers Limited and Associated Container Transportation Limited, for example) have been very successful.

Equal progress has been made in the handling of other special goods which move regularly. Newsprint, pulp, wood-chips (for making chipboard), motor cars and exceptionally heavy lifts are amongst the well-known examples though there are many others. A remarkable array of specialised and technically ingenious ships have been developed to carry them, usually with their own cargo-handling gear. Apart from gas carriers and parcel tankers, very few of these have been British, though technologies and shipbuilding facilities were as readily available to British as to other nationalities. Where, your Committee may enquire, are the pure car carriers, the specialist newsprint carriers, the slurry carriers or the specialist (often semi-submersible) heavy lift ships on the UK register? Where have they ever been?

Such developments are important because their superior efficiency can offer the chance of getting business at lower freight rates (or better service in some other respect) whilst also providing attractive profits for the owners. They can easily be financed (thanks to the excess of shipbuilding credit in the world) and fixed on time-charters sufficiently long to provide security to both parties. In due course,

17. *The Rochdale Report*, p 394
18. See E Naess: *Autobiography of a Shipping Man*, Seatrade, 1977, especially Chapters 18 and 19, for a graphic description of just what this was like.

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still better ideas will appear and they will become obsolete (as is a large part of world laid-up tonnage).

Anyone could enter British shipping in the post-war years and could have built any of these ship types; the reasons why they did not may have appeared in earlier sections but the reasons why those firms already in the business did not do so, when they built so many other ships, are less clear. Generalisations are usually dangerous and there remain some fine companies like OCL and ACT amongst the big ones, and F T Everard amongst the smaller ones. But what happened to the spirit of enterprise in such old-established firms as Ellermans, in Furness Withy, in Bank Line,.in Harrisons?

Anecdotes can be dangerous too, but a few years ago I asked the Vancouver agent of one of these companies, a man with a lifetime of experience, why they had gone. He replied that the managers never came out to see the trade, so they never understood the ships it needed, and so they sent the wrong kinds of ships. They could not have made profits with such an attitude.

Thus, whilst I believe that the imposition of non-wage labour costs unknown to their principal competitors and the absurdity of the uneven levels of protection for different industries have been important, the quality of management has also been a major cause of the decline of British Shipping. The sustained tendency to blame others for all their difficulties is perhaps the clearest evidence of this.

October 1986

APPENDIX 11

Further Memorandum submitted by Professor Richard Goss

A MARITIME ENTERPRISE SCHEME

1. INTRODUCTION AND BACKGROUND*

For many years UK-registered shipping has been declining in the face of unprofitable markets and competition from other fleets. Many ships have been sold overseas, often to our competitors; others have remained in British ownership, but with re-registration under some more complaisant authority, usually with tax-free status for the ships' owners and operators, and sometimes for their crews.[1]

The decline of this important British industry has caused widespread concern and for a number of reasons.[2] With many industries such a decline may be associated with a change in the UK's comparative advantage (see Annex 1) so that free market competition would force them to go; and this may well be to the national advantage. This paper, however, argues that with shipping, the arguments are different. The economic basis for this concern with shipping is two-fold.

First, in the field of crew costs, British-resident companies employing British seamen find themselves paying a whole lot of extra costs which their competitors, eg those using flags of convenience (FOCs), do not suffer. These include social security, pension contributions, study and leave pay. Moreover, since FOC operators pay wages as 'gross remuneration' — ie without any deductions at all — and since seamen are themselves mobile and work for take-home pay, I believe that income tax on seamen's wages has also become a burden on British shipping employers; and so have their social security and pension contributions. Some of our European competitors attempt to make some allowance for these extra costs.[3] Britain does not, so the cash costs of having British crews on British ships are higher than those of our competitors; some of those within Europe as well as FOCs. This does not come primarily from trade union action: it comes from the actions of successive British governments. Studies[4] have shown that these costs, which economists call 'transfer payments', can easily amount to over 60% of the seamen's take-home pay.

Secondly, British shipping suffers by comparison with other British industries by being accorded no protection by customs tariffs or similar arrangements. Whilst most British manufacturing industries benefit from the EEC's Common External Tariff of about 10% *ad valorem,* shipping has no

* I am grateful to several friends and colleagues for improving earlier versions of this paper through their comments. I, of course, remain responsible for any remaining errors and omissions.

1. For details, see the BMCF report: *Why the ships went,* Lloyds of London Press, 1986, shortly to be revised by a supplement.
2. These are examined in the BMCF report: *The merchant fleet and Britain's economy,* BMCF, London, 1988.
3. OECD: *Maritime Transport 1984,* Ch V, P106 on "Treatment of seafarers" and pp 143-4 on replies from OECD members to the question "Whether seafarers were treated differently from other employees for tax purposes, social security contributions and other mandatory deductions from pay and . . . (the) special conditions attached to this treatment". Denmark, Norway, Sweden, Switzerland, Turkey and the UK replied "yes", but the last merely in respect of a minor adjustment for employment protection. Since 1984 there have been a number of well-known developments, including the establishment of offshore registers, eg in Norway.
4. R. O. Goss: "Social costs, transfer payments and international competition in shipping", *Maritime Policy and Management,* Vol 12 No. 2, 1985.

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equivalent. 10% may seem modest, but this is merely the nominal tariff. What matters is effective protection rate, ie the ratio of such a tariff to the industry's value added. Obviously, this is much higher — possibly several times higher, depending on the nature of the industry with which shipping is being compared. Studies have shown that for semi-manufactures the effective tariff rate of the EEC is about 39%; for manufactures it is 15-20%. There are also numerous non-tariff barriers to trade eg with Far Eastern cars and textiles; these have grown considerably in recent years. For agriculture, the levels of protection are best described as notorious; besides the EEC's Common Agricultural Policy providing support prices well above world levels they include de-rating, an absence of planning restrictions and relief from fuel taxes. The average effective rate of protection for agriculture in the EEC has been estimated to be as high as 158%.[5]

One of the effects of protecting industries like these is to raise money wages there. It therefore follows that the unprotected ones, like shipping, have to pay equivalent rates in order to attract people to work for them. Yet in shipping, many of our competitors suffer no such disadvantage.

Although much can be said for the advantages of free trade, applying that doctrine to some sectors whilst protecting others is likely to produce a lop-sided result. Protected industries will expand and unprotected ones will decline, and all for reasons having everything to do with government policies and nothing to do with comparative advantage.[6]

These two arguments may sound similar, but they are distinct and additive. They add up to a massive disadvantage in crew costs. They also demonstrate the fallacies in the — by now famous — passage in the evidence of the Department of Transport to the House of Commons Select Committee on Transport, that:

> ". . . any initial adverse economic effects on the shipping sector, resulting from the transfer of vessels away from the UK register, will be offset by economic adjustments elsewhere in the economy, which leave the overall level of employment and output largely unaffected. Indeed, the sale of loss-making vessels to overseas interests and the redeployment of resources into more profitable industries will . . . improve the overall performance of the economy. Any case for assistance to the shipping industry, therefore, must be strategic; it has no compelling economic base."

The validity of the statement depends mainly upon two assumptions, neither of which is made explicit in the DTp evidence. These are, first, that distortions of the kinds I have just described are insignificant and, secondly, that all British industries, including shipping, had the same level of protection. Neither assumption is true. Furthermore, the competitive position of shipping is unique since not only does it lack any effective protection but no other industry has the equivalent of FOCs. It follows that putting matters right would not create a precedent which other industries could pray in aid of their own claims for relief.

In terms of practical policies for shipping, however, it has always seemed difficult to specify measures which will show any reasonable prospect of reversing this trend without incurring great disadvantages. With subsidies, these include the possibilities of excessive and growing burdens on the taxpayers; with any form of limiting competition, eg by flag discrimination, they include reducing the incentives towards efficiency in shipping. In this context, many of us have watched with growing distaste the precedent of subsidising crew wages on American ships through their Operating Differential Subsidy; as also of high costs and various other forms of inefficiency where cabotage restrictions and flag discrimination have been applied.

Similarly, requests for greater tax allowances on new ships are regarded with scepticism because there are many companies which combine shipping with other activities, like property. Unless shipping were higly profitable, therefore, the effect of larger tax allowances would be to reduce the taxes paid on the profits of these other activities providing a form of cross-subsidy. (See Annex 2.) Moreover, no one has succeeded in demonstrating that such allowances have had any significant effect in expanding anyone's merchant fleet in the past. In other words, the evidence is that the principal effect of such ideas is merely to reduce tax revenue. It is hardly surprising, then, that they are not adopted. Again, the recent plea for 'roll-over relief' from the General Council of British Shipping had the disadvantage of being available only to companies already engaged in shipping: not to any newcomers.

In the sections which follow I therefore state an objective to be sought, together with sufficient constraints to enable the disadvantages which I have described to be avoided. I then present a means by which progress might be made. Although I have described these in a strictly British context it would be equally possible to consider them as a development in the shipping policies of the European Economic Community. There would be great advantages, as well as some difficulties, in extending it that far and I believe they are worth examining in some other context.

5. See reference (2) above, appendix B5 and sources cited therein.
6. This argument has been presented more fully in "Sense and shipping policy", *Maritime Policy and Management*, Vol 14 No. 2, 1987.

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2. OBJECT

The object of the suggestions which follow is to provide an opportunity for the revival of British shipping. This cannot be forced but may be done by placing it on the same operating cost bases as the more successful competitors — eg the flags of convenience — whilst still remaining British as at present, in every sense of the term.

3. CONSTRAINTS

To achieve this objective without damaging other British interests means that certain constraints will have to be adopted:

1. No flag discrimination or other forms of protectionism. *Hence* consistency with the theories of comparative advantage and free competition.

2. No subsidies or other forms of increased public expenditure.

3. Insignificant losses — at worst — of government revenue. *Hence* (with 2 above) no undermining of the government's revenue base and no significant effects on the Public Sector Borrowing Requirement (PSBR).

4. No 'leaks' of the benefits created under this policy either from Britain to other countries or from British shipping to other industries. *Hence,* no cross-subsidisation, and no erosion of the tax base or unexpected fiscal effects.

5. Freedom for enterprising businessmen to order and operate ships as they wish, subject only to existing rules. (There may be a case for simplifying these, eg with the rules for safety equipment on secondhand ships; but that is not part of this case.)

6. Maintenance of existing law on companies and merchant shipping. *Hence* no fall in standards of safety or financial probity. *Hence,* also, availability in a defence context.

7. No probability of inducing such an expansion of the world fleet of merchant ships as to upset their markets.

8. The availability of the scheme to people outside as well as inside shipping provides an advantage over tax relief on balancing charges, as sought by GCBS.

4. METHOD

A new, and brief, Companies Act will provide for *Maritime Enterprise Companies (MEC).* Broadly, this will provide a shipping equivalent to Enterprise Zones but without any specified location or area. An MEC will be in all respects subject to the existing Companies Acts, but have certain extra privileges and limitations. Subject to these, anyone could start such a company — though, equally, anyone could continue in shipping as at present. If the MEC were a subsidiary of an existing company then its parent would not have these privileges and limitations.

A Maritime Enterprise Company will operate under a special fiscal regime. This will include the following privileges:

1. It will not pay corporation tax. *Hence* the question and complexities of tax allowances will not arise; neither will questions of transferring them to parent or associated companies. To the extent that such companies take over existing shipping activities there will, therefore, be savings in the Inland Revenue as well as amongst their own staff. To the extent that our merchant fleet expands, there will be no need to employ more such people.

2. Whilst its shore-based employees will be treated normally, there will be no income tax on seamen's wages, including leave pay earned at sea; nor will there be social security payments by either party. To the extent that these people have other forms of income they will still be subject to tax. Again, therefore, administration will be simplified for all concerned and the number of tax inspectors in the Marine section at Cardiff will fall. For these purposes, and to prevent this privilege being exploited, seafaring employees will be distinguished from shore-based ones by their possessing the usual seafarers' documents and by having a commercial seagoing ship in full compliance with the normal statutory requirements as their usual place of work.

3. The high mobility of seamen will be reflected in the relaxation of any requirement that the seafaring employees of an MEC, as defined above, should belong to any pension scheme, statutory or otherwise, until they have been five years at sea. Since a large number of them serve less than this, there will be further savings in the administration of such schemes, as well as a significantly lower burden on the MECs.

In order to prevent these privileges (especially the absence of any liability for corporation tax) being extended to non-shipping activities the following limitations will apply.

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An MEC will have powers to engage in shipowning and ship operation but not in anything else. There is room for discussion on the precise meaning of these terms. My own preference is for simplicity; thus, I would exclude fishing vessels, oil rigs and all craft that do not go to sea. I would include fish factory ships and fish carriers, oil rig supply vessels, coasters and seagoing ferries. 'Ship operation' is intended to include the operation of chartered ships and the management of ships owned by someone else, whatever their nationality. An MEC could let ships out on lease or demise charter, but not so as to set the tax advantages from shipping against tax on some other activity, like banking. Thus, cross-subsidisation would be avoided. These constraints would be provided by the powers which appeared — or which did not appear — in its documents of incorporation. Specifically, it will not be allowed to:

1. Buy goods for resale.

2. Buy, sell, provide or rent any goods or services not directly connected with its business of shipowning or ship operation. Thus, it could buy ships' stores and fuel, and it could sell them if they were surplus, obsolete or worn out: but it would do so only within the ordinary course of a shipping business: not as a chandler.

3. Carry on, or offer to carry on, any business other than shipowning and ship operation.

One effect of these constraints will be to prevent an MEC from engaging in the port and landward parts of inter-modal transport. These could, however, still be done by other companies within the same organisation, eg if they were subsidiaries of the same parent. It will thus be possible to keep any economies of vertical integration that were of value. Any problems of transfer pricing could be dealt with just as they are, for international transactions like tanker chartering, today.

DISCUSSION AND CONCLUSIONS

Once the necessary legislation is passed no major difficulties need ensue from administering the scheme, since the incorporation of companies in a standard form will be merely a routine matter. It is unlikely that there would be any need for government inspection of activities, since each MEC will be incorporated as a company and the necessary contraints could appear in the legal documents which established it. Any actions outside these powers would therefore be *ultra vires*. If this seemed likely to be a danger then it could be prevented by strengthening the form of wording to be used by the auditors.

It may be argued that there will be losses to the Exchequer of corporation tax, income tax and social security payments. Actually, these are unlikely to be significant, and for two reasons.

First, it is very doubtful whether there have been any corporation tax payments in respect of shipping activities in the past few years, or — despite some current recovery in the market — that any will be made within the next few, either. It is much more likely that the separation of shipping from non-shipping activities which this scheme will encourage will reduce cross-subsidisation through the setting-off of tax allowances on ships against the profits on other activities. The result of this is that, whilst shipping will continue to pay no corporation tax, other activities will come to pay their proper share. Hence, it is rather more likely that the yield of corporation tax might rise, though probably not by much since conglomerate shipping companies could continue. (No one would have to run an MEC but conglomerates would need to balance corporation tax against seafarers' income taxes, pension and social security payments.)

Secondly, modern shipping is a capital-intensive activity, so that the expansion of the British merchant fleet under this scheme could involve only a modest increase in seafaring employment; hence, there could be, at most, only a modest loss of revenue from income tax and social security payments. However, it is likely that this scheme will attract many British seamen currently working on FOC ships to return. Given that they do not pay income tax or social security whilst working there (I hope no one believes that they are so naive), there would be no difference. Finally, given that some of the traditional areas of origin for British seafarers (Liverpool, the NE Coast, Clydeside, the Hebrides) are also those of high unemployment, the net effect may be an increase in employment and corresponding savings in public expenditure. Overall, therefore, the net effects on the PSBR might go either way: but they will certainly be small.

The liability of the Department of Health and Social Security for retirement pensions and other 'contribution-dependent' benefits will be reduced by the standard method: 'fewer contributions = lower benefit'. No ex-seafarer can be brought into poverty by this, since his number of years with missing contributions would be few, unless he spent more than the typical number of years at sea. If he did, then he would be well advised to make his own arrangements; it should be noted that a number of firms have sprung up in recent years to fill precisely this niche in the market; and such measures are, in any case, being encouraged and extended by the present government.

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ANNEX A (continued)

MEASURES TAKEN BY OTHER GOVERNMENTS TO SUPPORT THEIR SHIPPING INDUSTRIES (continued)

COUNTRY	HOME CREDIT SCHEME			SUBSIDIES	TAX-FREE RESERVE	OTHER	CABOTAGE	RECENT REPORTS	% CHANGE ±1976-1986 MILLION DWT (500 grt+) (5)
	% of Cost	Interest Rate %	Repayment Period Grace-Period In ( )						
U.S.A.				Construction Differentials Subsidy to enable US Shipyards to reduce prices to world levels. Operating Differentials Subsidy to cover the higher cost of US lines operating in certain trades. [j]	Capital Construction fund.	Guarantees available for 25 years for up to 75% of the cost of a vessel at a low fixed interest rate.	Total (3) (4)	Loan guarantee, construction and operating subsidies, tax allowances on investment and depreciation	+33

NOTES:

[a] Available for ships built in any EC Shipyard.

[b] Available only from Coastal States of Hamburg, Bremen, Niederschsen and Schleswig-Holstein.

[c] Available for ships built in foreign shipyards but to date only ships built in German Shipyards have received this subsidy.

[d] For containerships and LNG carriers.

[e] For other ships.

[f] In principle available for ships built in foreign shipyards.

[g] Various alternative interest rates and repayment periods are available giving the same overall benefit.

[h] Available under Special Circumstances.

[i] This is in the form of a guarantee.

[j] No new CDS or ODS contract has been entered into by the Reagan Administration.

(1) Includes certain voyages in which a leg involves a foreign port.

(2) Includes transport between ports of the overseas department.

(3) Excludes certain vessels under US flag not US built.

(4) Also operates cargo preference schemes.

(5) As a comparison, the UK fleet declined by 70% over this period

Source: Department of Transport
OECD Maritime Transport (1983)
Various Reports
UN Conference on Trade and Development (UNCTAD)

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ANNEX B

MAJOR BENEFICIAL OWNERSHIP* OF OPEN-REGISTRY FLEETS, 1987

Number of vessels and thousands of dwt (500+ grt)

Country or territory of registration / Country or territory of beneficial ownership	Liberia		Panama		Cyprus		Bahamas		Bermuda		TOTAL	
	Number	DWT	Number	DWT	Number	DWT	Number	DWT	Number	DWT	Number	DWT
Greece	187	14 024	377	8 333	709	20 161	38	2 637	—	—	1 311	45 155
United States of America	286	27 537	234	6 088	6	86	39	4 275	4	1 014	569	39 000
Japan	161	7 880	1 388	25 323	21	185	21	425	—	—	1 591	33 813
Hong Kong	304	19 227	377	7 853	12	874	2	122	1	55	696	28 131
Norway	220	11 015	103	3 581	8	50	44	1 763	10	265	385	16 674
Germany, Federal Republic of	102	3 432	121	2 132	196	1 751	5	13	3	12	427	7 340
United Kingdom	27	968	99	1 377	21	653	61	1 344	49	1 334	257	5 676
TOTAL**	1 576	98 923	3 879	71 086	1 228	27 522	396	15 723	90	3 128	7 169	216 382
Share in total open-registry fleets	22.0	45.7	54.1	32.9	17.1	12.7	5.5	7.3	1.3	1.4	100.0	100.0

Source: U.N. Conference on Trade and Development Review of Maritime Transport 1986. Beneficial ownership of open registry fleets: Report by the UNCTAD secretariat, 24 Nov. 1987, TD/B/C4/309.

* The Beneficial owner is the person, company or organisation which gains the pecuniary benefits from the shipping operations.

** Total includes ALL, not simply the Major, beneficial ownership.

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GLOSSARY

ARTICLES OF AGREEMENT: The statutory contract between shipowner and crew concerning their conditions of employment for a voyage or series of voyages.

BILATERALISM: A policy which requires that trade between two nations be carried in ships bearing the flag of one of the trading partners.

BULK CARRIER: A large single deck dry cargo vessel conventionally over 18,000 deadweight tons.

CABOTAGE: Coastal maritime transportation within one country restricted to vessels of the domestic registry.

CARGO LINERS: Vessels offering a regular service carrying freight.

CARGO RESERVATION: The policy by some Governments of carrying certain cargoes in domestic flag vessels.

CLASSIFICATION SOCIETIES: Societies providing for the survey and classification of ships to specified standards and according to their construction, place of build, machinery, etc.

CONFERENCE: Formal or informal organisation whereby a number of shipowners, often of different nationalities, acts collectively to establish a uniform service and freight rate structure on given routes.

CONTAINER SHIP: A vessel designed or adapted for the carriage of containers in cellular holds. A container is a standard size box which permits goods to be sent door to door without the contents being handled.

c.i.f. (Cost Insurance Freight): Term of sale by which the vendor is responsible for all expenses up to the port of import.

CROSS-TRADES: Business undertaken by ships of a nationality other than those of the countries at either end of the trading voyage.

CROWN DEPENDENCIES: The U.K. off-shore islands of the Isle of Man, Guernsey and Jersey.

DEADWEIGHT TONS (dwt): The maximum weight in long tons of cargo, fuel, water and stores which a ship is able to carry, measured by converting the difference between cubic feet displaced when fully loaded and when empty.

DEEP SEA: Long distance international maritime transport.

DEPENDENT TERRITORIES: Overseas dependencies of the United Kingdom. In terms of ship registration the most important of these are Bermuda, the Cayman Islands, Gibraltar and Hong Kong.

DRY CARGO: Non-liquid cargo. Usually cargoes that can be placed aboard a ship unpacked, eg agricultural grain or mineral ores.

FLAG OF CONVENIENCE: Those nations whose vessel registration regulations, tax structure, manning and maintenance requirements are not stringent.

FLAG OF REGISTRATION: Flag of the country in which the ship is registered.

FLAGGING-OUT: The term used for transferring the registry of ships from the country where the owner has his business to another country and different flag.

f.o.b. (Free on Board): Term of sale by which the vendor is responsible for all expenses to the port of shipment, including loading on to the vessel.

GROSS REGISTERED TONS (grt): A unit of measurement of a ship's size based on its cubic capacity. 100 cubic feet of permanently enclosed space equals one gross ton.

LINER: A ship with a periodical and regular schedule between given ports carrying the freight of many shippers on any one voyage.

MIDDLE TRADE: A term applied to the area outside Home Trade Limits between Bergen and Santander. (These terms no longer apply to trading areas).

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OPEN REGISTER: The register of a country which admits ships owned by nationals of any country onto its register.

P and I Clubs (Protection and Indemnity Clubs): Associations of shipowners which provide mutual protection against liabilities not covered by insurance, for example, damage to cargo.

PORT STATE CONTROL: Inspection and control of ships entering a port by the State in which the port lies, for the enforcement of international standards of shipping safety and pollution prevention.

ROLL OVER RELIEF: Provision to allow capital gains taxation on the sale of productive assets to be deferred where the proceeds are used to purchase a new asset of the same type.

SHORT SEA TRADE: Generally accepted as being international trade between the United Kingdom and Europe.

TONNE MILES (TON MILES): The total number of tonnes (tons) conveyed on a transport unit multiplied by the distance conveyed.

TRADE: The term used in shipping parlance to denote particular commodities or areas of shipping activity, eg the Far East trade or the coal trade.

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PROCEEDINGS OF THE COMMITTEE RELATING TO THE REPORT

TUESDAY 3 MAY 1988

Members present:

Mr David Marshall, in the Chair

Mr Jack Aspinwall
Mr David Gilroy Bevan
Mr Sydney Bidwell
Mr Jim Callaghan
Mr Terry Dicks
Mrs Gwyneth Dunwoody
Mr Peter Fry
Mr Neville Trotter

The Committee deliberated.

Draft Report (Decline in the UK-registered Merchant Fleet), proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 10 read and agreed to.
Paragraph 11 read, amended, and agreed to.
Paragraphs 12 to 23 read and agreed to.
Paragraph 24 read, amended, and agreed to.
Paragraphs 25 to 43 read and agreed to.
Paragraph 44 read, amended, and agreed to.
Paragraphs 45 to 58 read and agreed to.
A paragraph — (The Chairman) — brought up, read the first and second time, and inserted.
Paragraphs 59 to 62 (now paragraphs 60 to 63) read and agreed to.
Paragraph 63 (now paragraph 64) read, amended, and agreed to.
Paragraph 64 (now paragraph 65) read and agreed to.
Paragraph 65 (now paragraph 66) read, amended, and agreed to.
Paragraph 66 (now paragraph 67) read and agreed to.
Paragraph 67 (now paragraph 68) read, amended, and agreed to.
Paragraph 68 (now paragraph 69) read and agreed to.
Paragraph 69 (now paragraph 70) read, amended, and agreed to.
Paragraphs 70 to 77 (now paragraphs 71 to 78) read and agreed to.
Paragraph 78 (now paragraph 79) read, amended, and agreed to.
Paragraph 79 (now paragraph 80) read and agreed to.
Paragraphs 80 and 81 (now paragraphs 81 and 82) read, amended, and agreed to.
Paragraph 82 (now paragraph 83) read and agreed to.
Paragraphs 83 and 84 (now paragraphs 84 and 85) read, amended, and agreed to.
Paragraph 85 (now paragraph 86) read and agreed to.
Paragraph 86 (now paragraph 87) read, amended, and agreed to.
Paragraph 87 (now paragraph 88) read and agreed to.
Paragraph 88 (now paragraph 89) read, amended, and agreed to.
Paragraphs 89 to 91 (now paragraphs 90 to 92) read and agreed to.
Another paragraph — (The Chairman) — brought up, read the first and second time, and inserted.
Paragraphs 92 to 96 (now paragraphs 94 to 98) read and agreed to.
Paragraph 97 (now paragraph 99) read, amended, and agreed to.
Paragraphs 98 to 102 (now paragraphs 100 to 104) read and agreed to.
Paragraphs 103 and 104 (now paragraphs 105 and 106) read, amended, and agreed to.
Paragraphs 105 to 109 (now paragraphs 107 to 111) read and agreed to.
Paragraphs 110 and 111 (now paragraphs 112 and 113) read, amended, and agreed to.
Paragraphs 112 to 116 (now paragraphs 114 to 118) read and agreed to.
Paragraph 117 (now paragraph 118) read, amended, and agreed to.
Paragraph 118 (now paragraph 120) read and agreed to.
Paragraphs 119 to 123 (now paragraphs 121 to 125) read, amended, and agreed to.
Paragraphs 124 to 129 (now paragraphs 126 to 131) read and agreed to.
Paragraph 130 (now paragraph 132) read, amended, and agreed to.
Paragraphs 131 to 133 (now paragraphs 133 to 135) read and agreed to.
Paragraphs 134 to 136 (now paragraphs 136 to 138) read, amended, and agreed to.
Paragraphs 137 to 139 (now paragraphs 139 to 141) read and agreed to.
Paragraphs 140 to 145 (now paragraphs 142 to 147) read, amended, and agreed to.
Paragraph 146 (now paragraph 148) read and agreed to.
Paragraph 147 (now paragraph 149) read, amended, and agreed to.
Paragraphs 148 and 149 (now paragraphs 150 and 151) read and agreed to.
Paragraphs 150 to 153 (now paragraphs 152 to 155) read, amended, and agreed to.
Paragraphs 154 and 155 (now paragraphs 156 and 157) read and agreed to.

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Paragraphs 156 and 157 (now paragraphs 158 and 159) read, amended, and agreed to.
Paragraphs 158 and 159 (now paragraphs 160 and 161) read and agreed to.
Paragraph 160 (now paragraph 162) read, amended, and agreed to.
Paragraph 161 (now paragraph 163) read and agreed to.
Draft Annex A (Measures taken by other Governments to support their shipping industries) brought up, read the first and second time, and agreed to.
Draft Annex B (Major beneficial ownership of open-registry fleets, 1987) brought up, read the first and second time, and agreed to.

Resolved, That the Report be the First Report of the Committee to the House.

Ordered, That the Chairman do make the Report to the House.

Ordered, That the provisions of Standing Order No 116 (Select Committee (Reports)) be applied to the Report.

Ordered, That the Appendices to the Minutes of Evidence taken before the Committee be reported to the House. — (The Chairman.)

Ordered, That several Memoranda be reported to the House and that the provisions of Standing Order No 118 (Witnesses and Evidence (Select Committees)) be applied to them. — (The Chairman.)

[The Committee adjourned.

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Mr G J Bonwick
*Mr K J Boyles
*British Rig Owners Association
*British Tourist Authority
*Britship (IoM) Ltd
*Ceres
Captain P M Cheek
*Cornish Fish Producers Organisation
*Curnow Shipping Ltd
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*Institute of Marine Engineers
*Institute of Chartered Shipbrokers
*Joint Committee of London Sea Pilots
*Mr J F Little
Marex
*Maritime Committee of the Society of Labour Lawyers
*Mr W F Newton Dunn MEP
Mr M P Rowlinson
*Mr W B R Taylor
*Mr E E Thaxter
*Mr K Watkins

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HOUSE OF COMMONS SESSION 1987 — 88

TRANSPORT COMMITTEE

First Report

DECLINE IN THE UK-REGISTERED MERCHANT FLEET

Volume II

Minutes of Evidence, Session 1986-87

Ordered by The House of Commons *to be printed*
27 May 1988

303-II

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Bermuda Government
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*British Rig Owners Association
*British Tourist Authority
*Britship (IoM) Ltd
*Ceres
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*Cornish Fish Producers Organisation
*Curnow Shipping Ltd
Honourable Company of Master Mariners
*Institute of Marine Engineers
*Institute of Chartered Shipbrokers
*Joint Committee of London Sea Pilots
*Mr J F Little
Marex
*Maritime Committee of the Society of Labour Lawyers
*Mr W F Newton Dunn MEP
Mr M P Rowlinson
*Mr W B R Taylor
*Mr E E Thaxter
*Mr K Watkins

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HOUSE OF COMMONS

TRANSPORT COMMITTEE

Session 1986–87

DECLINE IN THE UK REGISTERED MERCHANT FLEET

MINUTES OF EVIDENCE

Wednesday 10 December 1986

Department of Transport

Mr G R Sunderland, Mr J D Henes, Mr C T B Smith and Mr J A Battersby

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Ordered by The House of Commons *to be printed 10 December 1986*

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MINUTES OF EVIDENCE
TAKEN BEFORE THE TRANSPORT COMMITTEE

WEDNESDAY 10 DECEMBER 1986

Members present:

Mr Gordon A T Bagier, in the Chair

Mr David Gilroy Bevan
Mr Sidney Bidwell
Mr Terry Dicks
Mr Den Dover
Mr Peter Fry
Mr Roger King
Mr David Mudd
Mr Stephen Ross
Mr Neville Trotter

Memorandum submitted by the Department of Transport

THE UNITED KINGDOM'S MERCHANT SHIPPING

INTRODUCTION

1. This paper gives an analysis of the past and present condition and performance of the British shipping industry, with particular emphasis on the major differences that exist between its several component sectors. As noted in paragraph 52, the defence role of the fleet is not discussed; nor is any attempt made to give a comprehensive account of the government's international shipping policies. The later sections of the paper do however address briefly some of these issues where they appear to have special relevance to the recent reduction of UK-registered tonnage.

UK AND WORLD SHIPPING TONNAGE

2. The statistics most widely available, for different fleets in the world and for earlier years, are tonnage and numbers, and it is by these measures that the UK fleet is most often measured and discussed. UK merchant shipping, measured by total gross registered tonnage, grew slowly from 1950 to 1968, rapidly from 1968 to 1975, and has since reduced rapidly. The data are shown in Chart 1 and included in Table 1. The total of all registered tonnage in the world doubled between 1950 and 1965, doubled again by 1975, continued to grow but more slowly until 1982, and has since declined slightly (Table 1). The UK fleet as a percentage of the world fleet has therefore reduced throughout this period; the trend is evident back to the beginning of the century (Chart 2).

3. Charts 3 to 5 illustrate the development of certain major national merchant fleets since 1955. The UK is shown in each. The UK and Norwegian fleets show similar patterns. That of Greece has been closer to that of the open registries of Liberia and Panama, with Panama exceptionally maintaining growth in recent years. France, the Federal Republic of Germany, and Italy (not shown) show a far less marked rise and fall. Japan has levelled out after its rapid growth in the early 1970s, while the USSR has grown steadily.

EARNINGS

4. Tonnage is basically a technical feature, and for any particular ship an important one. Aggregate tonnage figures are however not closely related to factors of more direct economic interest such as net earnings, contributions to balance of payments, and employment. Aggregate numbers of ships are generally even less significant than aggregate tonnage. Freight rates in some markets can and do vary considerably and quickly, and even shipping earnings therefore are not an ideal indicator of activity generally.

5. Gross earning figures of the UK shipping industry are given in Table 2 and shown in Chart 6; the sectoral figures in Table 2 are shown in Charts 7 to 10. It can be seen that in 1985 for example UK liner, container and passenger ships, which accounted for 23 per cent of tonnage, contributed 70 per cent of gross earnings. Sectoral profit figures are not available; what evidence there is suggests that they are even more heavily distributed towards the liner, ferry and passenger sectors than are earnings.

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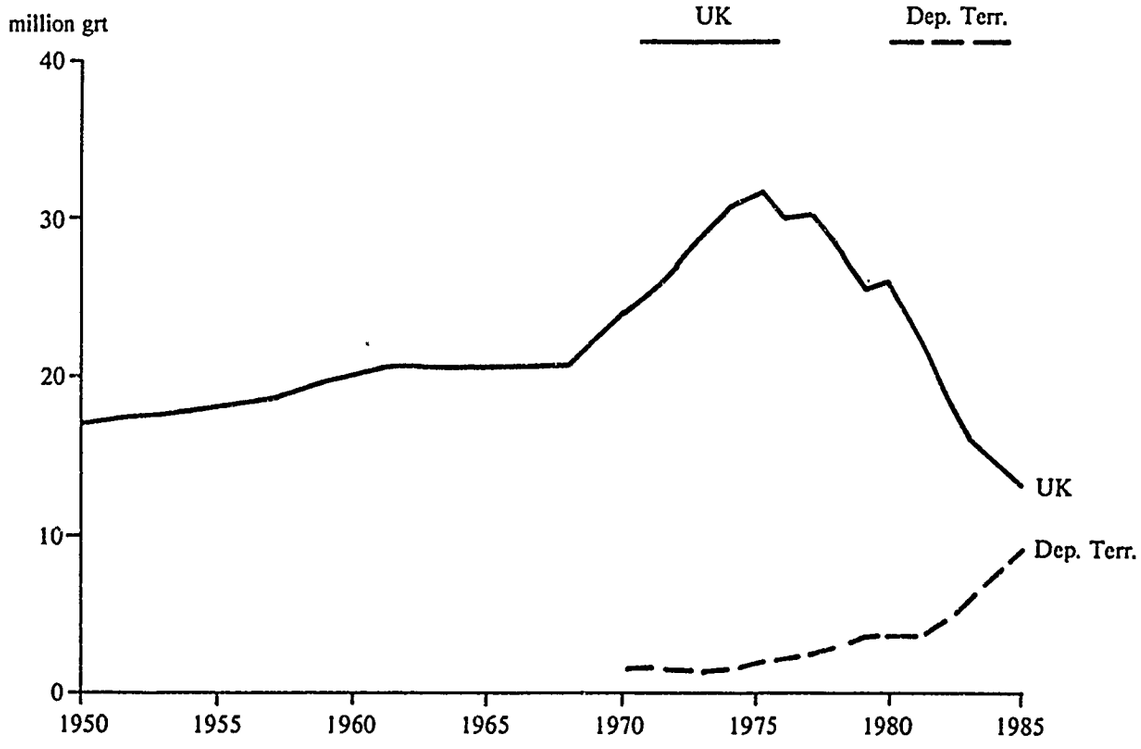
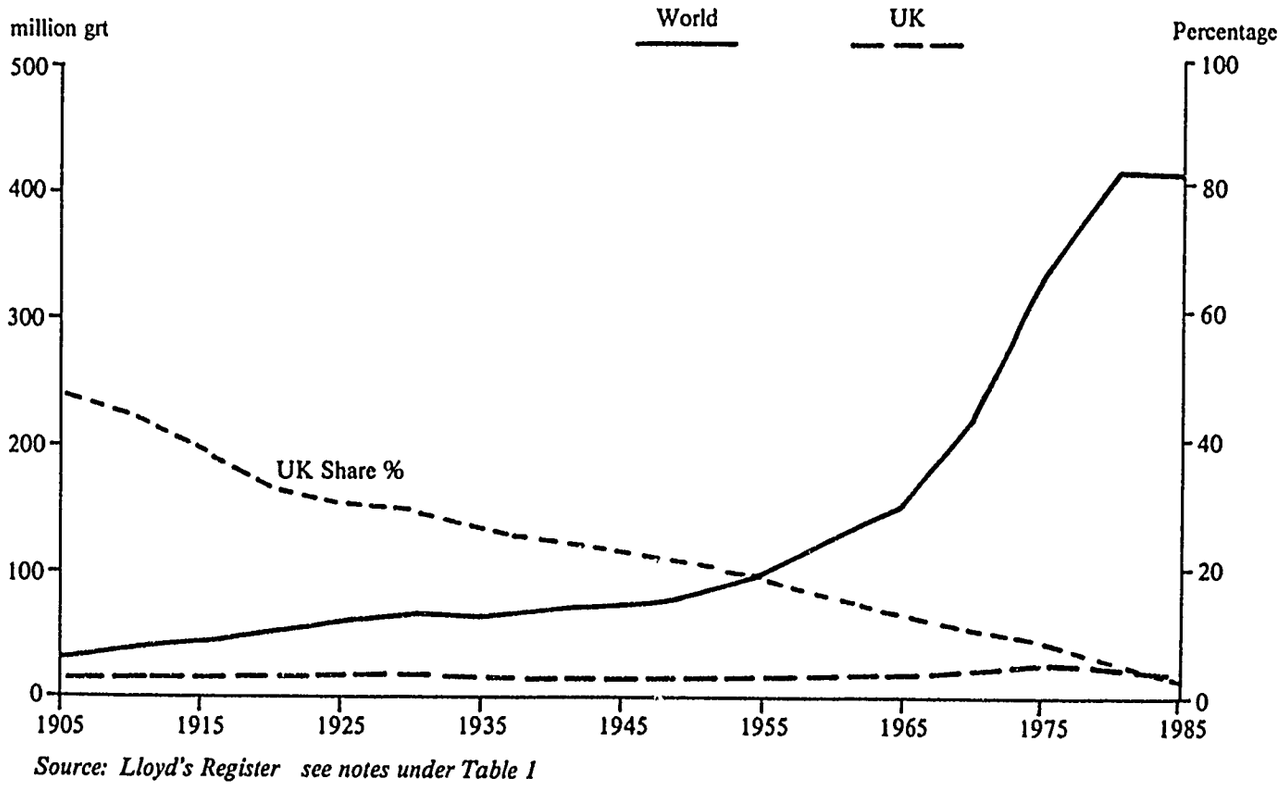
UNITED KINGDOM AND DEPENDENT TERRITORIES – gross registered tons (grt) **Chart 1**



Source: Lloyd's Register
Note: All vessels over 100 grt including non-trading vessels

UNITED KINGDOM AND WORLD TONNAGE, 1905-1985 **Chart 2**



Source: Lloyd's Register see notes under Table 1

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Table 1: UK, World, and UK Dependent Territory Merchant Fleets 1950–1985

million grt

	1950	*1955*	*1960*	*1965*				
UK (grt)	18.2	19.4	21.1	21.5				
World (grt)	84.6	100.6	129.8	160.4				
UK % of world	21.5	19.3	16.3	13.4				
	1970	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*
UK (grt)	25.8	27.3	28.6	30.2	31.6	33.2	32.9	31.6
World (grt)	227.5	247.2	268.3	289.9	311.3	342.2	372.0	393.7
UK % of world	11.3	11.0	10.7	10.4	10.2	9.7	8.8	8.0
UK Dep. Terr. (grt)	1.4	1.5	1.3	1.3	1.5	2.0	2.1	2.5
(inc Hong Kong	0.7	0.6	0.5	0.3	0.3	0.4	0.4	0.6)
	1978	*1979*	*1980*	*1981*	*1982*	*1983*	*1984*	*1985*
UK (grt)	30.9	28.0	27.1	25.4	22.5	19.1	15.9	14.3
World (grt)	406.0	413.0	419.9	420.8	424.7	422.6	418.7	416.3
UK % of world	7.6	6.8	6.5	6.0	5.3	4.5	3.8	3.4
UK Dep. Terr. (grt)	2.9	3.5	3.7	3.4	4.3	5.8	7.3	9.0
(inc Hong Kong	0.9	1.5	1.7	2.6	3.5	4.4	5.8	6.9)

Source: Lloyd's Register

Note 1: The data cover all vessels over 100 grt, including non-trading vessels such as fishing vessels, tugs, supply vessels and research ships. Non-trading vessels account for about 5 per cent of world tonnage totals.

Note 2: Gross registered tonnage represents at 1 gross ton to 100 cubic feet the capacity within a vessel (including enclosed spaces above deck) available for cargo, stores, passengers and crew.

Note 3: The UK's overseas dependent territories where ships are currently registered are:

Anguilla	Gibraltar	Saint Helena
Bermuda	Hong Kong	Turks and Caicos Islands
Cayman Islands	Montserrat	Virgin Islands
Falkland Islands	New Hebrides	

Vessels registered in the Channel Islands and the Isle of Man are included in UK figures.

Note 4: Statistics presented in this Memorandum are mainly from three sources: Lloyd's Register of Shipping, the General Council of British Shipping and the Department of Transport. There are important differences in the definitions and coverage of statistics used in each of these sources. Where such differences arise, an interpretation is given either in the text or in notes on tables and charts.

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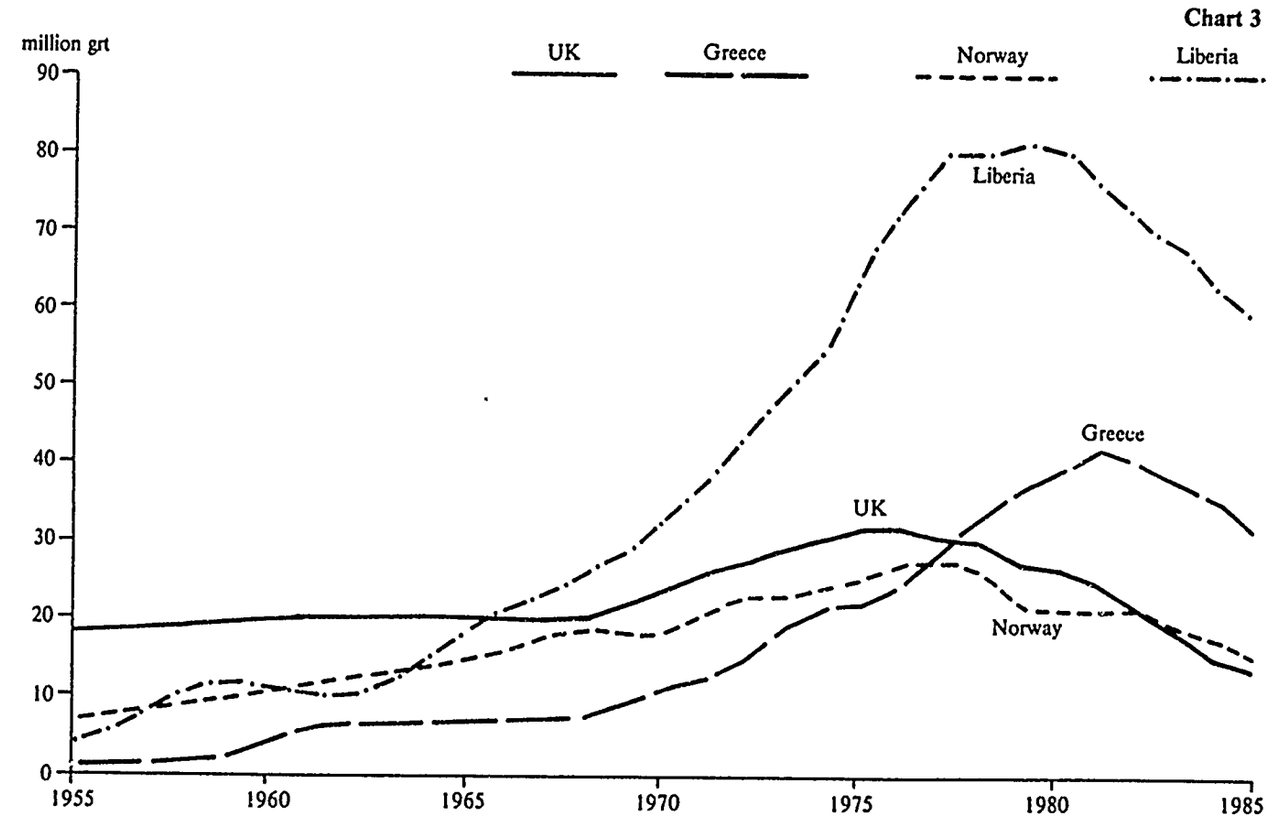
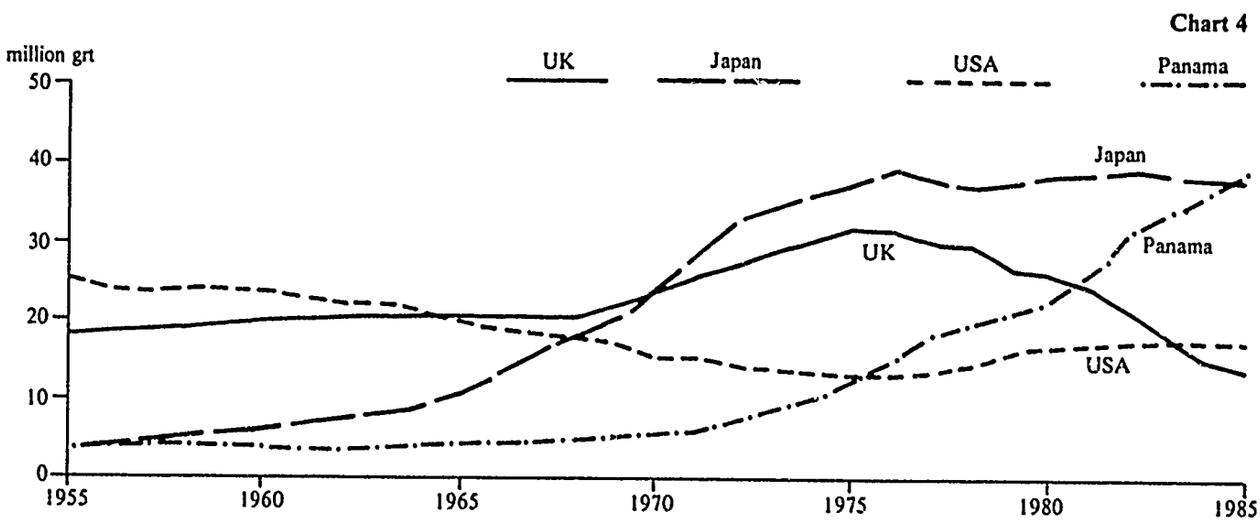
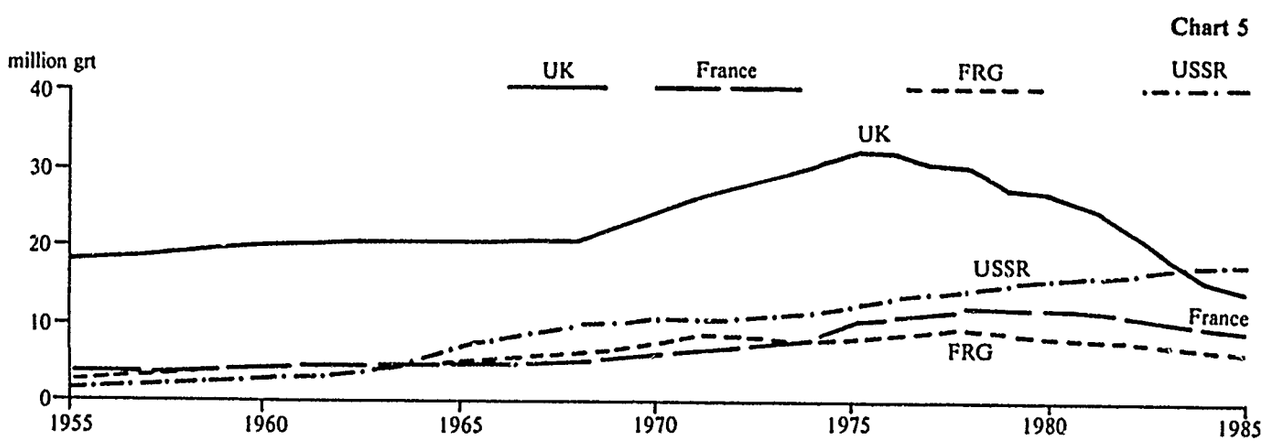
TONNAGE OF MERCHANT VESSELS ON LEADING FOREIGN REGISTERS 1955-1985







Source: 1955-1970 Department of Transport (vessels 500 grt and over)
1971-1985 Lloyd's Register (vessels 100 grt and over)

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Table 2: Earnings of the UK Shipping Industry

£m

Sectors	*1970*	*1975*	*1980*	*1981*	*1982*	*1983*	*1984*	*1985*
Tanker	909	1,302	1,673	1,690	1,048	1,016	985	749
Liner and container	494	1,011	1,362	1,204	1,314	1,161	1,381	1,409
Passenger	106	200	385	381	510	589	605	814
Dry bulk (including combination carriers)	140	362	327	302	311	228	232	202
TOTAL EARNINGS	1,648	2,875	3,747	3,577	3,183	2,994	3,203	3,174
of which:								
owned by UK operators	999	2,099	2,755	2,778	2,453	2,367	2,363	2,496
chartered by UK operators	649	776	992	799	730	627	840	677
TOTAL EARNINGS at Constant (1980) Prices	4,701	5,437	3,747	3,714	3,340	2,794	2,590	2,513
Sea Transport Balance	−50	+89	+127	−160	−628	−1,013	−1,132	−1,157

Note 1: These earnings are the earnings from ships owned or operated by UK companies. The figures for owned vessels include earnings from some ships registered outside the UK.

Note 2: The Sea Transport Balance is taken from the UK Balance of Payments. It takes into account not only UK shipping earnings but also earnings of foreign operators on UK trade, disbursements by UK operators overseas, and disbursements by foreign operators in the UK. (Details are given in the CSO publication "United Kingdom Balance of Payments".)

Table 3: Employment of Seafarers (thousands)

	1950	*1960*	*1965*	*1970*		
Total on National Maritime Board (NMB) Register[1]	134.1	125.7	103.8	83.0		
NMB REGISTER[2]	*1975*	*1976*	*1977*	*1978*	*1979*	
Employed	76.2	73.4	70.4	68.8	66.3	
Unemployed	1.3	1.3	1.3	1.2	1.4	
Total	77.5	74.7	71.7	70.0	67.7	
—Officers	35.8	35.1	34.1	33.1	31.4	
—Ratings	33.5	31.6	29.9	29.2	28.9	
FLEET AND MANPOWER INQUIRY (FMI)[3]						
UK seafarers[4]	73.4	70.9	69.6	66.0	60.4	
Foreign seamen not on NMB	NA	NA	NA	12.8	10.8	
Foreign seamen on NMB	NA	NA	NA	3.8	2.9	
Total	94.3	90.4	88.3	82.6	74.2	
—Officers	34.8	33.3	33.7	32.2	29.5	
—Ratings	50.9	47.9	46.7	42.2	37.4	
Non-federated sector	13.1	12.5	11.5	10.7	10.0	
NMB REGISTER[2]	*1980*	*1981*	*1982*	*1983*	*1984*	*1985*
Employed	62.6	57.8	51.3	43.2	37.1	35.0
Unemployed	2.0	3.5	3.5	2.9	1.7	1.3
Total	64.6	61.3	54.8	46.1	38.8	36.3
—Officers	29.5	27.9	25.1	20.8	17.6	15.0
—Ratings	28.2	27.4	25.2	22.5	20.3	18.6
FMI[3]						
UK seafarers	57.9	53.7	47.5	40.0	34.5	34.5
Foreign seamen not on NMB	10.9	9.4	6.9	5.2	4.8	2.7
Foreign seamen on NMB	2.6	1.2	0.6	0.6	0.4	0.4
Total	71.3	64.2	55.0	45.8	39.8	37.5
—Officers	28.2	25.6	21.7	17.8	15.2	14.6
—Ratings	36.3	32.5	28.7	25.1	22.8	21.3
Non-federated sector	10.4	10.4	10.4	10.4	10.4	9.0

[1] Data for 30 June.

[2] Data for 31 December.

[3] Data from GCBS Fleet and Manpower Inquiry, for 30 September.

[4] Data for the number of UK seafarers employed on ships registered outside the UK are not available. Such employment for officers in recent years has become substantial.

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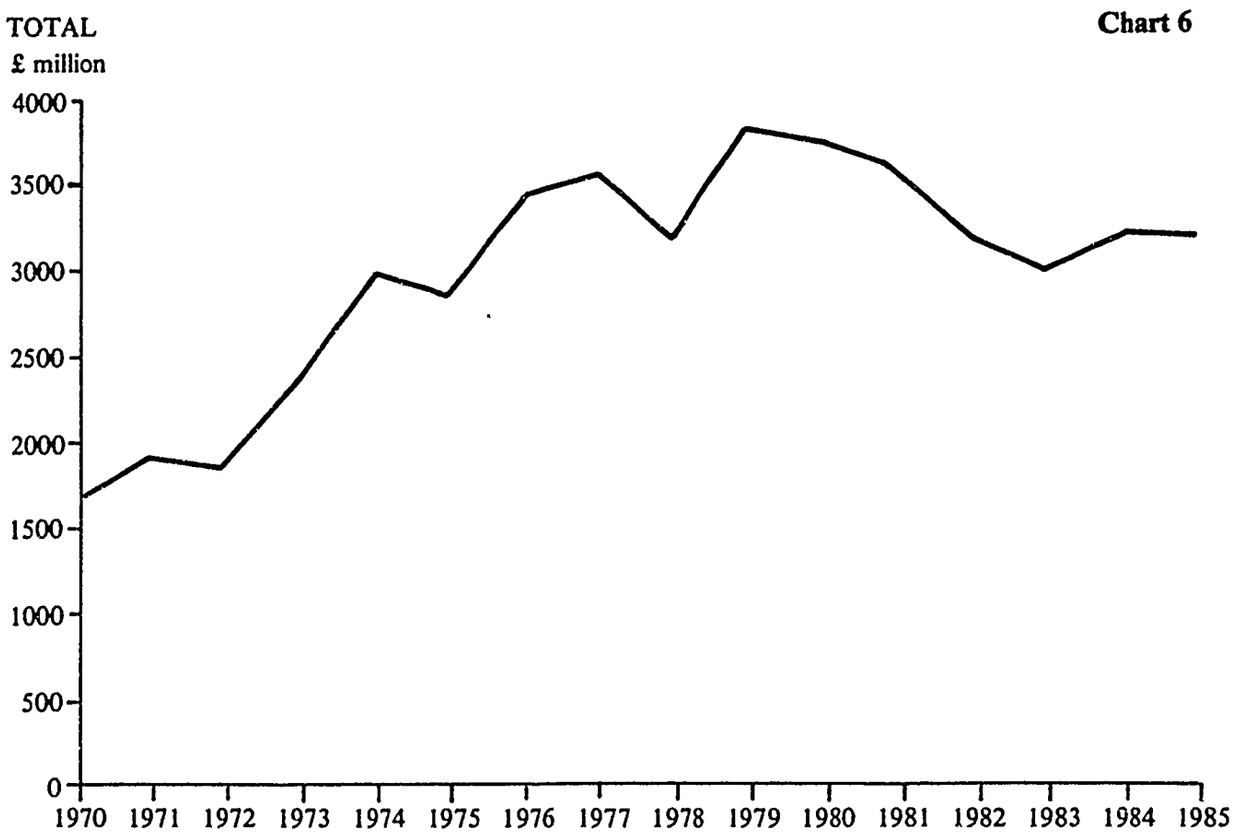
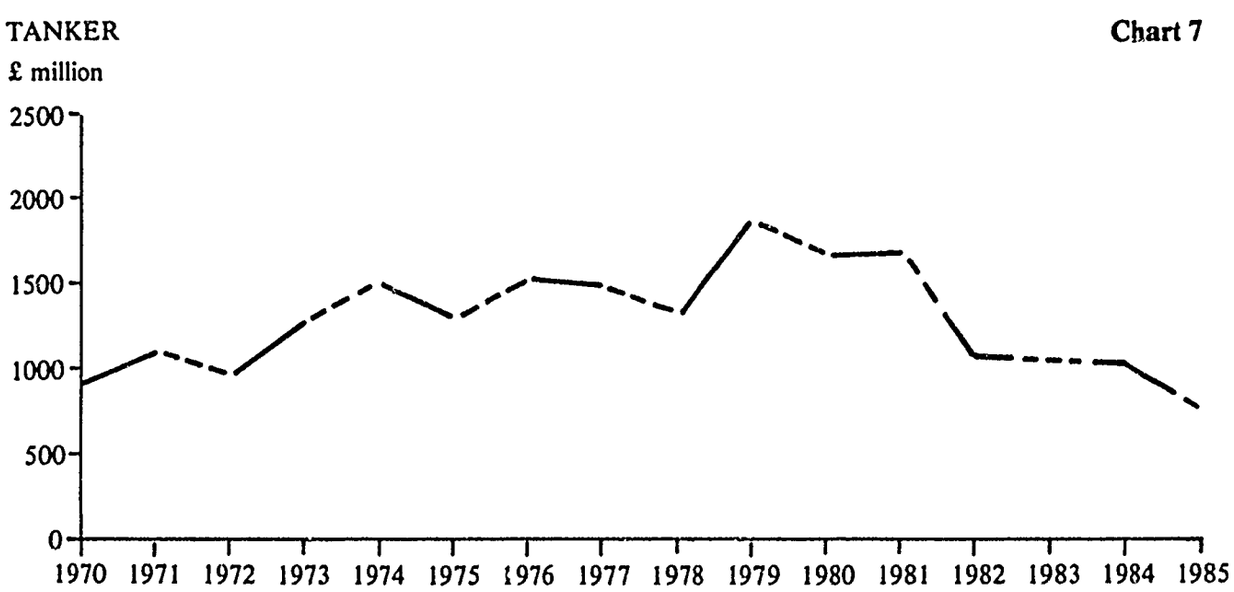
U.K. SHIPPING EARNINGS 1970-1985



Source: DTp, General Council of British Shipping see notes under Table 2.

U.K. SHIPPING EARNINGS BY SECTOR



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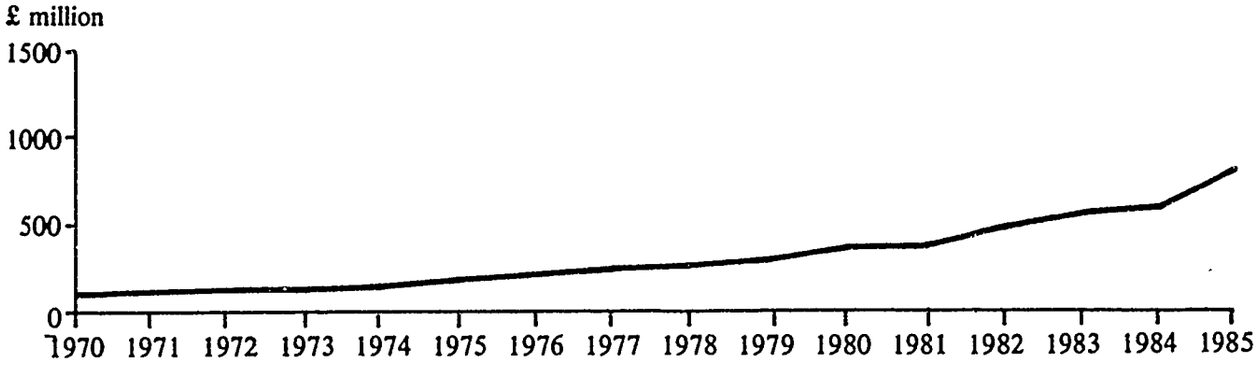
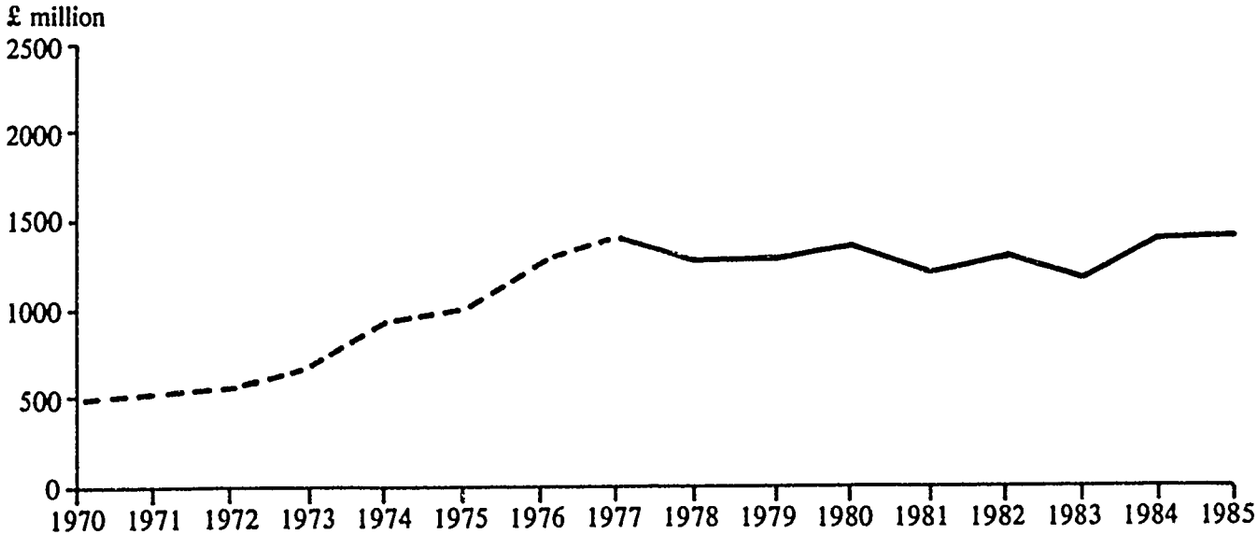
U.K. SHIPPING EARNINGS BY SECTOR (continued)

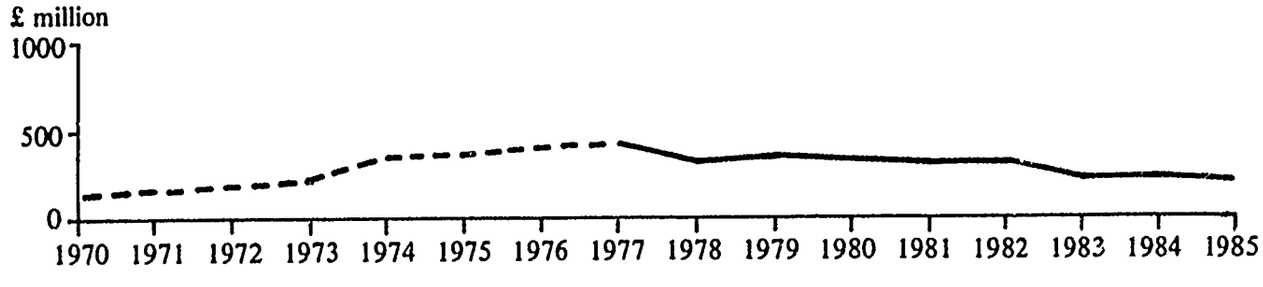
PASSENGER **Chart 8**



LINER & CONTAINER **Chart 9**



DRY BULK **Chart 10**



Source: DTp, General Council of British Shipping
Note: The split between dry bulk and liner & container earnings from 1971 to 1976 has been estimated.

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EMPLOYMENT

6. The number of seamen on the General Council of British Shipping (GCBS) Register of Seafarers and employed under National Maritime Board conditions ("the federated sector") is shown in Table 3, together with GCBS data, based on its Fleet and Manpower Inquiries (FMI), that also cover non-National Maritime Board employees, notably foreign seamen. The Table also includes some data for seamen in the non-federated sector, who are mainly employed in fishing, port and coastal activities. Some of the data (the FMI and non-federated sector figures) are shown in Chart 11.

7. Employment correlates poorly with tonnage, more closely with numbers of ships. It varies considerably between types of vessel, and is also affected by the introduction of new technology and changes in crewing arrangements. Sectoral employment data are not available. Table 4 gives numbers typically employed on vessels of different types and sizes, and shows why the correlation between tonnage and crew employment between different sectors would be very low. It would be low too for on-shore staff; passenger and cargo liner services require comparatively large on-shore staffs.

Table 4: Ship Type and Manning Levels

Ship Type	*Vessel Size*	*Approximate Crew Size*[1]	*Employment per '000 dwt*
Oil tanker	400,000 dwt	45	0.11
Bulk carrier	120,000 dwt	40	0.33
Container ship	45,000 dwt	40	0.89
Products tanker	30,000 dwt	40	1.33
Bulk carrier	12,000 dwt	20	1.67
Cruise liner	5,000 dwt	140[2]	28.00
Freight ferry	3,500 dwt	80	22.86
Bulk carrier	2,500 dwt	10	4.00
Pass/ro-ro ferry	2,000 dwt	260	130.00

[1] Including back-up required to cover crew on leave.

[2] Additional ancillary staff, not within the Merchant Navy Establishment, would number approximately 260.

Source: Department of Transport

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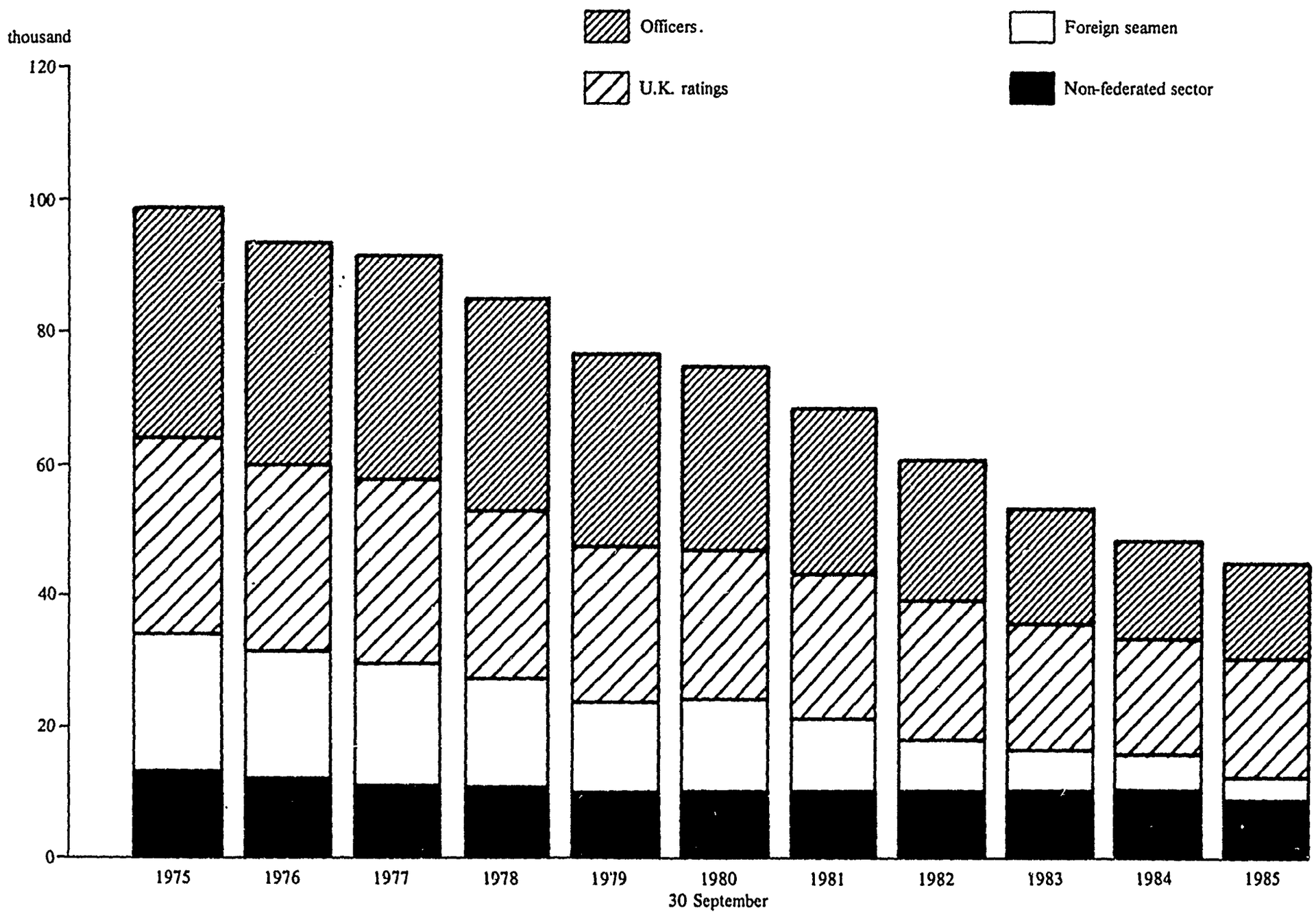
MANPOWER 1975-1985

Chart 11



Sources: GCBS Fleet and Manpower Inquiries, DTp inquiry to non-federated sector

[Continued

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DIFFUSION OF INTERESTS

8. The UK's ownership interest in shipping is not fully represented by figures related to UK registered tonnage, for at least two reasons. The first of these is that the UK register is part of the British registry system, a single system covering the UK and its dependent territories. It is possible for ships owned by citizens or companies in the UK or its dependent territories to be registered in any port therein. They are in fact required so to register any vessel they own directly, and only vessels with direct British ownership can be so registered. UK and Hong Kong interests in British shipping, to take the two largest British interests, are therefore not simply represented by UK and Hong Kong registers. (The aggregate figures for the dependent territorities and those for Hong Kong separately are included in Table 1, and the aggregate figures shown in Chart 1.) The second reason is that a company or person resident in one country may be the beneficial owner of a ship registered in another, usually through a subsidiary company. Chart 12 gives the percentage of UK registered vessels (measured in deadweight tonnes (dwt)) of foreign beneficial ownership. The proportion has changed little since 1974. Account has been taken of the degree, so far as it is known, to which companies were partly UK and foreign owned.

9. Conversely the UK has a similar considerable interest in foreign-registered ships. About 200 vessels, 5 million dwt, are believed to be beneficially owned by UK interests and registered in foreign states. Table 5 gives some figures for this separation of beneficial ownership from registration, often referred to as "flagging-out", for the UK, some other major shipping countries and Hong Kong. The data over time for such ownership are limited, but it is believed that such foreign registration has grown substantially in recent years for the UK and Norway, has for the Federal Republic of Germany, Japan and Hong Kong been substantial for somewhat longer, and has for the USA been very substantial for many years.

Table 5: Ownership of Vessels under National and non-National Flags ([1]) mid 1984
(million dwt)

	Fleets under:		*mdwt*	
	National flag	*Certain non-national flags*	*Total owned*	*Percentage of 'Total owned' under non-National flags*
USA	28	50[2]	78	64
Japan	64	23	87	26
Norway	30	8[3]	38	21
Greece	63	36	99	36[4]
F.R.G.	9	6	15	40
UK	24	5	29	20[5]
Hong Kong	10	37	47	79

Sources: Department of Transport analysis of UNCTAD report and of Lloyd's Register data.

Notes:
[1] Liberia, Panama, Cyprus, Bahamas, Bermuda.
[2] 1985—43 million dwt under "effective US control".
[3] 1985—373 vessels of 11 million dwt "with Norwegian involvement".
[4] 1985—41 per cent of Greek owned shipping was flying a foreign flag.
[5] The fleets shown under national flags in this Table do not allow for any foreign beneficial ownership, and therefore the figures given for the percentage of total owned under non-national flags is understated. An adjustment for this using Chart 12 increases the percentage for the UK to 25 per cent.

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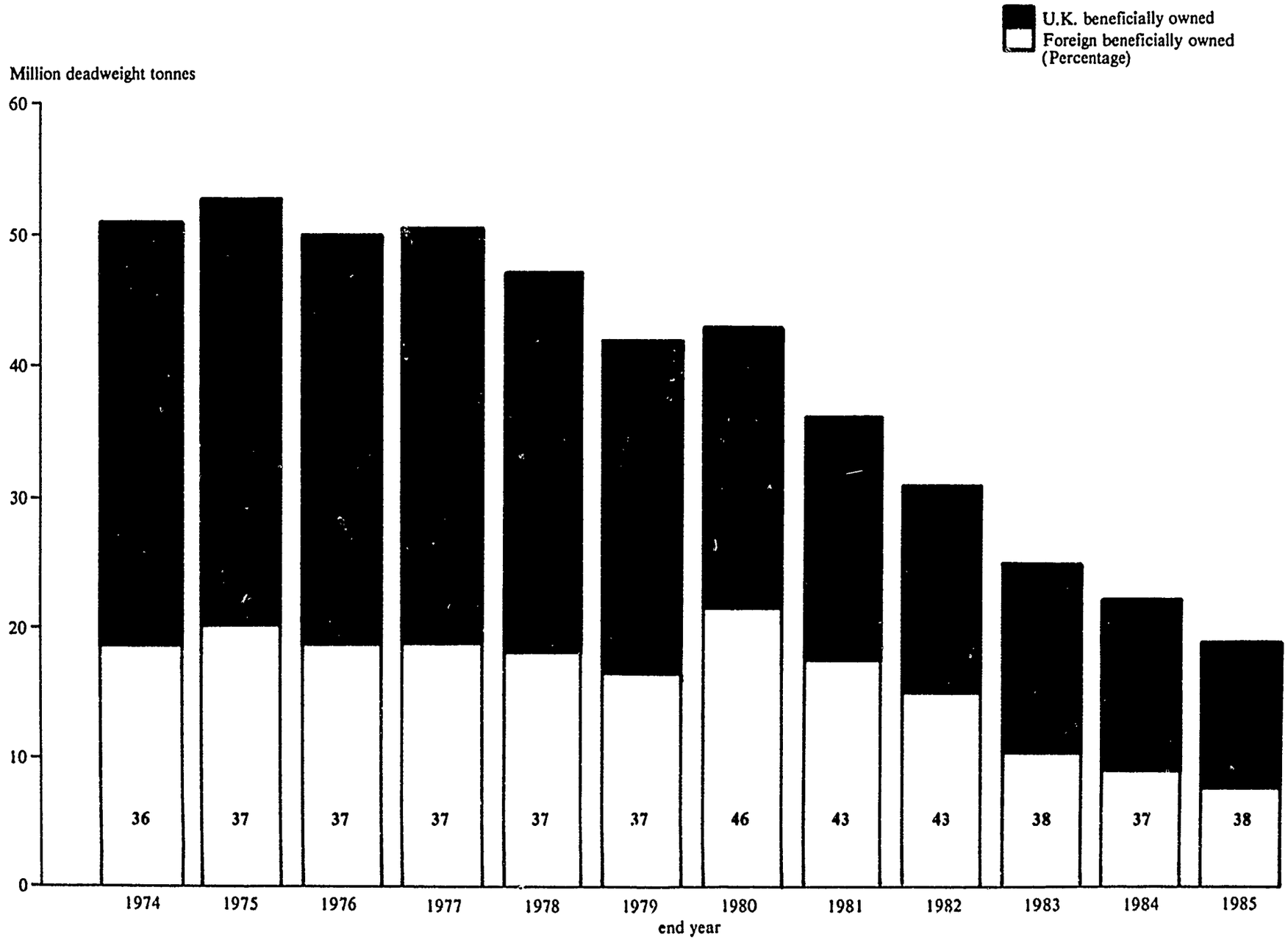
FOREIGN BENEFICIAL INTEREST IN UK REGISTERED SHIPPING 1974-1985 Chart 12



Source: Department of Transport

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CAUSES OF CHANGE

10. The broad reduction throughout this century in the fraction of the world fleet formed by the UK fleet is not surprising. The high proportion at the start was the result of imperial status and early industrialisation; the first has gone, and so have the advantages of the second. And to some extent the last eight years may be seen as a continuation of that relative decline, with the static UK position and the increasing world one in the earlier years of the century being replaced by a declining UK position and a static world one. But there is far more to the picture than that, and some specific factors:

—changes in technology
—changes in the pattern and volume of trade
—other market changes
—over-tonnaging
—differences in operating costs, particularly crew costs, between competing registries
—fiscal and other financial incentives for investment in shipping

have been important. Their relative significance in the changes over the last ten to twenty years in the UK registered fleet varies from sector to sector. For this reason those changes are discussed below by sectors.

LINER SHIPPING

11. Liner shipping means nowadays the provision of scheduled deep-sea cargo services for the carriage mainly of mixed cargoes of intermediate and final manufactures. Service quality—particularly the frequency and reliability of services offered on particular trade routes—and price are important aspects of competition between operators. Competition is muted to some extent by the conference system, under which shipping lines are exempted from normal competition legislation and allowed to form cartels to regulate the capacity offered and the freight rates charged. Conference power is however constrained in most trades by the right of non-conference lines ("independents") to establish competing services. An important development in recent years has been the increasing shares of traffic held by independents on several major trade routes, resulting in an intensification of competition.

12. The major factor in the development of the liner sector over the past 20 years has been the technological change associated with the introduction of container-carrying vessels. Such vessels can be loaded and unloaded far faster than the conventional general cargo vessels which they have displaced. This has allowed port turn-round times to be very substantially reduced, which has in turn led to an increase in the average size of vessel that can be economically deployed in the deep-sea liner trades. The reduction in turn-round time and the increase in average vessel size has led to a single container vessel displacing about six or seven conventional vessels. The change in the structure of the UK liner fleet resulting from the switch to containerisation is illustrated in Table 6.

Table 6: UK Liner Fleet

	Container Vessels		*Other Cargo Liners*[1]		*Total*	
End Year	*No*	*'000 grt*	*No*	*'000 grt*	*No*	*'000 grt*
1965	—		NA	5,894	NA	5,894
1970	34	418	728	5,233	762	5,651
1975	89	1,363	425	3,330	514	4,693
1980	72	1,600	232	1,992	304	3,592
1985	53	1,489	87	728	140	2,217

[1] Figures include freight-only ro-ro vessels.

Source: Department of Transport.

The container vessel statistics above refer only to fully cellular vessels. Semi-container vessels capable of handling both containers and break-bulk cargoes, which have been important in extending containerisation to trades with South America, West Africa and East Africa, are included in the "other cargo liners" category. The reduction of vessel numbers and deadweight shown in that category therefore somewhat overstates the loss of cargo-carrying capacity, somewhat understates the move to containerisation.

13. The major reduction in vessel numbers required when a trade is containerised together with the high initial capital costs have led to substantial changes in the organisation of the liner sector. In order to avoid providing excess capacity whilst maintaining commercially acceptable service frequencies with the much higher capacity vessels, many shipping companies have pooled their resources on containerised trade routes. There has been a substantial reduction in the number of UK shipping companies providing independent liner services.

14. As Table 7 illustrates, the UK's fully cellular container fleet built up rapidly during the early 1970s and has since remained fairly level, whilst the fleets of other countries have continued to expand.

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Table 7: Container Fleet Developments (million grt)

Mid Year	*UK*	*USA*	*EC excl. UK*	*Japan*	*Taiwan*	*World*	*UK share of world*
1970	0.4	0.9	0.2	0.2	—	1.9	21%
1975	1.3	1.8	1.3	1.1	—	6.2	21%
1980	1.7	1.9	2.8	1.6	0.2	11.3	15%
1985	1.5	2.6	4.2	1.9	1.1	17.5	9%

Source: Lloyd's Register

15. The lack of growth of the UK container fleet while other container fleets have grown considerably is due to several factors. Because UK operators adapted to containerisation early, it was inevitable that their share of the world fleet would decline as other countries also switched to containerised transportation. UK operators' growth has also been constrained because they have generally remained within the conference system and therefore been limited by their agreed share of conference capacity. Conferences have come under increasing pressure from independents, who have expanded their share of traffic on several major deep-sea routes at the expense of conference operators. Taiwanese and USA lines in particular, being prepared in general to operate as independents, have made large inroads into the market shares of established conference lines. A further reason for the static UK fleet is that UK liner operators have remained relatively weakly represented in the largest and one of the fastest growing trades, the trans-Pacific trade between North America and countries of the Far East. Cargo reservation, mainly by developing countries, and low-price competition from lines of state-trading countries have also been factors, although of lesser importance. Finally, there has since the early 1970s been the change in the pattern of UK trade towards the European Community and other countries of Western Europe and the relatively slower growth of trade volumes in the deep-sea trades. An indication of this is given by the change in the balance of UK trade between Western Europe and the rest of the world, shown in Table 8.

Table 8: Distribution of UK Trade[1]

	W. Europe	*Rest of the World*
1971	44%	56%
1976	51%	49%
1984	59%	41%

[1] By value

Source: Monthly Review of External Trade Statistics.

16. Whilst the size of the UK's fully cellular container fleet has remained broadly unchanged over the past decade, the size of the rest of the UK liner fleet, consisting of conventional break-bulk and semi-container vessels, has continued to fall. This is a reflection of the continuing withdrawal of UK operators from the residual break-bulk liner business, which now moves only a small part of liner cargo in the UK's direct trades. Cross-trading opportunities in the break-bulk liner trades are also limited, particularly for UK and other developed country operators, who face competition from lower cost operators, often with third world crews and relatively old vessels on which capital charges are low. Although there is not much data on the conventional liner tonnage of other countries to match that shown for the UK in Table 6, some NATO data support the view that the position of other developed countries has been broadly similar.

17. In the liner sector therefore the changes which have occurred in the size of the UK fleet since the 1970s have principally been due to containerisation. UK operators made the switch at a relatively early stage and, although they remain well-established in the trades in which they operate, they have not for a variety of reasons participated in the continued expansion of the world container fleet.

BULK SHIPPING

18. Most of the bulk shipping industry operates in an open and highly competitive market. Vessels are to a very considerable extent contracted on a voyage or time charter basis to carry full loads of bulk commodities such as crude oil, oil products, grain, coal and iron ore, and freight rates are governed largely by the balance between the supply of and demand for vessels of the various types and sizes that constitute the sub-sectors of the bulk market. Entry to the industry is easy, and cross-trading (the carriage of cargo between two countries in the vessel of a third country) is widespread in the deep-sea sectors. Apart from some limited instances of cargo reservation, charterers are generally indifferent to the flag of vessel they use, and normally select the one providing the most competitive freight rate, though there is a growing practice by companies or state institutions involved in the export or import of bulk products to conclude long-term shipping arrangements, often with companies of the same nationality and sometimes connected by ownership.

TANKERS

19. The changes which have occurred in the UK registered tanker fleet and the tanker fleets of other countries are shown in Table 9. During the 1950s and early 1960s the UK fleet increased steadily in size, although at a

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slower rate than the world total. Between the late 1960s and the early 70s there was a large increase in tanker tonnage world-wide. The UK fleet expanded by over 120 per cent from 13.7 million dwt in 1967 to a peak of 31.4 million dwt in 1976. The world fleet expanded even more, and the UK share of tanker tonnage continued to fall. From the mid-1970s there has been a very substantial contraction in the UK tanker fleet, and from 1980 in the world tanker fleet. The contraction has been considerably steeper for the UK than for most other countries. 49 per cent between 1980 and 1985 while the world tanker fleet fell by 16 per cent, and has continued this year.

Table 9: Tanker Fleet Development (million dwt)

Mid Year	*UK*	*Other W Europe*[1]	*Open*[2] *Registries*	*World Total*	*UK % of World total*
1950	6.3	—	—	29.3	21.5
1960	11.7	—	—	69.6	16.8
1965	13.2	32.5	22.7	93.0	14.2
1970	21.5	47.5	41.1	151.6	14.2
1975	30.8	87.5	94.7	286.5	10.8
1980	26.1	101.8	120.7	351.6	7.4
1985	12.1	68.4	86.9	284.9	4.2

[1] Norway, Federal Republic of Germany, France, Sweden, Netherlands, Denmark, Italy, Greece, Spain.

[2] Liberia and Panama.

Source: Lloyd's Register.

20. The changes since 1975 have very largely been the result of the fundamental adjustments in oil markets during the 1970s, caused by the oil price increases of 1973 and 1979 and the development of new oil—producing areas such as the North Sea, Alaska and Mexico closer to consuming markets. As Table 10 illustrates, the volume of oil entering international seaborne trade increased rapidly during the second half of the 1960s and early 1970s, and the demand for oil tankers then was enhanced by an increase in the average length of haul for oil cargoes.

Table 10: Tanker Cargoes

	Weight		*Tonne-miles*	
	million tonnes	*Index*	*'000 million*	*Index*
1965	727	100	3,120	100
1973	1,640	226	10,217	327
1977*	1,724	237	11,403	365
1980	1,596	220	9,239	296
1984	1,247	172	5,590	179
1985 (prov)	1,198	165	5,440	174

* 1977 was the peak year for tonne-miles.

	Changes (% pa)	
	Weight	*Tonne-miles*
1965–73	10.7	16.0
1973–77	1.3	2.8
1977–84	−4.7	−9.9

Source: Fearnleys Review

21. After the oil price increases of 1973 the rate of growth of oil traffic became modest, and as the industrialised economies adjusted to higher oil prices oil traffic fell. The process of economising in and substituting for the use of oil products was accelerated by the further increase in oil prices in 1979 and the subsequent world recession. The demand for tankers, particularly the very large ones designed for long-haul movements from the Middle East, fell more rapidly than the decline in oil consumption, because of the change in the geographical pattern of production. In tonne-miles, oil trade volumes fell by 10 per cent between 1973 and 1980 and by a further 40 per cent up to 1984.

22. These changes in the oil market were not foreseen by tanker operators. New-building had become geared to the rapid growth in demand for tankers experienced during the 1960s, and the world tanker fleet increased from 70 million dwt in 1960 to 213 million dwt in 1973. Despite this expansion, demand was relatively tight and freight rates remained high in the early 1970s, resulting in a boom in new orders which continued right up to the 1973 crisis. At the end of 1973 world orders for new tankers stood at 197 million dwt, nearly as much as the tanker fleet size at that time of 213 million dwt[1]. Although not all of this tonnage was built, it was

[1] Fearnleys Review

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inevitable that the world tanker fleet should continue to increase, and it in fact reached a peak of 350 million dwt in 1980. An enormous surplus of tanker capacity was therefore created, particularly in the larger vessel size categories, leading to low freight rates, the extended lay-up of many vessels, and severe financial losses for operators. Estimates of the scale of the tanker surplus since 1981 are given in Table 11. Despite substantial scrapping in recent years, the tanker surplus in April 1986 was estimated to be about 80 million dwt, 30 per cent of the world tanker fleet.

Table 11: Surplus Tanker Capacity (million dwt)

Year[1]	*Demand*	*Supply*	*Surplus*[2]
1981	233.8	341.3	107.5
1982	204.3	335.0	130.7
1983	185.4	319.4	134.0
1984	185.0	296.7	111.7
1985	172.1	273.0	100.9
1986	184.6	260.1	75.5

Source: Lloyd's Shipping Economist

[1] 1981 to 1985 — yearly averages; 1986 — June

[2] Includes vessels which were laid up or otherwise idle, and an allowance for surplus capacity implied by slow steaming.

It is against this background that the changes in the UK fleet have to be examined.

23. The rapid expansion of the UK tanker fleet during the late 1960s and early 1970s was in part a response to the buoyant condition of tanker markets and the prevailing mood of optimism. Investment under the UK register was further encouraged by the availability of investment grants (of 20 per cent in 1966 and 1969 and of 25 per cent in 1967 and 1968) and the introduction of favourable financing terms for new vessels purchased from UK shipyards under home credit arrangements. These inducements encouraged not only established UK operators, including the major oil companies, but also a number of foreign owners to invest heavily in tankers on the UK register. With the changes in the tanker market, a major contraction of the UK tanker fleet from the peak level reached in 1976 was inevitable. The fact that the contraction has been proportionately far greater than that of the world tanker fleet is due to several factors. One of the most important of these has been crew costs, and a substantial discussion of it is necessary for an understanding of the changes that have taken place and are continuing in the tanker fleet and (see paragraphs 30 to 33 below) the dry bulk carrier fleet.

A Key Issue for Tankers: Crew Costs

24. One of the few elements of vessel operating costs that depends directly upon the country of registry is crew costs, which include basic salaries and overtime, leave entitlement, victualling, air passage home for leave (for deep sea vessels), social security payments, pensions and training. There is a wide-spread view, though not easily substantiated, that up to the mid 1970s UK flag crew costs were somewhat below those of other European and Japanese flag crew costs, giving the UK an operating cost advantage and contributing to the attractiveness of the UK register. Whatever this advantage was, it was enhanced by the significant number (Table 3) of non-domiciled, mainly Indian and Chinese, seafarers employed on UK flag vessels at lower wage levels than UK nationals. Whilst UK crew costs for UK seafarers were higher than the costs of third world crews, the difference did not stop UK investment in ships including tankers and dry bulk carriers. Nor, over a period when operations had been relatively profitable, were there strong pressures to economise on crew costs.

25. With the surplus of ships that developed in so many shipping markets during and since the mid-seventies, the balance of supply and demand depressed and has continued to depress charter rates, at times to levels little above the lowest operating costs. The difference in crew costs between developed and third-world crews therefore became and still is critical. Any advantages of UK crew costs against those of other developed countries do not seem now to be reckoned to be important, and the proportion of non-domiciled crews on UK vessels has fallen greatly. Crew costs vary much with vessel type, trading area and company, but very broadly the annual crew costs of a UK-crewed deep-sea vessel with 10 officers and 12 to 14 ratings are now in the region of £700,000; those for a similar vessel with third-world crew are about half that amount. In recent years introduction of new technology, eg unmanned machinery spaces, has been substantial, but its implementation usually depends on new purchases, and in depressed sectors new purchases are likely often to be unattractive. And it is wrong to assume that such ships can only be operated with developed country crews.

26. Much operation in the bulk sectors has thus become unprofitable. Shipowners have sought to make economies, by such steps as reduced manning, but in many cases there has been insufficient scope on UK register to close the gap; in particular, they have been able to use third-world crews only by placing their ships on foreign registries. They have therefore had to decide between selling ships off or operating them on other registries. Outright sales have been and continue to be important, but experience and examples of the operation

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of ships with third-world crews and of the transfer of vessels to other registries have reinforced the pressure for such change of registry.

CHANGE OF REGISTRY

27. Companies have a range of options associated with change of registry. One is to retain the existing crew but, by switching to another British registry such as the Isle of Man, Bermuda or Hong Kong, to renegotiate employment conditions under "off shore" terms, which may involve an enhancement of basic salary and overtime payments but a reduction in other benefits and employment costs, such as leave allowances, training and pensions. In addition, if the seafarers are employed by a company which has no place of business or residence in Great Britain, neither they nor the company will normally be liable for national insurance contributions under the Social Security Act 1975, and the seafarers will be directly accountable to the Inland Revenue for their personal tax obligations rather than through the PAYE system. Further and very substantial savings are achieved on basic salary costs if a company employs crews from the third world; important options are third world ratings with Western officers and third world crews of officers and ratings.

28. The pressure to move away from UK registry has not been confined to the bulk sectors, but it has been strongest and most evident there. In the liner trades for example, competition is in terms not only of price but of quality and reliability of service; freight rates have, particularly in recent years, generally been at more remunerative levels than in the bulk trades; and there is a strong tendency for operators to register vessels under their national flag. Similarly, in the ferry, short-sea bulk and offshore support sectors competition is largely from vessels registered and crewed in Western Europe. Deep-sea bulk shipping on the other hand operates in a very price-sensitive market which has become severely over-tonnaged. The move to open registries and third-world crews is not peculiar to the UK; it is to be found with many USA, Norwegian, FRG, Japanese and Greek ships.

29. There has thus been exceptional pressure on UK tanker (and dry bulk) operators to reduce their operations on UK register. Within the tanker sector much has turned on the decisions of major oil companies, who have accounted for a large share of the UK registered tanker fleet, to reduce and re-organise their shipping operations in response to heavily unprofitable trading conditions and their changing role in crude oil production. And much of the overseas controlled tonnage which was attracted to the register by the financial inducements available in the second half of the 1960s has also been withdrawn.

DRY BULK CARRIERS

30. The changes which have occurred in the UK registered dry bulk fleet and in the fleets of other countries since 1970 are illustrated in Table 12. The UK fleet expanded considerably in the early 1970s, reaching a peak of 8.3 million grt in 1977. Since then, and in contrast to the continuing expansion of the world bulk carrier fleet, the UK fleet has fallen rapidly, from 9.5 per cent of the world fleet in 1975 to 2.6 per cent in 1985. Taken as a group, the bulk carrier fleets of the other Western European countries have followed a similar though less marked pattern of rise and fall.

Table 12: Dry bulk carrier fleet development (million grt)

Mid Year	*UK*	*Other W. Europe*[1]	*Open*[2] *Registries*	*World Total*	*UK share of World*
1970	3.9	16.2	10.6	46.7	8.4%
1975	8.1	28.6	22.3	85.5	9.5%
1980	6.2	32.7	30.0	109.8	5.6%
1985	3.1	27.1	36.3	134.4	2.3%

[1] Norway, Federal Republic of Germany, France, Sweden, Netherlands, Denmark, Italy, Greece, Spain.

[2] Panama and Liberia.

Source: Lloyd's Register.

These changes need to be examined in relation to the developments which have occurred in world bulk carrier markets.

31. The development of demand for dry bulk carriers (measured in terms of the tonne-mileage of bulk cargoes in international seaborne trade) and the growth of the world fleet are shown in Table 13.

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Table 13: Growth of bulk carrier demand and tonnage

	Bulk cargo movements[1]		*World dry bulk fleet*	
	tonne-miles	*Index*	*million dwt*	*Index*
1965	1,260	58	—	—
1970	2,182	100	55.1	100
1973	2,917	134	79.9	145
1975	3,121	143	97.8	177
1977	3,157	145	116.6	212
1980	4,011	184	137.7	250
1984	4,392	201	178.1	323
1985 (prov)	4,307	197	187.8	341

	Growth rates (% p.a.)	
	Bulk cargo (tonne-miles)	*World dry bulk fleet (dwt)*
1965 — 1973	11.1	—
1973 — 1977	2.0	10.0
1977 — 1980	8.3	6.2
1980 — 1984	2.3	6.6

[1] Iron-ore, coal, grain, bauxite and phosphate rock.

Source: Fearnleys Review.

It can be seen that the tonne-mileage of cargo carried by the dry bulk fleet grew strongly from 1965 up to 1973. This was followed by four years of very slow growth, reflecting the recession in the industrialised economies brought about by the 1973 oil price rise. A period of rapid growth in demand for bulk carriers from 1977 to 1980 led to high freight rates and an upsurge of orders for new vessels between 1979 and 1981. The world dry bulk fleet has therefore continued to expand strongly during the 1980s despite the slow-down in trade growth following the second oil price shock in 1979. From the early 1970s the bulk carrier fleet has expanded at a significantly faster rate than its markets, so creating a growing surplus of capacity. The estimated capacity surplus since 1981 is shown in Table 14.

Table 14: Dry bulk carrier surplus (million dwt)

Year[1]	*Demand*	*Supply*	*Surplus*[2]
1981	147.5	184.0	36.5
1982	150.6	197.0	46.4
1983	150.9	202.9	52.0
1984	164.7	215.0	50.3
1985	172.6	222.7	50.1
1986	172.3	216.1	43.8

[1] 1981–85: yearly average; 1986: June.

[2] Includes vessels laid up and idle, plus an allowance for the surplus capacity implied by slow steaming of vessels.

Source: Lloyd's Shipping Economist.

A KEY ISSUE FOR DRY BULKERS: SHIPBUILDING CAPACITY

32. Although the dry bulk sector has not experienced the dramatic changes in the volume and pattern of trade that have occurred in the tanker sector there has been considerable over-tonnaging, with excessive ordering because of misjudgements of future demand for bulk shipping strongly encouraged by financial support for shipbuilding. World shipbuilding capacity has for at least a decade been in excess of demand for new ships, and there has therefore been great competition by shipyards and their governments for orders. This has led to subsidised prices, very favourable financing arrangements, and a shift of a considerable part of the risk of the investment in ships from shipowners to banks and governments. The result has not simply been a depression of charter rates corresponding to the artificially low prices of new ships. With more new shipbuilding capacity, improved production technology and increasing competition, ship prices have continued to fall, inducing extra shipping capacity that has in turn experienced the frustration of earlier orders as yet lower ship prices and over-ordering have led to yet lower rates. This complex situation has affected many sectors of shipping, perhaps most notably the dry bulk sector. In particular much of the new ordering which occurred during the early 1980s appears to have been speculative investment, to a large extent by Japanese, Greek and Hong Kong shipowners.

33. Despite the continued expansion of the world dry bulk fleet, UK registered bulk tonnage has fallen substantially from its peak level. Some companies have taken strategic decisions to withdraw from the bulk

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sectors because of poor financial results and limited prospects of an early upturn in the market. The UK register has become less attractive both to UK and foreign owners. The British Maritime Charitable Foundation in its examination of the loss of vessels from the UK register between 1978 and 1983 found for example that 54 per cent of the tonnage of dry bulk carriers removed from the register was ultimately owned by foreign principals[1]. Although different in origins and timing, the fundamental position has been the same for deep-sea tankers and dry bulk carriers: severe over-tonnaging depressing freight rates, undermining profitability, and forcing shipowners to reduce their fleets or to operate them under registers where competitive crew costs can be obtained.

34. The loss of UK dry bulk tonnage between 1975 and 1985 was 8.7 million dwt. This and the loss of 20.3 million dwt in tankers amount to 87 per cent of the total decrease of UK registered tonnage over that decade.

THE SHORT-SEA BULK TRADES

35. UK short-sea bulk operators transport commodities such as petroleum products, coal, chemicals, fertilizers, grain, timber, iron ore, steel products and aggregates, by the ship load, within an area that encompasses the UK, Scandinavia, the near-Continent and—to a lesser extent—Spain, Portugal and the Mediterranean down to North Africa. Both coastal and international movements are included. Excluding crude oil shipments from the North Sea, vessels operating in these trades can be up to 30,000 dwt, but the majority range in distinct size bands between 500 and 5,000 dwt. Although, apart from using relatively small ships in a more limited area, the business is in many ways similar to deep-sea bulk shipping, there are two features particular to the short-sea trades:

— competition is largely between vessels registered and in the main crewed in European countries, thus limiting the extent of crew cost disparities between operators;

— cargo reservation is significant. The cabotage (coastal) trade of many European countries is reserved to their own national carriers; that of the UK (and some others) is open. There is also some discrimination on international movements, for example, the reservation of Spanish grain imports to national shipping lines.

The fortunes of UK shipping operators in these trades over the last 20 years have differed significantly according to type of business, particularly as between carriers for the energy industries and the remainder.

36. Short-sea oil and coal movements are largely controlled by the fuel companies themselves, who treat distribution as an integral part of their operation. Because refining is a continuous process and storage is limited, the oil majors give high priority to reliability in shipping services. As a consequence they generally operate their own short-sea vessels and/or rely on a small number of shipping lines in whom they have over the years built up confidence. Smaller oil companies generally charter tonnage; again the need for reliability is paramount. This market structure, in which relatively few oil companies control the demand for short-sea tankers and influence a significant proportion of their supply, has left little scope for opportunistic or purely speculative new building. Broadly comparable conditions apply to much of the short-sea coal distribution. Consequently excess construction of new tonnage has been avoided and freight rates have generally kept up with inflation. Coastal movements of short-sea tankers, which account for a large proportion of the total, have however declined. Vigorous competition between oil companies for industrial and private customers has kept a strong pressure on them to minimise distribution costs. Refinery closures, inter-company arrangements to supply from the nearest refinery, additional pipelines and greater use of rail delivery have all reduced the demand for coastal transport. As a result the short-sea tanker fleet, both oil company owned and independent, has contracted, and the remainder is ageing partly because the declining market offers poor prospects for re-investment.

37. Short-sea dry bulk other than coal is very different. Considerable over-tonnaging has emerged, severely depressing freight rates over a number of years (broken only by the demand for coal shipments in 1985) and leading to a contraction of the UK fleet. Precise figures for the sector are not available, but the data in Table 15 for dry cargo vessels between 500 to 5,000 grt in the "Tramp" category in Department of Transport statistics provide a rough approximation for the UK.

Table 15: UK Cargo Vessels

	No	*Tonnage*
1977	242	608,000 dwt
1980	226	585,000 dwt
1984	155	398,000 dwt
1985	139	362,000 dwt

This reduction in the UK fleet of short-sea dry bulk carriers, particularly since 1980, contrasts with expansion in the Federal Republic of Germany (FRG) and the Netherlands. Although available information is fragmentary and uses different definitions, it appears that between 1980 and 1984 FRG and Dutch short-sea dry cargo fleets

[1] Why the Ships Went BMCF p.62.

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increased significantly, perhaps by 20 per cent to 30 per cent. These contrasting experiences seem to have more than one cause.

38. If UK participation in short-sea bulk shipping is divided into three components—UK coastal, UK direct trade with Europe, and cross-trading within Europe—the dominant part is our direct trade with Europe. This has increased considerably since our accession to the EC but remains heavily imbalanced, with UK imports far exceeding exports. This combined with the Continental preference for exporting cif (cost, insurance, freight) and thus taking responsibility for carriage (whereas UK exporters tend more to export fob (free on board)) gives Continental short-sea lines some advantage over UK lines, for in these circumstances Continental lines more often get first option to carry a consignment. With the imbalance in trade, UK lines have to "go out to get" the larger traffic flow—often sailing out with a low-paying positioning cargo if not in ballast.

39. UK short-sea lines also faced a number of operating difficulties during the 1970s. Crew quality and availability were major problems, particularly when rapid expansion of the UK deep-sea fleet attracted many of the most able short-sea mariners, and adequate replacement was a continuing difficulty. Crew numbers also reduced more slowly in the UK than in some Continental countries because of union pressure and regulations. For some years wage settlements also were difficult to control. As crew costs account for well over half total operating costs in the short-sea bulk trades, a modest crew cost disparity implies an appreciable commercial penalty. Through much of the 1970s, when freight rates were not buoyant, higher UK operating costs must have eroded profit margins and reduced the incentive to invest in new capacity.

40. At the same time short-sea operators in some other countries had other advantages. Design leadership in small dry bulk vessels resided in specialist yards on the Continent, particularly in the FRG. For example, they learned how to get increased deadweight (carrying capacity) out of given hull specifications, creating significant commercial advantage. FRG shipowners were close to these developments and thus in a good position to exploit them first. Hand in hand with these technical developments, some Continental regulatory authorities felt able to adopt increasingly commercial interpretations of safe manning levels. Other countries including the UK eventually followed, but meanwhile some Continental fleets had a competitive edge.

41. Another significant factor has been the financial support available to FRG and Dutch shipowners. In the FRG this has included investment grants of up to 12½ per cent of the cost of new vessels, on condition that they remain on the national register for 8 years, accelerated vessel depreciation for tax purposes; reduced rate of corporation tax on profits arising from the operation of ships in foreign (non-cabotage) trades; and tax provisions for business partnerships that have allowed partners to use their share of the capital allowances created by an investment to offset their personal tax liabilities. Through these provisions, higher rate taxpayers appear to have been an important source of funds for investment in the FRG's short-sea sector in recent years. In the Netherlands an investment premium has been available on most types of commercial investment, including shipping, allowing companies to offset 12½ per cent of the cost of investment in plant and machinery against their current tax habilities; and a discretionary fleet modernisation grant has been available for payment over five years at the rate of 2.1 per cent a year of the cost of acquisition for new or modern vessels registered in the Netherlands.

42. A view widely held among UK short-sea dry bulk operators is that the over-tonnaging that has severely depressed their freight rates for most of the 1980s has been caused in the main by excessive expansion of the FRG and Dutch fleets. It is no contradiction of this but a point worth noting in any case that recent investment in shipping in these countries has not been confined to the short-sea sector, though it has been mainly for orders placed in national yards (see paragraph 68). More to the point, up to 1984 UK shipping companies were allowed free depreciation for tax purposes of ship capital costs, which could be taken either against their own profits or (through leasing) against the profits of financial institutions. The extent to which the relative decline of the UK short-sea fleet has been due to the differences in advantage of that regime compared with continental fiscal/incentive arrangements or to differences in perceptions of the commercial opportunities available to them and the appropriate corporate response to them is not clear. Taken as a whole, UK operators have retrenched with a smaller short-sea dry bulk fleet.

FERRIES

43. UK international passenger and freight ferries operate on routes to the Continent and to Ireland. They have for a long time had an expanding market, particularly on continental routes, where vehicle-accompanied passenger traffic grew by over 9 per cent p.a. and ro/ro freight traffic by about 15 per cent p.a. between 1973 and 1984. The rapid passenger growth reflects the increase in leisure travel, whilst the expansion of ro/ro traffic is due to the switch of UK trade from deep-sea markets to Europe and the increasing share of freight traffic handled in ro/ro form. The growth in the size of the UK ferry fleet is shown in Table 16. A relatively small sector in terms of tonnage, it is as noted previously far more significant in terms of fleet earnings and employment.

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Table 16: UK Ferry Fleet

	Passenger ro-ro		*Freight-only ro-ro*		*Total*	
End Year	*numbers*	*'000 grt*	*numbers*	*'000 grt*	*numbers*	*'000 grt*
1973	75	258	33	145	108	403
1975	83	269	37	177	120	446
1980	88	316	53	254	141	570
1985	72	291	46	256	118	547

Source: Department of Transport

44. UK operators are strongly represented on the shorter cross-Channel routes from the Kent ports to France and Belgium, accounting for approximately two-thirds of the capacity provided. On the longer routes from South and East coast ports to the Continent their share of the market is somewhat smaller although still substantial. Competition within the cross-Channel ferry market has intensified in recent years with the termination in the 1970s of agreements between operators on fares and pooling of capacity and the entry of new operators on a number of routes to the Continent. Over-tonnaging is however not a problem, and as in the short-sea bulk sector competition within the ferry sector is very largely between vessels registered in Europe and crewed by European nationals. These factors and the generally profitable results of the ferry operators have meant that they have not been subject to the same pressures as deep-sea bulk vessel operators to seek operating cost economies by switching to lower cost registries. Although the Fixed Channel Link can be expected to capture a substantial share of the traffic on shorter crossings when it becomes operational in the 1990s, the Government's recent White Paper[1] indicated that with the likely growth of traffic total ferry capacity on routes between the Continent and UK ports between the Wash and Portsmouth may fall only slightly below its present level when the link opens and will increase again in later years.

Cruise Shipping

45. In response to the commercial success of jet aircraft, the deep-sea passenger business has been transformed since the mid 1950s from passenger transport to holiday cruising. Initially this involved a substantial reduction in numbers of deep-sea passenger vessels in the UK as in other fleets. But contraction was reversed by growth of cruising in the 1980s, and the industry is now seen as an expanding activity requiring additional capacity. Figures for UK registered vessels are given in Table 17. UK owners also operate five cruise ships registered in the Bahamas and Norway.

Table 17: UK Registered Passenger Liners

End Year	*No*	*'000 grt*
1973	25	441
1975	16	322
1980	9	272
1985	10	317
1986 (mid-year)	8	259

Source: Department of Transport.

46. North America is the largest and most highly developed of the passenger cruise markets. Some 80 per cent of all cruise passengers world-wide are estimated to come from the United States. Although cabotage restrictions—for example, in the United States and Greece—apply to passenger as well as cargo movements, they have not impeded the development of this industry on multi-national itineraries; for example, many popular cruises out of US ports such as Miami call at Caribbean countries, and similarly for many Mediterranean cruises, although the market there is small by comparison. The openness of the trade is illustrated by the strong presence of UK and Norwegian operators. The two major UK operators together account for about 10 per cent of the capacity of the world cruise fleet. Strong competition obtains in most segments of the cruise market, and this has put continuous pressure on operating costs including the cost of crews and ancillary staff. Some companies have sought economies by changing registry.

Offshore Supply

47. With the development of North Sea oil the UK's offshore supply vessel fleet has expanded rapidly. This is illustrated by Table 18 covering UK supply ships and tenders. Although this group extends beyond offshore support vessels, much of the growth since 1972 in it has been in those vessels.

[1] The Channel Fixed Link; Cmnd 9735, February 1986.

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Table 18: UK Offshore Supply Fleet (Supply Ships and Tenders)

Mid Year	*Numbers*	*'000 grt*
1972	86	162
1975	131	208
1980	197	294
1985	279	271

Source: Lloyd's Register.

Table 19 shows the number of offshore support vessels from various registries available for employment in the North Sea since 1980. The UK and Norway are the major operators of such vessels, their fleets being of broadly similar size.

Table 19: Vessels available for employment in the North Sea by registry

Registry	*1980*	*1981*	*1982*	*1983*	*1984*	*1985*
UK	71	65	72	83	102	103
Norwegian	64	71	88	119	107	94
Dutch	19	18	20	31	37	29
Danish	2	3	3	4	8	3
FRG	11	13	14	12	19	17
Other	14	22	35	28	21	19
Total	181	192	232	277	294	265

Figures are for June of each year.

Source: Petrodata/Stewart Marine

48. The registry composition of the North Sea support fleets is not matched by the pattern of demand within each of the national sectors. As Table 20 illustrates, the UK sector accounts for approximately 60 per cent of total demand, the Norwegian sector (next in size) about 20 per cent. The expansion of the Norwegian fleet to a size well in excess of demand in the Norwegian sector has by chance or intention led to high Norwegian participation in other sectors, in particular the UK's. Whilst UK companies have won very little business in the Norwegian sector, Norwegian operators using Norwegian registered vessels have achieved a market share in the UK sector of around 25 per cent, falling back this year. Other Norwegian owners have entered the UK market by registering their vessels in the UK. Underlying part of the rapid expansion of the Norwegian fleet has been a fiscal provision that allows private individuals as well as companies to invest through partnerships in industrial investments and to set the depreciation allowance against their personal tax assessments, as in the FRG partnership system referred to above (paragraph 41). The degree to which these incentives affect the attractiveness of investment depends considerably on the particular circumstances of corporate and individual investors. In at least the Norwegian offshore case, one important factor may have been that the existence of incentives led to imprudent and in fact excessive investment by individuals with little knowledge of the industry, depressing rates below the level at which their investment even with those incentives would have been attractive. Much of the Norwegian investment in these vessels though has been corporate.

Table 20: Employment of OSVs in the North Sea

Sector	*1980*	*1981*	*1982*	*1983*	*1984*	*1985*
UK	110	110	128	156	176	139
Norway	43	52	51	51	62	44
Netherlands	19	23	28	27	31	37
Denmark	4	4	13	7	5	8
FRG	—	3	7	—	1	1
Total	176	192	227	241	275	229

Source: Petrodata/Stewart Marine

49. The North Sea demand for offshore support vessels grew at an average rate of 12 per cent p.a. between 1980 and 1984, but 1985 saw a contraction in demand which resulted in a surplus of vessels and placed pressure on charter rates. With the subsequent collapse in oil prices and cut-back in oil companies' North Sea operations, the surplus of capacity has increased substantially during 1986 and pushed charter rates down to a level at which operating costs are barely covered. The number of vessels in lay-up is shown in Table 21 below.

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Table 21: Supply Vessels operating in the North Sea[1]

	Vessels Available	*No. Laid up*	*% laid up*
British	111	20	18%
Norwegian	109	44	40%
Other	74	18	24%
Total	294	82	28%

[1] Position at September 1986

Source: Stewart Offshore Services Ltd

THE BROAD PICTURE

50. Over the last ten years there have been many substantial changes of demand in the world's shipping markets. Shipowners have, because of the continuing surplus of shipbuilding capacity, been under pressure to purchase ships, and some have been further encouraged by special national investment incentives. Many ship purchases have been misjudged, some have been reckless. As a result, there have been too many ships in most shipping markets. These distortions have not been marked weaknesses of the UK shipping industry, but because the markets UK owners operate in are open they have been as affected as any by the consequences. Deep-sea tanker and dry bulk shipping have been the sectors worst affected. Here straight price competition is dominant, and pressure on crew costs severe. UK-registered shipping participation in these sectors has fallen and continued to fall steeply, through selling and change of registration, which is now a broadly established and widening international shipping practice. The support vessel sector was already over-tonnaged before the collapse of North Sea exploration earlier this year, and is now in great difficulty. The short-sea dry-bulk sector also faces considerable over-tonnaging. The liner, passenger and ferry sectors are not without problems, but their positions are generally easier.

OTHER FACTORS

51. The preceding sectoral analysis has not dealt at any length with certain factors sometimes mentioned as giving difficulty for UK shipping:

cargo reservation
cabotage reservation
non-commercial operation by state-trading fleets
subsidies (other than fiscal measures) to foreign operators.

For the most part they have been broadly stable factors over the time considered. This is not to say that they are therefore negligible, and they are discussed in the remainder of this paper, which deals with policy.

DEFENCE

52. Defence considerations are of course important to merchant shipping policy. As the Committee knows, the Ministry of Defence and the Department of Transport have earlier this year submitted a joint memorandum to the House of Commons Defence Committee, and the matters covered in that memorandum are not discussed further in this.

PEACE-TIME VULNERABILITY

53. A related consideration is the question of whether the shares of trade carried by the UK, its trading partners and cross-traders has implications for the UK's heavy dependence on trade. Generally the best assurance of efficient supply is the maintenance of open and competitive markets in which no single supplier has a dominant position and no group of suppliers has the motive or potential to collude against a buyer. The UK at present buys its shipping services in markets that are in varying degrees competitive, both in numbers of shipping companies and the number of registries they belong to. In registry terms, the UK is not dependent on any dominant individual or group of suppliers, and cross-traders currently have a major share of UK trade as Table 22 illustrates. Increased dependence on cross-trade operators as a group appears to carry no threat of market dominance being used against UK trading interests; the group is too large and disparate to act in concert, and market entry for shipping is relatively easy given the active market for vessels. Diversity of shipping supply exists not only for UK trade as a whole but also on most individual trade routes. The routes where cross-traders have a small presence, mainly to state-trading countries, represent only a small part of UK trade.

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Table 22: UK Seaborne Trade: Flag Shares, 1985

	Percentage of cargo weight		
	Dry bulk	*Other dry including liner*	*Tanker*
Flag of vessel			
UK	26	31	18
Trade partner	14	22	12
Cross-trader	60	47	70

Source: Department of Transport

Although the competitive supply of shipping services in the liner trades is muted to some degree by the conference system, there is considerable competition from low-cost independent operators. There does not therefore seem to be any substantial threat that monopoly or cartel power will be used to raise shipping costs and damage UK trade prospects. Shipping markets are sufficiently competitive to ensure that, even if the share of our trade carried by UK operators were to fall further, no single operator or group of operators would be able to gain a dominant market position.

BALANCE OF PAYMENTS

54. Results for the Sea Transport Account of the balance of payments are shown in Table 2. Credit items consist of the earnings arising from the carriage of UK exports and overseas passengers and from cross-trading—by all ships owned or chartered-in by UK residents—and charter receipts from overseas operators and disbursements in the UK by ships operated by overseas residents; debit items consist of earnings which arise from the carriage of UK imports and of UK passengers in ships operated by overseas residents, and overseas disbursements and overseas charter payments on ships owned or chartered in by UK residents. During the 1970s the sum of all these items led to a small balance positive in some years, negative in others. In the 1980s the Sea Transport balance has remained negative and since 1983 the deficit has been rather more than £1,000 million. This change has resulted largely from a substantial reduction in UK tanker operators' cross-trade earnings together with an increase in freight earnings by overseas operators from the carriage of UK imports, only partially offset by a reduction in the overseas disbursements of vessels operated by UK residents. Although the shipping balance has moved into deficit the balance for all services (including shipping) has improved strongly in recent years. This reflects compositional changes in the service products in which the UK retains competitive advantage.

RELATED INDUSTRIES

55. Anxiety has also been expressed about the effect of the change in size of the UK merchant fleet on ancillary industries such as shipbuilding, insurance and shipbroking. The size of such effects is difficult to measure. Although UK shipping companies have for some time placed a significant proportion of their orders for new vessels overseas, a smaller UK merchant fleet does imply less work, in both new construction and repair, for UK shipyards. The causes of the severe decline in the size of the UK shipbuilding industry and with it the marine engineering industry go far wider than this however, and even with a larger and more buoyant UK merchant fleet to which to look for business the UK shipbuilding industry would still be facing very severe problems of contraction. And although the growth of ancillary industries such as insurance and shipbroking has in the past been strongly related to the development of UK shipping, they have now established strong positions in international markets and draw much or most of their business from overseas. Their success is likely to depend far more on their own capabilities and the fortunes of the world markets they serve than on UK shipping.

SHIPPING POLICY

56. The implications of shipping policy for the shipping industry itself can be dealt with by considering the various factors mentioned in paragraphs 10 and 51 above.

NEW TECHNOLOGY

57. There are no obvious barriers to the UK shipping industry adopting the most modern technology, though the opportunities are bound often to be limited to the purchase of new ships, and that depends on sufficiently attractive investment opportunities being available. The Department of Trade and Industry launched in 1985 the Efficient Ship Project, and with the Department of Transport has sought interest in and support from the shipping industry as well as the shipbuilding and marine equipment industries. The response from the shipping industry has been modest, basically because of the difficult financial position faced by so many shipping companies, and also perhaps because there is an expectation that new technology will be developed by the

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shipbuilding and marine equipment industries in this and other countries. (The programme has however attracted a strong response from the marine equipment industry, from which the UK marine industries as a whole including shipping stand to benefit considerably.)

MARKET CHANGES

58. Changes in the pattern and volume of trade and other market changes (distortions of markets are dealt with separately in paragraph 60 below) are to a very great extent the results of changes over which the Government has no control, such as new technology, changes in public taste, action by OPEC etc. And insofar as they are affected substantially by government action, eg accession to the EC, GATT rounds etc, there is usually no possibility of estimating or allowing for the effect on the shipping industry.

OPEN SHIPPING

59. Cargo reservation is not a factor that is thought to have had much influence on the changes in the various sectors of the UK shipping industry in recent years. Some cargo is subject to reservation, though probably only a small percentage, and the position has been broadly stable since the late seventies. It is though an area where the Government has a clear policy and scope for influencing the situation. The Government's policy like that of its predecessors for more than a century has been to seek to minimise cargo reservation to national flag vessels. That policy was of course developed when the UK was the dominant world shipping power. There are various reasons why it remains Government policy when that predominance no longer holds:

(*a*) Although the fraction of world trade carried by UK ships is now far less than it used to be, the part of it that is in cross-trades remains high—over 50 per cent of UK shipping earnings. Open trading is therefore still valuable to us.

(*b*) Our interest in shipping is not only as a provider of the service but as a user of it, and significant damage could be inflicted on our economy if availability of shipping services was generally restricted by a reduction in competition.

(*c*) Reservation of cargo is essentially inefficient, and while successive governments have not been indifferent to particular cases of developing industries or social difficulties arising from declining ones, the general policy has been to encourage efficiency in national and international markets.

60. Although 85 per cent to 90 per cent by value of world seaborne trade is open to competition, this open-market policy remains under threat, not least from developing countries, which are anxious to develop their fleets and have sought to guarantee them cargo through restrictive cargo preference legislation. The Government has acceded to the UNCTAD Liner Code in a way that, while recognising as legitimate the aspirations of those countries to promote their fleet through limited cargo reservation, has aimed to keep developed-country operations open. This has been as part of an EC initiative, and co-operation with other states is a notable feature of the other ways the policy has been pursued. The OECD is putting together a liberal set of common shipping policies. The discussions between the USA and the group of other major shipping nations in the OECD led by the UK led to a joint statement in April this year stressing their policies of safeguarding and promoting competition in all sectors of merchant shipping. The UK with four other EC member states has been active in tackling non-commercial competition from eastern bloc countries, particularly from the USSR. And there have been other cases where the UK has, often in concert with like-minded Governments, resisted by diplomatic and other means restrictions on access to cargoes.

DIFFUSION OF OWNERSHIP

61. The Government does not seek to inhibit dependent territory and foreign registration of shipping beneficially owned in the UK. The UK generally welcomes inward investment in industry, and there is and has for a long time been substantial foreign investment in UK shipping companies (paragraph 8 above). Policy on outward investment is consistent with this; the Government places no obstacles in the way of British beneficial ownership of vessels on a foreign register. Whilst any loss of vessels from UK registry for further trading, even to a dependent territory or Crown dependency where they continue to fly the Red Ensign and remain available in times of need, is a matter of regret, and for the seafarers affected one of particular concern and significance, it would in any case be difficult for the Government to challenge the judgement of a company that decided that it was necessary to register some or all of its vessels elsewhere in order to stay in business. When the registry of a UK-owned vessel is removed from the UK, some return to the UK is likely to be retained by some seafarer employment and the remittance of profits, and the company remains in shipping; outright sale deprives the UK of any benefit beyond the sale price, and may be more likely to lead to the withdrawal of the company from shipping altogether. And the benefits to the UK from the presence of considerable foreign-owned tonnage on the UK registry have also to be borne in mind.

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OVER-TONNAGING

62. Over-tonnaging has arisen for a number of reasons, changes of markets and excess shipbuilding capacity being the two most important. As already remarked (paragraph 58 above), there is little the Government can do about changes in markets. As for excess shipbuilding capacity, European Community policy has for some years been to support the restructuring of the Community's shipbuilding industry so as to make it able eventually to compete without subsidy in world markets. In the EC of Ten, capacity fell from 5.6 million cgrt in 1976 to 3.5 million cgrt in 1984, a fall of 37 per cent; among the significant builders, the UK's fall of 55 per cent was the largest recorded. The broad framework for the new EC directive on aid to shipbuilding now under discussion is that it will recognise the need to bridge the gap between building costs in efficient European yards and prevailing Far East prices for various ship types.

63. Within the OECD, the European Community speaks as a bloc on shipbuilding matters so as to provide a counterbalance to Japan. Japanese yards have around 50 per cent of total world orders at present, so discussions in the OECD can cover the greater part of world shipbuilding capacity. The OECD specialist group on shipbuilding has established informal links with the Republic of Korea, which is not a member of the OECD, to allow an exchange of views on world shipbuilding problems. Pressure is consistently applied to Far Eastern shipbuilding countries to take steps to reduce their shipbuilding capacity and thus facilitate a return to normal market conditions in shipbuilding.

64. A particular case of government action on over-tonnaging has been taken in respect of support vessels in the North Sea (paragraph 49). The Department of Energy's Offshore Supplies Office has agreed with the oil companies operating in the UK sector of the North Sea that the offshore support vessel sector should be designated an area of "special interest" within the terms of its Full and Fair Opportunity policy, and the Office now monitors all offshore support vessel contracts of more than 15 days duration. This has restored to the UK industry the opportunity to compete for business and to a considerable extent shielded them from the effects of Norwegian over-tonnaging. However there remains an excess of vessels in the sector, and rates are still far below what are needed to cover costs.

OPERATING COSTS

65. Operating costs are an area of central importance and difficulty. The USA has for many years paid operating subsidies to US shipowners to compensate them for the difference in crew costs between US and other operators. Putting it very broadly, they have only been able to do this for liner shipping, while US-owned bulk shipping has been registered overseas. No other country outside the socialist states seems to have attempted in any systematic way to bridge the gap between the wage and other crew costs needed for a developed country crew and for a third world country crew. Indirect assistance through taxpayer support of port and light costs would follow European practice but as a means of helping with operating costs it is not particularly attractive, not least because of the high proportion of such assistance that would go to non-UK shipowners.

66. It is sometimes argued that in order to allow vessels operated under developed country flags to be more competitive with flag of convenience operators relief should be given from the "social wage" costs such as social security contributions and seafarers' personal tax obligations which add significantly to the costs of developed country operators. This would breach the fundamental principle that such payments have universal application. In any case, it is by no means clear that there is a a good case for shipping to be singled out for special treatment. The growth of flag of convenience fleets with low cost third world crews is not greatly different to the growth of many other industries in the developing countries, particularly of the Far East, which are now providing strong competition to the mature economies on the basis of low wage costs. In other words, low "social wage" costs are not unique to shipping in the third world but fairly general there, and the costs of employing third world crews little different from the general level of employment costs in third world countries.

INVESTMENT INCENTIVES

67. Fiscal and other investment incentives vary considerably from country to country. It is the Government's view that the tax and capital allowance system should as far as possible not significantly distort investment decisions, and in particular that new investment should be undertaken more in relation to the assessment of its underlying profitability than to the shelter it provides against taxation on profits earned in other parts of the business. It was for this reason that the major changes in the system of company taxation, designed to have a broadly neutral effect on the overall level of taxation paid by companies, were introduced in the 1984 Budget. The pre-1984 taxation regime did indeed encourage tax-shelter investment, in a way that shipowners have over the last two years sought to have provided as a special arrangement for shipping. Nevertheless, it had not lead to a high level of shipping investment. (The investment arrangements both before and since the 1984 Budget have not borne much on decisions about disinvestment such as sale or transfer of registry.)

68. Although the UK shipping industry had and indeed still has a special position in its freedom freely to depreciate investment allowances, the basic benefit to the shipping industry of the pre-1984 regime (and of the

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regime it has sought since 1984) was the front-loading of investment allowances, not the extra flexibility arising from free depreciation. That front-loading was not of course a feature peculiar to shipping; it applied to all plant and machinery investment as well. In most shipping sectors competition is so intense and profits so low that profitable investment is not at present an obvious prospect. But the lack of prospects for profitable investment in shipping is not a sufficient argument for providing subsidies, either directly or through indirect tax shelters. There are the cases where other governments provide particular investment assistance for shipping, notably the Federal Republic of Germany and the Netherlands (paragraph 40 above), but compensating subsidy is not the only—or necessarily the most appropriate—response. A sounder course might be to have such distortions within the EC removed, and the European Commission has announced that it will be investigating subsidies to shipping including fiscal arrangements this year and next. A pre-requisite of the removal of subsidies, rather than a mere harmonisation exercise, would be the effective operation of an EC countervailing regulation to deal with subsidies outside the Community. This is one of the elements of an overall Community shipping policy (not discussed in detail in this paper) which the UK is supporting. So far as shipbuilding aids are concerned it has already been agreed by EC Industry Ministers that indirect as well as direct aids benefitting the production of ships should be subject to the sixth shipbuilding directive (paragraph 62 above).

CABOTAGE

69. The UK is one of the few states that does not restrict cabotage and offshore operations to vessels on its registry. Despite this, vessels on the UK registry dominate UK cabotage, carrying 63 per cent of all cargoes, including nearly all domestic ferry traffic and 77 per cent of the relatively remunerative general cargo. UK-registered vessels do less well in the movement of oil and petroleum between UK ports, securing 52 per cent of the market. Some of the states whose vessels are active in these UK markets reserve their cabotage and offshore markets to nationally-registered vessels, and such reservation is still practised by some EC member states. The question is therefore often raised of whether the UK should not close these UK markets. The Government's policy is to seek to balance the inequity of the present situation by securing for the UK not the fraction of such UK business that does not already go to UK ships but the opening up of foreign markets to UK registered shipowners. This is consonant with the UK's policy of open shipping markets and all the reasons that underlie it. Current EC negotiations offer at last a chance of securing a liberal regime within Europe. The Treaty of Rome prohibits restrictions on freedom of establishment between member states' nationals. As part of a wider shipping policy package, the Commission brought forward last year a regulation dealing with freedom in the EC to provide shipping services. This regulation would inter alia put an end to closed cabotage regimes inside the Community, and the Government is urgently seeking agreement of these proposals. It could give UK registered vessels access to markets with an estimated value of £700 million in 1983.

70. The Government has not ruled out the possibility of the UK itself closing its cabotage trades if negotiations in the EC fail to open up EC cabotage relatively soon, but the real value of such a move should not be over-estimated. UK registered vessels already have a large share of the markets, and might not gain appreciably from closing, especially if this were done on a reciprocal basis so as to maintain opportunities in foreign cabotage markets where UK owners currently do business.

71. Non-EC countries are only significant for these UK markets in oil movements and the offshore sector. Any change in regard to non-EC access would have to take account of EC developments on opening of cabotage regimes in other EC states, and if the UK contemplated closing UK cabotage, closure against these countries would also have to be considered; it is hard to envisage a UK cabotage regime that gave non-EC states preference over fellow EC member states.

SAFETY STANDARDS

72. Finally, it is Government policy to support universal adoption and application of agreed international safety standards for merchant shipping. The UK continues to play a leading role in the International Maritime Organisation and in the port state enforcement regime of a number of European states. Whilst thus strongly committed to the maintenance of agreed and necessary standards on our and others' ships, it is policy that there should be no unnecessary burdens on shipowners reducing their competitiveness, and the regulation of the industry has been examined as part of the review of lifting the burden on industry.

31 October 1986

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Further Memorandum submitted by the Department of Transport in response to written questions from the Committee

1. Is the Government satisfied that adequate ships are available to fulfil defence requirements?

The answers by the Prime Minister on 25 November to three Parliamentary Questions on merchant shipping from Sir Edward du Cann (Official Report: 25 November 1986 Cols 158 and 159,) explain the position on assessment of adequacy of shipping for defence and civil supply requirements in times of emergency or war.

2. Is the Government satisfied that sufficient UK seafarers (officers and men) will be available to crew the ships?

In addition to the UK seafarers at present on UK-registered ships, there is also now a considerable number of UK seafarers serving on ships registered outside the UK or who have recently left the sea. Assessment of the adequacy of numbers of seafarers in future is more uncertain than that of numbers of ships (question 5 below) because of the possibility of some of the ships available to the UK being crewed to some extent by non-UK seafarers.

3. Does the Government expect in a time of emergency to be able to commandeer ships—

(*a*) registered in UK dependent territories;

(*b*) UK owned but registered elsewhere (not dependent territories)?

In a time of emergency, before the assumption of special emergency legal powers, ships could be requisitioned by use of the prerogative power. That power extends to ships on the United Kingdom register and the register of dependent territories. It would be for the Government of the day to decide during a developing crisis or at the outbreak of war whether any emergency legislation should be introduced including provisions related to the requisition of UK beneficially-owned vessels registered outside the UK.

4. Does the Government have any proposals for a Defence Registry, similar perhaps to the requirements of the US Maritime Administration?

The Government has no proposals for a Defence Registry.

5. Is the Government satisfied that no deficiencies in these arrangements will arise in the foreseeable future? How far ahead does the DTp foresee?

Studies of the supply for merchant shipping for defence purposes, undertaken last year by consultants for the Department of Transport, covered the period to 1992. Taken with stated defence needs, they did not predict problems. However, since the consultants reported there has been a further major shift of vessels to other registries and the Department is keeping the position under close review. The Department does not make forecasts of the future size of the UK-registered fleet. There can be no certainty that no deficiency will arise. The position on civil supply requires, because of the arrangements for NATO pooling of merchant shipping, assessment for NATO as a whole.

5 December 1986

Examination of Witnesses

Mr G R SUNDERLAND, Under-Secretary, Shipping Policy Directorate, Mr J D HENES, Assistant Secretary, Shipping Policy Directorate, Mr C T B SMITH, Assistant Secretary, Economics (Transport), and Mr J A BATTERSBY, Assistant Secretary, Marine Directorate, Department of Transport, called in and examined.

Chairman

1. Good afternoon, gentlemen, at the first meeting for our look into the situation so far as the United Kingdom registered merchant fleet is concerned. Mr Sunderland, I wonder if you would introduce your colleagues.

(Mr Sunderland) Thank you, Chairman. I am the Director of Shipping Policy and Mr Henes is responsible for the domestic aspects of that policy including defence and civil emergency. Mr Battersby from our Marine Directorate has particular responsibility for ship registration and crewing matters but will be glad to help on any other matters covered by that Directorate. Finally, Mr Smith is a Senior Economic Adviser with a portfolio covering all shipping industry matters.

2. Thank you very much, Mr Sunderland. You mentioned Mr Henes's responsibility for the defence implications of merchant shipping so we do not need to worry if occasionally we swing into the defence realm of the inquiry.

(Mr Sunderland) We were advised that you were taking some interest in that and we have tried to help you with some answers to questions on that matter. I think we are happy to take some follow-up although we note that you did not want to go into too much detail.

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Mr Fry

3. I think the point is that we have to be careful that we do not stray into the area of the Select Committee on Defence. Perhaps it would help us if you could just explain what the Department's responsibilities are in that particular direction and then we shall know that we can cover that particular section in our questioning.

(Mr Sunderland) Yes, indeed. As you may have seen from the note which we submitted jointly with the Ministry of Defence to the Defence Committee, there are basically four aspects of catering for shipping requirements in wartime and of those three are essentially the responsibility of the Ministry of Defence in the sense of determining the requirements. Those are for transatlantic sea lift, European reinforcement, and the various needs of the Royal Navy for Merchant Navy support. The fourth area is civil resupply, supply of the nation in terms of foodstuffs and raw materials and so on, and that is the responsibility of the Department of Transport.

Chairman

4. Thank you very much, Mr Sunderland. If we can then come to the first of our terms of reference, the increase in the practice of flagging out of merchant vessels: this has not only become a worrying situation, but it seems that a dramatic number of ships are now being flagged out. Could you say what the Department is doing about it or how they feel they should act about it, and the reasons behind it? Is it a set-up which can affect defence, or can have an effect on the shipping fleet as such? Would you care to enlarge on why you feel it is happening and happening at such a tremendous rate, particularly in recent months?

(Mr Sunderland) Yes. This is, of course, a very large subject because it is not just what is happening to the British merchant fleet, it is what is happening to the merchant fleets of pretty well every industrialised maritime country. Some of the factors are peculiar to the United Kingdom; many others are general to us all. Perhaps I should at this early stage refer to the speech which the Secretary of State delivered earlier today and of which I hope a copy has come to you.

5. We have not had the chance to read it yet unfortunately; we have just received it.

(Mr Sunderland) In that speech he has outlined what he sees as the causes of the decline and has indicated the Government's attitude towards it. So I shall try to summarise very briefly, if I may. So far as the causes are concerned, I mention those which are peculiar to the United Kingdom. Pre-eminent among those is the very considerable increase in tonnage which took place in the early 1970s and the late 1960s as a result of some extremely generous investment incentives. Those interrupted the long historic decline of the British merchant fleet from a time when it had a near monopoly of many world trade routes in the early part of the century. So that we had this hump, if you like, of growth in the 1970s and a large part of the decline that has taken place since 1975 has been the elimination of that tonnage which arrived, one might say, unexpectedly if you look at the historic trend. Other factors which are of particular inportance, of course, are those connected with the changing trade patterns, and the United Kingdom's membership of the European Economic Community has dramatically affected our shipping industry. I believe that from the mid-1970s nearly 60 per cent of our total trade being deep sea in nature we are now down to something like 21 per cent, and that is largely as a result of the membership of the EEC. Of course, that has an immediate effect on tonnage. Other factors common to all Western European countries which have also a decline in fleets, and in particular the need to make economies by going out to other registries, include the growth of Third World fleets from in many cases negligible proportions to quite a reasonable size at the present time, the gross excess of tonnage worldwide which has forced many owners to economise on costs wherever they could, and the most obvious way of economising on costs is to crew your vessels with foreign crews who are available at substantially lower rates than our own. We can expand on that perhaps later. Then perhaps in volume terms the biggest cause of the lot is the effect on the tanker market of the oil crisis in the early 1970s and the accompanying discovery of North Sea oil. These two together have resulted in a colossal decline in the demand for tanker capacity worldwide and certainly the UK fleet has been prominent amongst those who have had to shed that tonnage because the demand simply was not there any more. I think I have covered the major causes of flagging-out and now presumably you would like to know what the Government feels about it?

6. Yes.

(Mr Sunderland) We do not welcome it, neither do we deplore it, in that we recognise that many owners have chosen to transfer their vessels to other registers as the only alternative to getting rid of them altogether. It is, I think, one of the least well-known features of the shipping scene that the British industry itself has a very real presence in world markets using this flagged-out tonnage. Of course, the permutations are endless. At one extreme you have vessels on the Isle of Man register sometimes referred to as flagged-out but I think that is an inappropriate expression for vessels which are simply transferred to a Crown dependency register and in many cases continuing to use British crews, both officers and ratings, and are continuing to make their contribution to the UK economy in tax and social security, and the vessels are equally available, as they had been on the UK register, for use in time of war. So these vessels, as I say sometimes referred to as flagged-out, are very much present and an active part of the British fleet.

7. What is the advantage of doing that?

(Mr Sunderland) The main advantage it seems to us—and you will have to pose these questions to the owners who have actually effected the changes themselves—is that it has enabled the owners to make a clean start as far as their crew conditions of service are concerned. The transfer to the Isle of Man register has commonly been associated with the termination of service of the crews and re-employment on new conditions. As I say, I think you have to ask the employers and the representatives of the seafarers about their attitude towards this but it is quite clear that the seafarers have co-operated very well and have understood the need for adjusting the terms on which they serve in order to help those owners to stay in business. There are some other marginal advantages. For instance, I believe that the owner himself will save appreciably on his overheads by not having to operate PAYE if he is transferring to the Isle of Man.

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[Chairman *Contd.*]

8. They pay PAYE, though, do they not, but it is left up to the individual seafarer to pay it direct?

(Mr Sunderland) Indeed, the tax status of the seafarer will not be changed in any way.

(Mr Battersby) Perhaps I could assist on one or two points. The transfer of the employer responsibility to an offshore manning agency means, of course, that that responsibility no longer lies with the ship owner. It is a separation of what has hitherto been a combination of historic functions of ship owning and the employer status. With the breaking-up of that status it means that the employer is no longer responsible for everything that goes with personnel management, in particular, of course, matters such as tax, superannuation and training. These are formidable expenses. Quite separately, there are the conditions of service which an offshore manning agency may be able to offer in attractive terms to the same people, but, of course, the underlying structure is different.

Mr Fry

9. Can I clear up one point, that there is no question that the safety laws or regulations are in any way diluted by such registration?

(Mr Sunderland) Are we still talking about the Isle of Man?

10. Yes, the Isle of Man and the Channel Islands?

(Mr Sunderland) There is absolutely no question of that at all.

Mr Trotter

11. Are there any other offshore registers where we control the safety standards?

(Mr Battersby) The position under the law is that there are, I think I am right in saying, 14 dependent territories of the Crown, of which the best-known are Hong Kong, Gibraltar and Bermuda in shipping registry terms. The Secretary of State is responsible for the safety of these ships in the sense that they are British vessels. Under the law relevant to registration, such as the Merchant Shipping Act 1894 (which is what we describe as an imperial measure), this responsibility still lies with HM Government and within that Government the Secretary of State for Transport. Having said that, however, Hong Kong is in a state of near autonomy, as are Gibraltar and Bermuda. Shipping registration is regarded as an internal function of these dependencies and is wholly within their own control, so there is what one might describe as a dual responsibility here. The local marine administration *de facto* has the responsibility; the Secretary of State for Transport has the responsibility under the law and in principle.

12. Do we have figures available of the tonnage registered in each of those 14? If we do not have them could they be provided?

(Mr Battersby) If I might assist the Committee on that, we do not have precise figures at this moment but the rough order of magnitude is that the tonnage on the UK register roughly equates to the dependent territories' tonnage in aggregate, the largest dependent territory fleet being that of Hong Kong, as is well-known.

Chairman

13. Could I have this spelled out clearly and concisely. You are saying, are you not, that in transferring to the Channel Islands and the Isle of Man the main consideration is to take on cheaper crews or remove things like superannuation and conditions of service in order to make the ship viable, and if it does not do that it goes under? Is that the case which is put to you by the General Council for British Shipping?

(Mr Battersby) Yes.

(Mr Sunderland) Broadly speaking, they can employ crews—and, as I say, in many cases they may be the same crews effectively—at a lower cost on the Isle of Man register without in any way sacrificing safety standards.

Mr Ross

14. Are there any other tax advantages by going under a British dependency flag?

(Mr Sunderland) If the company is operating out of the UK then it will be taxed here, so the lower rate of corporation tax which is available in the Isle of Man is not of direct benefit, if that was the point of your question.

Chairman

15. And the only difference with the PAYE is that the man pays it himself direct? He does not have any reduction at all on that? It is just the administration costs of the ship owner, is that right?

(Mr Henes) The obligations of the seafarer to pay tax are not affected by whether the ship is registered in the United Kingdom or the Isle of Man but the mode of collecting the tax is. If the ship is operating here they will have to pay PAYE. If it is operating through a company in the Isle of Man the PAYE arrangements may not apply.

16. Getting it absolutely clear for the sake of the Committee, it is reduction in costs and crew, and conditions of service, and so forth. I am speaking from memory now, but I seem to remember there used to be laid down standards under the ILO for conditions of seamen worldwide. How is this affected?

(Mr Sunderland) The Isle of Man subscribes, I believe, to exactly the same degree to the ILO conventions and these are applied similarly. Mr Battersby has responsibility in this area.

(Mr Battersby) Chairman, I confirm what Mr Sunderland has just said in relation to the Isle of Man. As you might suppose, of course, where there are roughly speaking 140 marine powers at varying degrees of development, their acceptance of a very large number of international conventions is a mixed picture. In the case of the Isle of Man and in the case of Hong Kong, to take the two most important advanced registers within the responsibility of the Secretary of State for Transport, there is complete adoption of all the significant IMO and ILO conventions. I use the word "significant" in no sinister sense. Some are rather minor and, indeed, one or two the United Kingdom itself is not a party to.

Mr Mudd

17. In the event of a British ship being flagged out to one of the dependencies, would it still be liable for light dues as it would be under the London Registry?

(Mr Battersby) Yes, it would indeed. Liability to light dues is a consequence of presenting the vessel at a port. That is the direct answer to your question. The liability

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In two minor respects the Maritime Enterprise Companies might be worse off than at present, though still equivalent to their major competitors, the FOCs. The first lies in their inability to write expenses off against corporation tax. Whilst this might induce some minor effects, eg on company cars, its main effect would be to raise the effective rate of interest on shipbuilding finance.

The second lies in the possibility that MECs might have to be excluded from the network of double-taxation agreements which (generally) protects shipping companies from having to pay tax in more than one country. FOCs cannot benefit from these because they have no corporation tax systems and, therefore, have nothing to bargain with.

It is, however, obvious that FOCs have suffered both these disadvantages for many years, without having their growth noticeably limited. In the evidence recently given to Committees of the Houses of Lords and of Commons, neither topic was even mentioned.

A further possible disadvantage, relative to FOC operation, is that the minimal power of FOC states means that if they ever went back on their promises of no taxation the ships would simply be re-registered elsewhere. It might be argued that the ability of Britain to enforce any change of policy (eg, the abolition of the scheme suggested here) would make this, by comparison, a disadvantage. The flagging-out of recent years, however, like the 'brain drain' of earlier times, seems to make this improbable, since it is doubtful whether such a change could be enforced without giving extensive warning.

Overall, therefore, this scheme provides opportunities for the revival of British shipping whilst satisfying all of the specified constraints. It does so by providing an opportunity for British shipping companies to be placed on bases broadly equivalent to those of their major competitors, the FOCs, in respect of taxes on profits and employment. It cannot place any significant burden on the taxpayer and, to some modest extent, might even help him.

In economic terms, the quotation from the Department of Transport would be right in a world in which distortions were insignificant. It may be that a world of free trade and laissez-faire would be better than the one we have: but it is not my job to argue for it, neither would I expect much success if I did. This scheme therefore recognises the distortions that exist and attempts to correct their unfortunate effects on British shipping. It has the further advantage that, if it does not work, then it cannot cost anything.

April 1988

ANNEX 1 A QUICK LOOK AT COMPARATIVE ADVANTAGE

Any two countries may engage in international trade for three reasons:

1. One country's people may want something their own country cannot produce at all;
2. One country's people may want something that can be produced more efficiently elsewhere; and
3. One country's people may want something that they could produce more efficiently themselves, but which they do not produce because they concentrate on something in which their advantage is even greater.

The second of these is termed 'absolute advantage' and is so obvious as to need no comment. The third is called 'comparative advantage'. Its working can be explained with two tables.

Suppose, for the time being, that we have only two countries, A and B and two tradeable goods, clothes and food. Both can be made in either country but at the efficiency levels shown in Table 1.

Table 1 One unit of resources produces:

In Country	*In clothes*	*In food*
A	12	10
B	4	5

Table 1 shows that country A is much better at producing both clothes and food. However, its advantage is 3:1 for clothes and only 2:1 for food. Both countries may then gain by specialisation. Table 2 shows the results of A shifting 1 unit of resources from food to clothes and of B doing the opposite.

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Table 2 Results of shifting 1 unit of resources

(Value of output at constant prices)

In country	*Clothes*	*Food*	*Net result*
A	+12	−10	+2
B	−4	+5	+1
Net result	+8	−5	+3

Table 2 shows that if each country moves resources into the activity for which it is best suited then both of them will be better off.

If we had more than 2 countries and more than 2 goods then the tables would be a lot bigger but, in principle, the results would be much the same. Nor is there any reason why services, like shipping, should be left out.

This leads to the general statement that, for economic purposes, every country may be better off if it specialises in those activities in which it has a comparative advantage.

ANNEX 2 CROSS-SUBSIDY AND THE TAXATION OF SHIPPING

Definition

If some outside body, like the government, provides a cash injection for some activity and without receiving anything specific in return then we may term that a subsidy. Where an activity is supported from within a body then this may be called cross-subsidisation. This term is, however, often misused and it may be helpful for it to be carefully defined.

It is common for many distinct activities to be carried on within the same bounds, whether these are physical or organisational. Thus, a container ship will carry many different kinds of cargo, often at different freight rates, and a furniture factory may make tables, chairs and desks, charging different prices for them. Similarly, the same firm may own several ships or factories providing different goods or services. Each of these will have its own market conditions of demand and cost, so that it is very likely that they will produce different levels of profit, whether these appear as rates of return on capital invested, percentages of turnover or anything else. As long as these different activities are all making positive contributions to the overall financial result of the enterprise then there is no cross-subsidy.

It follows that an activity can only be said to be cross-subsidised if the overall financial results of the enterprise would be better if that activity were to be carried on at a lower level of activity or not at all. In practice, however, it is useful to distinguish between cross-subsidisation in the short run and that in the long run.

Cross-subsidy in the short run

In the short run costs may generally be divided into those which vary with the level of output and those which do not. The short run or period is that in which the number of firms engaged in an activity is fixed, and so is their capital equipment. In the long run, however, these constraints are relaxed and all costs may vary.

In the short run, therefore, and especially when there are such joint costs as those of the ship in the first example above, or the cost of the factory in the second, an activity may only be said to be cross-subsidised when the cash revenue it produces is less than the identifiable cash costs of having it at that level, or at all. We say 'at that level' because the law of diminishing returns suggests that average cash costs might be less at some smaller level of output; hence it is possible that, with a lower output there might be sufficient revenue to cover the costs and no cross-subsidy. Always, however, the relevant level of cash costs is that which is avoidable by reducing or stopping the activity in question

Cross-subsidy in the long run

Ships and factories have finite lives so, whether the question of expansion occurs or not, that o replacement certainly will in time. This, too, will involve spending money.

It follows that, even though an activity may not be cross-subsidised in the short run, it may still be s in the long run if the return on the increment of capital or other expenditure incurred to continue it i less than might reasonably have been obtained elsewhere. This still does not mean that all activities i an organisation should produce, or try to produce, the same rate of profit: it does mean that, if any c

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them is producing an inadequate rate of return, then it is receiving long-run cross-subsidy. The reason is exactly the same: the organisation would be better off replacing it with something better. A country which fosters cross-subsidy will suffer economically in the same way.

Cross-subsidy and taxation

Firms do not generally exist to pay taxes; nor do they like doing so any more than the rest of us. Thus, any sensible firm thinking about building a new ship, or a factory, will try to estimate, not only the profits it is likely to make before taxes, but also the effects of the taxes and tax allowances. Generally, it will try to reduce its tax burden in total: not just in respect of any given part.

It follows, therefore, that if — say — there were different rates of tax levied on different products, it might well require different *pre*-tax rates of return in order to achieve similar *post*-tax rates. Similarly, if different investments attract different tax allowances, then those with the largest may be adopted merely because they lower the total tax bill, even though they do not achieve the minimum required pre-tax rate of return. Such tax allowances would thus induce long-run cross subsidisation (as defined above) by combining differential tax allowances with the natural desire of businessmen to pay as little tax as possible.

Where there are marked differences in tax allowances then firms with quite different activities may merge, not for any reason connected with economic efficiency but simply to save tax. Till 1984 there were strong temptations for property companies (which had low tax allowances and large profits) to merge with shipping companies (which often had low profits and such large accumulations of tax allowances that they were unable to use them). There were also tendencies for ships to be specified and operated by shipping companies but actually owned by banks, so as to reduce their tax. They could then share some of this benefit with the shipping companies to which they leased the ships.

All this was quite legal. It was uneconomic from the national point of view because it involved long-run cross-subsidies.

APPENDIX 12

Memorandum submitted by Clyde Marine Training Ltd

Traditionally the Merchant Navy has maintained its own supply of seafarers through training programmes comprehensively drawn up by the industry's own Merchant Navy Training Board. Schemes have been in existence for many years which have given exceptionally efficient practical and academic training to those choosing to make a career at sea.

The basic from of entry has been at school leaver level with some 1800/2000 entering training programmes each year where individuals would be sponsored entirely by a U.K. shipowner from start to finish of a training progamme lasting approximately 4 years.

During the seventies and until 1980, the above numbers were taken into training each year. From 1980, onwards due to the recession and glut in world shipping, recruitment fell rapidly and by 1982 almost no training places were being offered to school leavers.

Certainly during this time 1980/84 the supply of newly trained Deck and Engineer Officers coming out of the scheme was more than adequate to meet the declining requirements of the British Fleet. Many young officers turned to foreign flag operations and obtained employment.

During 1985 and 1986 because of very limited numbers coming out of training the position changed and by the end of 1986 a shortage of both Deck and Engineer Officers was evident.

The major obstacle facing companies considering re-starting training as before is the very heavy cost of training. By 1984 the cost of training one Cadet through the M.N.T.B. Scheme averaged some £25,000. Some reductions were made to training costs for those commencing training from 1983/84 onwards but these reductions were only cosmetic ones and totally inadequate to induce shipowners to sponsor other than a very few.

Presently the U.K. flag fleet is now under 600 vessels and the numbers continue to decline. However, there is a demand elsewhere than U.K. flag for British Officers and to satisfy the overall demand we can identify well under 100 Cadets entering training during 1985 and 1986, a figure totally inadequate to meet requirements.

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It is impossible to predict exactly the numbers there should be in training due to so many imponderables but allowing for a declining U.K. fleet and taking note of the number of British Officers with companies operating from bases such as Isle of Man, Bermuda etc., it is evident that a minimum of 300/400 Deck and Engineer Cadets should be entering into training each year.

When one remembers the figures were 1800/2000 each year until 1980, the estimation of 300/400 cannot be considered to be other than the minimum necessary to ensure supply meets demand.

The alternatives are very serious. U.K. companies would no longer be able to man their ships unless they employ foreign seafarers and this would include the ferry operators and coastal companies who traditionally obtained their Deck and Engineer Officers from the ranks of those employed by the Foreign Going companies.

The writer has been responsible for recruitment, selection and training of more than 100 new entrant Cadets each year since 1970. On a broader base the writer has also been sitting on syllabus panels of both the General Council of British Shipping and the Scottish Council for Technical Education for many years and chaired the G.C.B.S. Training Officers meetings at the G.C.B.S., for a period of several years in the seventies.

With this and other experience gained over the years the writer commenced new style training programmes in 1985 for the Denholm Group which by utilising Educational Grants etc., enabled a fresh, even if limited start, to the training of future Deck and Engineer Officers in 1985.

Presently matters are well forward to enable further developments to take place using Y.T.S. for the basic "O" level leavers in 1987.

Basically the actual training costs including pay whilst the trainee is onboard ship have been reduced to approximately £6000/£6500 for Deck Trainees and £4800/£5500 for Engineer trainees plus the cost of travel to and from ship, this being dependent upon ports of joining and leaving ship.

Whilst these very significant reductions can now be achieved the costs may still prove an obstacle to certain companies very unsure of their future and to companies which have never trained Cadets, the outlay may seem to be significant.

To us in Clyde Marine Training the position viewed not only with individual companies is grave but one examines the current situation at the teaching colleges and already although a number have given up Merchant Navy Training in recent years, others still remaining have in some instances lost many of their most experienced teaching staff.

In Clyde Marine we are now in a unique position retaining professional training staff known throughout the industry, the Department of Trade, the Colleges and very importantly from a recruitment point of view, very many Head Teachers in Secondary Schools, particularly associated with seafaring careers from a traditional background.

Very few companies any longer employ professional training staff and it is also a fact that the G.C.B.S., have for some time now disbanded their Careers Division.

Bearing all these facts in mind we in Clyde Marine Training wish to draw the attention of H.M. Government to the service we can provide to the future training and wellbeing of the U.K. Merchant Service.

We can demonstrate that there remain in these islands young people who despite the uncertainties of a seafaring career still wish such a choice to be the first.

We believe we have the essential attributes to "manage" a training scheme receiving funding from government sources in a manner which will be both economical and efficient.

We will be most happy to attend any meeting at which we may be called upon to discuss and expand these details and proposals. We are in a position to implement training programmes immediately if given the go ahead.

15 January 1987

Footnote: Since submitting the data contained in the memoranum of 15th January, 1987, Clyde Marine Training Ltd., during the Summer/Autumn of 1987, commenced sponsorship on behalf of seven major British Shipowners — a total of fifty-seven Engineer/Deck Officer Trainees. Indications for 1988 are for a minimum entry of eighty Engineer/Deck Officer Trainees for nine British Ship-owners.

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APPENDIX 13

Memorandum submitted by the British Invisible Exports Council

The British Invisible Exports Council welcomes the opportunity to submit evidence to the Transport Committee for its current enquiry into the decline of the UK-registered merchant fleet. The service industries in general, and invisible exporters in particular, are playing an increasingly important role in our national economy and with some 80 per cent of Britain's foreign trade, by value, being seaborne, the part played by the maritime sector is often understated.

We have seen the evidence submitted to the Committee by the General Council of British Shipping in November 1986 and their analysis of policy options dated December 1987; their conclusions are very much in line with the Council's own thinking. The Committee will be familiar with the detailed statistics and I shall not repeat them here. I would, however, like to focus on three aspects: the balance of payments implications, fiscal incentives and protectionism.

General observation

I begin with a general observation that the decline in the UK-registered merchant fleet cannot be viewed in isolation.

A recent report prepared by the UNCTAD Secretariat (TD/B/C4/312) analyses the prolonged situation of over-capacity in world shipping and shipbuilding. As at mid-1985, total surplus tonnage was estimated at 24.3 per cent of the world merchant fleet, while excess world ship-building capacity was considered to be around 40 per cent. The new report concludes that the large and continuing imbalance between supply and demand in world shipping has not greatly diminished during the last two years and we believe that this view is broadly correct. Against this background, shipowners are obliged to cut costs, either by flagging-out or chartering-in lower cost vessels or by divesting themselves of their shipping assets altogether, and there is a temptation for some countries to take new or maintain existing protectionist measures to support their market share.

Balance of Payments

Britain's private sector invisible exporters produced a balance of payments surplus of over £12 billion in 1986; within this sum the net direct contribution of UK owned ships amounted to £979 million with a further £673 million in import savings. These are not inconsiderable sums and their size tends to be overlooked by commentators concentrating on the United Kingdom's sea transport account as a whole, which measures what the country earns and spends on shipping services and is in substantial deficit. (This problem is also faced by the tourist industry, through an undue emphasis on the travel account). In addition to the direct contribution and the import savings, British shipowners also contribute to the balance of payments through the profits and dividends arising on their flagged-out operations. These figures appear in the Interest, Profit and Dividends section of the UK Balance of Payments statistics and are not separately identifiable. Many maritime related services rely on a strong shipping industry and it is a cause for concern whether these services can remain healthy without a strong home base. The services include shipbroking, marine insurance, arbitration, ship surveying, marine engineering and ship repairing. Their contribution to the balance of payments is not easily quantified but from the statistics which are available the total figure could be in the region of £1 billion. Any consideration of the size and role of the British merchant fleet should not, therefore, ignore the balance of payments implications.

Fiscal Incentives

In general, the Council holds to the principle of fiscal neutrality, in the sense that ideally the tax code should not contain positive incentives or inducements to invest in or carry on business projects in particular ways or locations. But while the tax codes under which our major competitors operate offer tax privileges of this sort, we are bound to ask that they are matched in the UK. The British shipping industry has no protected home market and its ships are employed in direct competition with ships of all nationalities. Ultimately, market rates are set by those who are liable to little or no tax or by those in receipt of substantial finance assistance. If the UK is to continue to compete successfully in such a market, its shipping industry must be put, as far as is practicable, in a position comparable with that of such competitors. It is for this reason that the Council has, since the phasing out of the 100% first year allowance in the Finance Act 1984, supported the industry's case for additional capital allowances to offset the subsidies and other non-commercial advantages enjoyed by foreign shipowners. The absence of these, or comparable measures of support, has lead to investment in British shipping declining to far below the level required to sustain even the current, much reduced, British controlled merchant fleet. For the same reason, we continue to support the request for roll-over relief in respect of balancing charges incurred on the sale of ships and for other measures to assist capital or operating costs suggested by GCBS, which would enable UK shipowners to meet the international competition.

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Protectionism

The Council has been in the vanguard of the moves towards the liberalisation of international trade in services, which has led to the subject being firmly on the agenda in the current GATT Uruguay Round. Studies undertaken by the Council have indicated the extent to which Britain's service industries are hampered by protectionist measures in other countries. Governmental impediments cause significant problems to the shipping industry, particularly within the EEC itself. These measures have been well-documented elsewhere, so I shall not repeat them here. Restrictions on shipowners do not, of course, only affect the shipping industry. The freedom of choice for all shippers is also removed or inhibited to the detriment of British exporters and importers, and so there are implications beyond the service industries in obstacles to trade. These issues will need to be seriously addressed by the UK's negotiators, possibly within the GATT and certainly within the European Community.

Conclusion

In short, the British shipping industry is facing a continuing imbalance between supply and demand in world shipping. It is wrestling with protectionist measures from other countries. It operates under a domestic fiscal regime which does little to recognise the industry's special role. Despite these disadvantages the British merchant fleet directly contributed nearly £1 billion to the balance of payments in 1986. The fleet is a vital national asset which should be given every encouragement to increase and prosper.

18 February 1988

APPENDIX 14

Memorandum submitted by the British Marine Equipment Council

The British Marine Equipment Council (BMEC) has noted that the Select Committee on Transport is investigating the sharp and continuing decline of the British Merchant Fleet. As the shipping, shipbuilding and marine equipment industries are interdependent, the BMEC, representing the suppliers of marine equipment and other marine services, wishes to draw the attention of the Select Committee to the effects of the decline under investigation on the marine equipment industry; to the need for more efficient ships as a means to reverse the decline; and to the need of the British marine equipment suppliers for help during the current shipping recession.

The BMEC was formed in 1966 and has over 200 full members and 50 associate members. Members products cover the entire equipment range from anchors to engines and from radars to weapons systems. Hard production statistics cannot be quoted because marine products are not separately accounted in either government statistics or companies own statistics. Pumps, for instance, are included in the figures for all pumps whether they are for use on land or at sea. The size of the marine equipment industry cannot, therefore, be specified in terms of value of production or numbers of people employed but it has always been generally accepted to involve 3 people employed for every one in shipbuilding and that ratio has increased as shipbuilding has decreased. The need for a successful high technology manufacturing industry has been argued very convincingly recently and such arguments would not be appropriate to this paper. There is no doubt, however, that the marine equipment and supply industry is an important part of that manufacturing industry without which this country cannot survive.

EFFECTS OF FALL IN BRITISH FLEET ON OTHER SECTORS

The decline in the British Merchant Fleet has a very serious effect on both the other interdependent sectors of the marine industry. It is only a part of the reason for the enormous fall in UK shipbuilding and the resultant drop in UK orders for marine equipment but it leads to other severe disadvantages. There is no country in the world which has a marine equipment industry which does not have a shipping and a shipbuilding industry and none which has a shipbuilding industry without a shipping industry. Shipowners, shipbuilders and equipment suppliers do not trade only in their own country. Shipowners must be free to buy ships from abroad and shipbuilders and suppliers must strive to export. British equipment suppliers currently export some 60% of their marine production. Without this most would not have survived or would not have continued in marine business. But the home market is the springboard for exports and, as it declines, so it becomes more difficult to export and more firms fail or diversify into non-marine areas. BMEC members recognise that they must progressively and continuously improve their competitiveness in terms of quality, reliabilty, delivery and cost in order to continue to prosper. Many do continue to prosper despite the difficulties but they still need a British Merchant Fleet and a UK shipbuilding industry to achieve their full export potential in addition to their home market orders.

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EFFICIENT SHIPS

The shipowner needs the most efficient ships possible if he is to have any hope of prospering in the current highly competitive shipping markets. Such ships are those which have the minimum crew and achieve the maximum fuel efficiency in undertaking the trade role for which they are designed. They must be built for the lowest capital cost and, above all, be reliable, easily maintained and capable of undertaking their task as effectively as possible. The UK Efficient Ship Programme is aimed at stimulating the research and development to produce the technology for such ships. The benefits for the various sectors of the marine industry should be:

(i) Shipowners should be able to acquire the best possible ships for their needs and they should also develop their own expertise to operate and manage the high technology ships of the future in the most profitable way with the least commercial risk.

(ii) Equipment manufacturers, in collaboration with shipowners and shipbuilders, should be able to develop new high-technology systems for integration into new ship designs after thorough proving under realistic operating conditions. Very large savings of cost and increases in effectiveness should be possible through the use of the latest monitoring and automation techniques and by exploiting to the full the use of microcomputers linked by modern data highways.

(iii) Shipbuilders should develop the design data and have available to them the proven systems and equipment so that they can compete, in a highly competitive world market, with advanced designs from other countries.

(iv) Legislative and statutory bodies, having carried out the necessary research and supporting work, should be able to approve the registration of the new design ships with the minimum manning and the associated crew training requirements.

(v) Consultants and financial organisations should be closely involved in full support to all the sectors and to the overall project.

If the above benefits were achieved, the resulting ships would give shipowners the opportunity to be more competitive. The Programme, however, at present lacks a defined objective in the form of an actual ship or, at least, a ship design concept. Without this the full potential benefits are unlikely to be achieved. It is essential, therefore, that a design concept be approved to provide the overall aim of the Programme and to give the necessary coordination. The various sectors of the marine industry, particularly the shipowners and shipbuilders, must be involved but they cannot succeed on their own. Government support, properly coordinated between the various Departments and integrated with the industry, is essential.

SUPPORT FOR EQUIPMENT SUPPLIERS

BMEC considers that the Select Committee would wish to be aware of certain grave disadvantages under which UK suppliers operate in addition to the difficulties caused by the lack of shipping and shipbuilding orders. Although these are not directly related to the decline of the British Fleet they are greatly exacerbated by the effects on the market which stem from that decline.

Foreign equipment suppliers enjoy certain fundamental advantages in addition to the equipment subsidies which some of the receive. They all compete on equal terms with British suppliers for orders for ships built or refitted in this country including those which have Intervention Fund support. This is not the situation faced by British firms seeking orders for ships built or refitted abroad, both in Europe and elsewhere. In France, for instance, subsidies given to French shipyards by the "Marine Marchande" have been in the region of 15 per cent. If a French shipyard purchased non-French equipment then the shipyard lost the subsidy on that portion. Thus French equipment manufacturers have enjoyed a minimum 15 per cent cost advantage over our equipment. With the recent American President Lines order for five 3,800 TEU containerships from Howaldswerke Deutsche Werft in Kiel and Bremer Vulkan in Breman, the German Government subsidy is in the region of 30 per cent. In this case the subsidy is being passed direct to the German subcontractors which puts non-German equipment at a 30 per cent disadvantage without any negotiation. This, coupled with the inherent preference for equipment of German manufacture, plus local political pressure in the shipyards, means that UK equipment is rarely if ever considered. The shipyards use every possible means and argument to ensure that domestic equipment is used.

The above two examples cannot be substantiated by written evidence but they have been given by people whose knowledge and integrity is not in doubt. Nor is there any doubt that the success of German and French shipyards in securing international new tonnage orders has been followed through with a rigid policy supporting local manufactured equipment. It is virtually impossible to break this nationalistic attitude.

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On two current projects, one in France and one in Germany, a BMEC Member was nominated as the preferred supplier in the specification but, due to the policy adopted by these countries, there is very little chance of that Member overcoming the nationalistic actions of the shipyard and in both cases the shipyards have ordered local equipment against the express wishes of the shipowners. Previous pleas for support for the United Kingdom marine supply industry made to successive Ministers have resulted in repeated rejections on the grounds that "the owner must have the right to select the equipment he prefers". The examples quoted above show that this places British suppliers, when compared to foreign competitors, in an invidious position. This is particularly serious now when competition is fierce because of the low level of marine business.

The BMEC urges consideration of how British suppliers can be given some preferential treatment in competing for orders for ships being built or refitted in this country or for British owned ships being built or refitted abroad. It cannot be right for British Government financial support to be applied to foreign equipment fitted by a British Yard in cases where British manufacturers could meet the requirements at comparable prices. Government action is urgently needed to help British companies to compete on equal terms with their foreign competitors.

CONCLUSIONS

The current decline in the British Merchant Fleet is having a very serious effect on British suppliers of marine equipment and services in their export business as well as the home market. The BMEC strongly supports the promotion of the Efficient Ship Programme as one of the ways to help shipowners and hence shipbuilders and marine suppliers. It also seeks help to correct the unfair situation which exists for the British marine industry relative to foreign competitors. These actions require Government intervention and support properly coordinated between the various Government Departments.

11 March 1987.

APPENDIX 15

Further Memorandum submitted by The British Maritime League

THE CONTINUING HEADLONG DECLINE OF THE UK MAINLAND REGISTER

We were of course delighted to read the contents of your Press Notice dated 11th December 1987 confirming that your Committee is resuming its inquiry into "the decline in the UK-registered merchant fleet", as is urgently recommended by your predecessor Committee in their Interim Report last May.

Previous evidence

We submitted our written evidence as long ago as 18th November 1986, and some supplemental evidence on 11th March 1987.

More Recent Statistics

A great deal has happened in the past 15 months, mostly detrimental and continuing the headlong decline in the UK mainland register, as well as most other West European national registers, both EEC and NATO. The 1987 Lloyd's Register annual Statistical Tables to 30th June 1987 are now public, and attached is a copy of our analysis of these which up-dates, on exactly the same basis, Tables I to V on pages 193 to 197 of our original evidence (HC94-viii) (the last two paragraphs of the Notes to these Tables were omitted by the typesetter): Also included is an up-date of Figs. 1-7 (pp 189-192)*. The Lloyd's Register figures for Merchant Ships completed in 1987 (up-date of Tables VII-VIII pp 198-9, and X p 219 for 1984, 1985 and 1986) are printed on Table VII.

True Beneficial Ownership, FOC and Offshore Flags

Also enclosed is a copy of some important statistics, "Open Registry (FOC) Ownership over 500

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GRT," which have just come into our hands, and detail the true ownership of vessels under the five principal Open Registers (Flags of Convenience). Notice that, apart from Bermuda, these registers do not include UK (or other) Dependent Territories, of which the Cayman Islands, Gibraltar and Hong Kong are very significant (771 ships of 11.6 m GRT, many of them beneficially-owned elsewhere, not necessarily in the UK); nor of course are the UK Crown Dependencies (Channel Islands, Isle of Man) listed as they are included under the UK register totals (146 ships of 1.94 m GRT; see Table II).

These figures are extremely revealing when read in conjunction with individual national figures, though direct comparison can be difficult because some figures are in GRT, others in DWT, also some tables include all vessels over 100 GRT, others only over 500 GRT. For ocean trading purposes only vessels over 1,500 GRT are significant, and for certain classes nowadays much higher than that.

Nevertheless, what this table shows is that Japan, with the largest national-flag fleet, is also, in number, the largest FOC beneficial-owner (but second to the US in DWT); Hong Kong and Greece come not far behind. What is also clear is that, with the possible exception of Indonesia and "Other", all these FOC ships are owned by industrialised countries, ie. at least 86% by numbers, 88% by DWT. Furthermore, all these figures are for the middle of last year (1987) and it is known that there has been an accelerated flight towards offshore flags, some of these newly created like the Norwegian International Ships' Registry (NIS) and our own Isle of Man. While some of these still employ all or mainly nationals as crewmen and maintain national-flag technical standards, there is an increasing tendency towards employing cheaper Asian ratings, then officers, starting with the juniors. That bodes ill for encouraging recruitment, particularly of officers, to national-flag fleets, including the UK's; in turn it rings warning bells if we wish to retain a self-renewing reserve of seafarers for national defence purposes, the Merchant Navy Reserve (MNR), in times of emergency when many extra ships will have to be obtained and manned. Certainly the MNR cannot survive at any credible level of numbers unless the general recruitment of deck and engineer cadets to the national fleet is sustained at a realistic level — much higher than in the past few years.

So far as the UK merchant fleet is concerned, the beneficially-owned total in July 1987 was 2,347 ships of 25.038 m DWT; of these only 1,956 ships of approximately 9.017 m DWT were on the mainland register. That number and tonnage is much less at today's date.

The League's Submission to the Prime Minister

Also enclosed with this letter is a submission to the Prime Minister sent under cover of our letter dated 10th February (copy also enclosed), the purpose of which is self-explanatory. Copies of the paper have also been sent for their information to the Secretaries of State for Transport, Foreign and Commonwealth Affairs, Trade and Industry and Defence. These are to be made public shortly.

Three latest reports from the British Maritime Charitable Foundation

When we gave evidence almost a year ago we told you that we had commissioned our sister organisation, The British Maritime Charitable Foundation, to undertake a number of studies. Copies of these three studies are enclosed.*

1. *Why the Ships Went — Supplement 1983/87*

   The first of these reports is an up-date of "Why the Ships Went" from 1983 to 1987. In the event that was produced under contract for the Department of Transport and only takes us to 31st March 1987; however, we hope to have more recent figures, perhaps to the end of 1987, in the course of a few weeks and will let you have copies.

   The two parts of this report, 1978-83 (published in April 1986), and 1983-1987, provide a fully quantified analysis of the causes of decline in the UK-registered merchant fleet.

   The key table in the up-dated report is reproduced here as Annex I; this shows the drastic decline in most deepsea and some shortsea classes of ship over the eight and a half year period prior to March 1987. The age of the fleet had already reached an average of 11 years; with almost no replacements since then, that average is now presumably 12 years and a major replacement programme will become imperative in the next few years. However, owners say they may prefer to charter-in rather than purchase ships unless investment incentives are improved; these are insufficient at present to encourage investment under the UK flag, following the UK government's removal of beneficial allowances for shipping and their crews in 1984, clearly a major factor in the suspension of new investment.

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The decline in much of the UK fleet is rapidly becoming irreversible. On present trends the UK deepsea trading fleet will be down to 100 vessels or less by 1990. This has serious implications for maritime skills in the UK economy and for defence. The authors of this report did not believe that the decline in the UK fleet had yet bottomed out, but there are indications that this has now occurred in some sectors, as freight rates in most have improved, in several cases considerably. Nevertheless these improvements are not yet sufficient to justify newbuildings; the rates are not yet sufficient to cover the costs of replacing an ageing fleet.

2. *The Merchant Fleet and Britain's Economy*

Arising out of earlier work including the 1986 edition of "Why the Ships Went" it became clear that there was an urgent need for an authoritative study to answer the question "does the decline matter from an economic viewpoint, for the economy at large, and if so how much does it matter?" That need was confirmed from many directions, not least by extraordinary arguments contained in evidence to your own Committee.

"The Merchant Fleet and Britain's Economy" was started in the summer of 1986 and is the outcome of work involving a very wide range of individuals and organisations up to the beginning of this year. The Report first sets out to analyse comprehensively the impact on the UK economy should the remaining UK fleet and shipping activity disappear. Your attention is directed to the Summary (pages 3 and 4) which shows the value added by the UK shipping industry, the importance of the maritime skills provided, the number of jobs at risk, the insurance policy provided against potential loss of future shipper freedoms and the beneficial linkages with other sectors of the economy, including the City and the shipbuilding and marine equipment industries. In particular, Chapter 1 para 1.8 of the Report analyses the statements made by the Department of Transport in their evidence to the Transport Committee (HC 94, Appendix 3, p 55 para 3) and concludes that the propositions that the UK economy would be better off without shipping whose profitability has always been low, and that shipping is a drain on the Exchequer because it cannot survive without disguised subsidies, are essentially incorrect.

The League had access to these conclusions in preparing its submission to the Prime Minister (see above).

3. *The Merchant Fleet and Deterrence*

Your Committee received considerable evidence during the previous Parliament on the subject of merchant shipping for defence purposes. Most, including ourselves, expressed growing anxiety about the availability of sufficient ships of the several types required to meet the extra demands in support of defence, both national and NATO, in addition to the ongoing requirements of economic shipping, both to sustain the community at large and the war effort, industrial and otherwise. This is quite apart from the capability of the UK and NATO navies to protect all the ships in transit on a worldwide basis; that question concerns the Defence Committee, to which we are also sending a copy of this report.

"The Merchant Fleet and Deterrence" examines the role of merchant shipping within the overall deterrent. It shows that shipping is an essential element in deterring either a short or a long war, and that its absence would denote a retreat to a pure "tripwire" strategy which would destroy the political cohesion of NATO. It then considers the availability of shipping to meet NATO's three requirements: direct support of the armed forces, military reinforcement and replenishment, and economic shipping to sustain the civil population. It concludes that if published figures are correct there is already cause for concern, the outlook is rapidly worsening and further study is urgently required in many areas.

The League's Recommendations for Arresting the Decline and restoring the National-Flag UK Mainland-Registered Fleet to a Realistic Level

The League is presently drafting comprehensive recommendations arising out of the above three reports, also taking into account a variety of initiatives and proposals by the General Council of British Shipping, NUMAST and others at a national level, as well as by the EEC, the OECD, GATT, UNCTAD and various international non-governmental organisations and trade associations like the IMIF, CAACE and AWES.

When ready, these recommendations will be launched at a conference, presently scheduled for 20th April, together with a short discussion beforehand of the above BMCF reports, on which they are largely based.

In the meantime, the Recommended Actions in our submission to the Prime Minister are likely to form the basis for the fuller recommendations now being drafted for our April conference. We shall be happy to elaborate on any or all of these if you so wish, though a good deal of our thinking will be found in the evidence we gave you last year.

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New Technology an Essential Element in Future Profitability

Shipping over the past 25 years has been exceedingly innovative in its pursuit of much better productivity and greater economy of operation. Ships grew in size during the fifties but the first major change in merchant shipping was containerisation which has revolutionised cargo handling since the mid-60s and totally changed the structure of the merchant fleet; the second revolution was in the explosive increase in size up to 1973, first of oil tankers, later (to a lesser extent) of bulk carriers and most other classes of ship. All this has changed totally the aspect of ports, harbours and terminals, and both they and the ships are nowadays much more specialised than the "general cargo ships" of the past.

The 1973 oil crisis not only arrested the increase in the size of oil tankers and resulted in a major reduction in world trade volume (particularly oil) but the high oil prices forced owners to seek means of reducing fuel consumption, and in many cases this led to replacing steam with very economical low speed diesel propulsion machinery, mostly burning increasingly low-grade (cheap) fuels.

During the whole period crew costs were rising disproportionately, and much cheaper crews, though of dubious quality, began to be employed from Third World countries. There was therefore great pressure on Western owners to reduce crew numbers, and this has led to a wide application of automation and remote monitoring in all departments — engine room, cargo supervision and control, auxiliary and deck machinery, communications, catering, and of course bridge and shiphandling, navigation, position-fixing and collision-avoidance.

New methods of man-management and the breakdown of outdated inter-departmental demarcations, so-called "dual manning", are also beginning to be introduced.

Much work has gone into reducing the frequency of dockings by better hull coverings, in-water cleaning and the use of new materials.

All this has dramatically reduced operating costs and the fully-automated crewless ship is certainly a technical possibility, though whether it could ever be a prudent or permissible choice is quite another matter.

But much more remains possible in all sorts of directions including revolutionary propulsion systems, novel hull forms, new materials, better application of information technology, and so on. None of these is short-term, and their introduction will depend greatly on what is done to restore commercial conditions in which owners can generate the resources needed to finance major innovations, most of which are in any case only possible in newbuildings.

The enclosed paper "Maritime Research and High Technology Development" by Mr David Goodrich delivered in January points to substantial deficiencies in our government's involvement in new technology for reasons no different from those discussed elsewhere in our evidence in relation to the commercial operation of merchant shipping. Much expertise is lying largely unused in government establishments, especially defence research institutes, but he also highlights the positive benefits of privatisation, "one of this government's greatest success stories".

The Merchant Shipping Bill

a. *Safety*

As a natural consequence of the "Herald of Free Enterprise" disaster of almost a year ago, maritime safety and improved chains of responsibility have quite naturally dominated consideration of the current Merchant Shipping Bill, and several Parts of its contents. One is bound to have reservations about some aspects of the severe penalties being introduced because they appear draconian so far as ships' officers are concerned, presumably because of the difficulty in drafting different penalties for the shipowners and their shore staff who must be considered better able to pay. Nevertheless, providing these new laws and regulations are applied equally to competing foreign vessels, as presently envisaged, they must be welcomed as necessary and urgent measures aimed at eliminating slack management and sloppy routines and discipline that eventually, over a long period, led inevitably and inexorably to disaster in a type of ship that is always particularly sensitive to incorrect operation, but nevertheless has a better than average record of safety.

The establishment of a Marine Accidents Investigation Branch, independent of the Marine Directorate, on similar lines to the long-standing similar Branch in the aviation field, is long overdue and greatly to be welcomed.

Furthermore, the initiatives of the Transport Secretary within the International Maritime Organisation bid fair to result in necessary stronger safety regulations being adopted by that

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organisation to raise international standards uniformly for this class of ship. Clearly there is a need for similar initiatives also within the International Labour Organisation to cover other aspects of crewing standards.

Nevertheless, safe ship operation, day-in day-out, in fair weather and foul, at sea and in restricted waters, ports and harbours, depends on every member of the ship's staff, master, officers and ratings. Furthermore, the ultimate responsibility for safe operation must always rest with the master personally, whether "before God alone" (the traditional position since time immemorial) or statutorily under various merchant shipping acts since they first reached the statute books. It is very important that this ultimate responsibility of the master remains clear and unequivocal; new legislation must not weaken or divide it by shifting responsibility (and authority) onto managements and their shore staffs. The master must be strengthened in his personal responsibility for the ship under command and under weigh. He must also be supported in exercising that responsibility.

The maintenance and enforcement of suitable and uniform standards of safety, both technical and in manning terms (principally officer training and experience standards), are obviously important responsibilities of government on behalf of the Community at large and of the industry. But it is important firstly that the standards nationally are not set so high that they penalise British owners internationally, and secondly that the Marine Survey Service is strengthened and possibly reorganised to ensure that it is capable of enforcement of the standards on all vessels entering and leaving UK ports; that is the principal purpose of Port State Control, eventually one hopes by every major country involved in maritime trade, acting both independently on a national basis, and in co-operation with as many other sovereign states as possible in an international drive against sub-standard ships that are potential dangers to all and also compete unfairly with well-found, competently-crewed and operated ships.

b. *Registration of Non-Fishing Vessels*

Part I of the Bill seeks to extend mainland-register regulations to all the Dependent Territories so that ships can only be registered in the latter if they are up to full national UK and IMO/ILO standards. The power of the Secretary of State to remove sub-standard vessels from the register or to refuse registration in the first place is particularly to be applauded; so is the power to restrict certain registers as to the sizes and types of ships that may be accepted on those registers. That places the onus on the Territories concerned to employ sufficient qualified surveyors if they wish to register larger or more specialised vessels.

However, notwithstanding our general welcome for these measures, which should prevent sub-standard ships being registered on any British or Dependent Territory port register, it is important that they do not penalise British owners relatively to their foreign competitors.

(Registration of British Fishing Vessels (Part II) is certainly to be welcomed in relation to UK quotas under the Community's Common Fisheries Policy, but that is an entirely separate matter unrelated to your present inquiry).

c. *Financial Assistance*

The powers given to the Secretary of State under Part III Clauses 25 and 26 to provide financial assistance for training and towards travel and other costs incurred in exchanging crews outside Europe, are certainly helpful, particularly as a means of retarding the replacement of British nationals by cheaper foreign officers and ratings.

But no-one should be under any illusion that this modest assistance, which is linked to the strategic, defence needs of the country for trained British seafarers in time of emergency or war, will have more than marginal effect on the general state of unprofitability of British-registered ships in peacetime, aggravated also by numerous forms of inequality of opportunity that present government proposals will do nothing to remove.

This Bill is not an appropriate vehicle for most of the measures, fiscal and otherwise, that are needed so urgently as part of the co-ordinated action to save Britain's and other West European countries' merchant fleets from near-extinction within five or ten years.

d. *The Merchant Navy Reserve*

Clauses 27 and 28 give the Secretary of State powers to establish a Merchant Navy Reserve (MNR) and to provide payments for training and certification, but the White Paper (Cm 239) makes perfectly clear that it is intended to do no more than the minimum needed to set up the MNR, and almost certainly to spend nothing at all on training.

The MNR has had a bad reception from the press, the media, the unions, the professional bodies and indeed the owners; it has been dubbed "Dad's Navy" or worse, and treated as an irrelevancy.

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Your previous Chairman raised the matter in our oral session with your committee predesessor. The original suggestion that the country needed an MNR was contained in the League's submission to the Commons Defence Committee (First Report 1984-85; The Use of Merchant Shipping for Defence Purposes, HC114 21st May 1985). In that evidence (pp 54-5) we drew attention to the growing inability of the merchant fleet to spare its best officers for service in wartime in the Royal Naval Reserve. We postulated that: "the general rundown in Merchant Navy manpower leads one to the conclusion that we now need a Merchant Navy Reserve (MNR) to provide the pool of officers and men that would be essential to man the extra ships pressed into service in time of emergency or war from whatever source . . ."

The League called a meeting some months ago to discuss how the MNR could be established, what form it should take, how large it should be, what arrangements should be made for training, how much training should be provided, what numbers of people were likely to be available in the light of the rapidly declining numbers of officers and men on the Merchant Navy Establishment or on offshore (mainly FOC) articles?

The conclusion of that meeting was unequivocal. A Merchant Navy Reserve cannot be sustained on a long-term basis in any kind of reasonable numbers unless steps are taken to increase the attractiveness of a seafaring career and increase greatly recruitment, presently only about a quarter of the minimum number of officers required to sustain even today's much depleted fleet; the proper level of recruitment is between seven and eight times last year's intake of 120 deck and engineer officer cadets.

The League intends to put forward realistic proposals for the MNR to the Secretary of State (at his request) as soon as it is able to formulate them in conjunction with the other bodies concerned. These proposals will however look at the whole manning question, not the MNR in isolation which has no credibility beyond the mid-90s, by which time so many of its potential members will be out of date, and large numbers will be too old and maybe too infirm to mount the gangway.

Unfortunately the MNR has little direct relevance to the survival of the Merchant Navy, but the issues raised in trying to establish it take us straight to the vital questions of recruitment, education, training, career prospects and much more that are vital to solving the growing crisis in trained manpower.

e. *Remainder of Bill*

Most of the remaining measures covered in the Bill simply update or improve long-standing measures contained in previous Acts, some of them provide the legal basis to comply with Community directives, eg. under the Common Maritime Lighthouse Fund, compensation for pollution damage, payment of crew members, and miscellaneous amendments. Much of the detailed material has been waiting for several years for Parliamentary time to be provided; it is to be hoped that we do not have to wait for another catastrophe the next time new legislation is required.

A few of these measures may assist the shipping industry marginally to compete internationally, but none of the Bill goes far enough to meet the urgent needs of the merchant fleet in its fight for survival. Most of the actions now required are in the international arena and long-term; national governments are mainly limited to short-term crisis abatement, and to the removal of conditions that penalise their own fleets in comparison with their competitors, ie. the creation of equality of opportunity. Her Majesty's Government needs to tackle this aspect as a matter of urgency at home whilst at the same time taking the lead internationally to remove the causes of lack of profitability. Without profitability no other measures have any chance of creating long-term commercial stability.

Some final comments

Our 1986/87 Evidence

We have looked again at the evidence we submitted in 1986 and later, and see no reason to withdraw or modify any of it apart from up-dating figures, statistics and graphs, as outlined at the beginning of this supplemental submission. The reports and papers accompanying this submission only reinforce what we said before and explain some of the issues more fully and maybe more stridently; nothing herein or herewith changes the tune or the message, but decline having continued unabated, the tempo of remedial action needs to be greatly accelerated. We hope new members of the Committee will read our original submission as well as this latest one, each with their attached reports submitted at the same times.

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Potential Shortage of Maritime Skills

Perhaps the main change in our thinking is the growing emphasis we are now placing on the importance of the maritime skills, rather than simply on the assets themselves, in particular the ships. People take time to educate and train, and there is no alternative to service in ships as a means of obtaining relevant sea experience. That experience is in strong demand across a wide spectrum of the country's economic and other activities, as well as in international bodies (see Annex A of our paper for the Prime Minister*).

There is already a shortage of qualified seafarers in certain sectors of the government service, business and industry, and very many of those left are nearing retirement. An acute shortage of UK citizens trained as seafarers will develop by the late 1990s unless strong action is taken soon, while there is still a surplus of experienced people of working age, recently put ashore for want of UK-registered ships that require their labour. The Government must face this developing long-term shortage now; it cannot be solved quickly by panic measures in say ten years time, nor directly by the industry itelf.

Short-Term versus Long-Term Measures

There is an inevitable conflict between the urgent short-term measures needed now to save the shipping and shipbuilding industries, mainly at national level, and the longer-term actions needed in numerous regional and international fora to solve the underlying, fundamental causes of continuing crisis in the world industries (see Table VIII: Some Possible Curative Measures Evidence, pp 206-208).

Overtonnage and Newbuildings

The principal cause of the decline has long been and still remains overtonnage due to grossly excessive production of new ships in the Far East yards, primarily Japanese and South Korean, but also those in Taiwan and the People's Republic of China (still the sleeping giant, but already stirring and able to under-cut allcomers).

Short-term improvements entice rash owners into premature optimism about improving conditions that justify newbuildings. The crisis has probably bottomed out but, while so much overtonnage still exists and Far East yards continue to add to it, there is little to justify ordering new, as opposed to purchasing or chartering existing tonnage, except in isolated sectors or maybe in some particular trades; that does not apply yet to the general run of cargo vessels — tankers, bulk carriers, dry cargo (principally container ships and RoRos). The situation should change in the early 90s when the replacement of older tonnage becomes essential, but few owners are earning sufficient to cover much if any of the high capital costs involved, especially for the most sophisticated ships.

Flagging-Out and Offshore Registers

The phenomenon which has dominated European shipping during the past two years has been 'flagging out' from national ship registers into various offshore open registers, several of them specially established to suit the needs of particular countries' shipowners, the Isle of Man (UK), the Norwegian International Ship Register (NIS), amongst others. But no country has yet tackled, and sought to remove the reasons why flagging-out is necessary for so many owners to be able to remain in business. Nor have governments analysed the perceived benefits and what might be done to provide the same benefits on national registers, quite possibly with actual benefit also to the national economy. This is a task waiting to be done, perhaps by or for the British Maritime Charitable Foundation, provided suitable funding can be found for the purpose.

Extraneous Potential Causes of Decline

Various irrelevancies are cited as causes of decline, some of which could nevertheless be serious dangers if they were actually occurring; Soviet undercutting is one of these which in practice has been minimal in its impact, but nevertheless could be formidable on a concerted basis including the potential competition posed by the improved Trans-Siberian Railway, now at least doubled in its container-carrying capacity. Another is threatened US protectionism against Europe and Japan, certainly a major irritant at various times and always an anxiety, but not so far of anything like the same significance as overtonnage and the consequent inherent lack of profitability.

Fallacies in Economic Thinking

For the most part the maritime industries, including shipping and shipbuilding, have modernised and rationalised to a major extent and UK shipowners remain amongst the most efficient in the world. It is inconceivable that any major industrial nation allows itself to lose total control of its principal external transport system and the means to sustain and maintain it. Yet that is the implication of describing shipping and shipbuilding as "sunset industries". The attitude of the British Shippers' Council that the

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lowest limit to the size of the UK fleet "from a purely business point of view . . . [is] zero," ignores the wide implications of this throughout our own economy and, in the longer-term, if business became totally dependent on foreign owners, who might well provide an inadequate, unrealistic service at unrealistically high freight rates that penalised the Country's exports.

Similarly the statement in the Further Memorandum from the Department of Transport dated 25th February 1987 (HC 94, Appendix 3, p 55 penultimate paragraph) that:

". . . the sale of loss-making vessles to overseas interests and the redeployment of resources into more profitable industries will help to improve the overall performance of the economy." . . .

wholly ignores the consequent loss of important maritime skills that the Country will always need throughout many sectors of the economy, as we have explained earlier.

The Importance of Manufactures for Export

Another dangerous fallacy which we hear too often is the argument that the decline in manufacturing industry and therefore its export earnings can be largely offset, even replaced, by expanding the service sector; very many of these services in any case are related to or dependent on the export of goods. Some of the services, and that includes Maritime Transport, also create the demand for the equipment they employ, in this case not only ships but also a vast range of installations, auxiliaries, fittings and materials, ashore as well as afloat, much of it nowadays very high technology, and of great importance to the Country's industrial base; few of these manufactures can survive and prosper in export markets without a secure home base.

Cabotage

We dealt in our earlier evidence with cabotage (Evidence p 202). This is a blatant restrictive practice used by many countries, the United States ('Jones' Act 1920), and every member of the European Community except Britain. We believe strongly in Community cabotage, which would include the UK, but on the basis that it is used as a defensive measure to refuse entry to the Community cabotage trade only to ships from countries which excluded EC-flag shipping from their home waters. The rigid restrictions of the US Jones Act have proved highly detrimental to their cabotage fleet; they have undoubtedly contributed to the poor state of most of their international fleet and their enormous dependence on FOC-registered vessels.

Government's Key Roles in Support of Maritime Transport

Our contention is that there are certain elements in the effective conduct and operation of maritime transport that can only be contributed by Governments on behalf of the community at large and in partnership within the industry; since this activity is largely international, governments have to take the lead in establishing and then sustaining various international organisations to deal with the even wider issues that arise across the world's seas and oceans. The industry cannot function satisfactorily unless there are stable, universally-recognised standards and conditions in various directions; the most obvious of these are safety, both constructional and operational, technical and in relation to the performance of seafarers, including their training and experience qualifications. Governments and their international surrogates also have roles in commercial, legal, insurance, environmental protection and other areas where commercial operators need common standards and procedures.

Safety

HMG has been extremely competent for the most part in dealing with the exigencies of safety and has taken the lead in the gradual improvement of the rules, regulations and legal safeguards required, both national and international, over at least 130 years; HMG initiated the actions that resulted in many of today's international conventions and is of course host government to the most important UN agency in this field, namely the International Maritime Organisation.

Commercial and International

HMG has also started to take a stronger lead in commercial matters, nowadays especially within the EC, also the OECD, UNCTAD, GATT and other major bodies, as well as leading in the important Consultative Shipping Group. The intended deadline of 1992 for the Community's Free Internal Market requires very early progress to be made in all sorts of sectors affecting shipping, and most observers and participants have major doubts that the deadline can be, let alone will be, met.

Maritime Policy and Co-ordination

But maritime transport is to a large extent treated in isolation from any other sector of maritime industry, and there is no overall strategy either nationally or within the Community. A national maritime policy needs to embrace also offshore mineral and living resources, especially oil and gas,

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aggregates and fisheries, as well as a wide range of related land-based industries and activities, and numerous independent and supportive services. These involve at least 14 UK government departments directly and 9 EC directorates. Co-ordination is largely non-existent between them, either here in London or over in Brussels. The co-ordinated government policy we advocate can only be generated with strong and coherent political will at Cabinet (or for Brussels, Commission/council) level.

Government's Roles in Applying Financial and Trade Pressures to Reduce the Causes of Overtonnage

The present impasse in shipping is largely outside the control or influence of the shipowners themselves since the massive overtonnage we have today is the result of wholly unrealistic dumping of excess ships onto the world maritime transport market by Far East countries, originally, possibly still, intent on dominating the shipbuilding market and eliminating the competition, mainly in Europe, to a lesser extent in the United States where the last merchant ship was delivered last November and no orders have been received since 1982. Japan remains by far the major culprit, and present substantial cuts in capacity due to high exchange rates and current market conditions show little sign of going deep enough towards balancing shipyard output against the real needs of a world fleet roughly in balance with the volume of world trade to be carried. South Korea too, the second largest building country, is still producing many more ships than are needed, and remains very reluctant to cut back capacity or output.

This is a major international problem which has almost destroyed European merchant shipbuilding and is at the same time the principal cause of shipping's plight. Only strong and urgent government actions through regional and international bodies can persuade or coerce the culprit countries to make the realistic, drastic cuts required in shipbuilding output, both to restore profitability to shipping (including their own) and to enable European and other countries' shipbuilding industries to survive at a viable capacity compatible with their dependence on shipping and trade. South Korea is the second largest debtor nation; Japan has amassed by far the largest trade surpluses. Both need to take appropriate actions but are unlikely to do so unless international pressure is brought to bear on them, hopefully by the Community and its members in collaboration with the United States, together the generators of more than 40% of world cargo movements. There are political and diplomatic actions that only governments can take, hopefully in partnership with the industries concerned and with their bankers.

Political Will and Maritime Awareness

But we come back over and over again to the lack of coherent policies and the absence of real political will, partly based on sheer ignorance of the overall spectrum, but also on a blind faith in current dogmas that are largely irrelevant to the case in question.

There is total frustration with the failure of political will even to apply the rules as they exist, eg. within the Community. Ignorance and a lack of awareness of the world's total dependence on seaborne trade and what happens at sea breed complacency, inaction, sheer inertia. Most cannot distinguish the actions required now to restore long-term, favourable, stable conditions of trading, from short-term crisis abatement aimed at preventing the disappearance of industries like shipbuilding; in Europe shipping too has received much governmental assistance, but so far as UK shipping is concerned that has so far been minimal and totally inadequate to arrest the flight from the Red Ensign mainland register. Ministers' insistence that flagging-out to Crown Dependencies and Dependent Territories doesn't matter is just a smoke screen to avoid any decisive action to arrest the flight and restore conditions in which the shipping industry can regain equality of opportunity on the UK mainland Register. Ships must be retained under the Red Ensign; otherwise there is no chance that we can maintain the vital supply of trained UK seafarers needed for so many tasks as well as for the safe operation of ships, hopefully engaged in profitable business worldwide.

The League is against direct subsidies, which have been disastrous in other countries, but does not rule them out selectively in the short-term if they help towards removing the causes of lack of profitability and inequality of opportunity.

Solutions are Available for a Secure and Profitable Future

Some see no future for the shipping industry or shipbuilding; we totally reject that view and we hope your Committee too will conclude that shipping can and must be saved as a vital segment of our national economy. The League has put forward some principal actions that are needed from HMG and others to restore the situation; we are prepared to elaborate on how these actions can be put into effect and through what channels, many of them international.

We hope your Committee will join with us in helping to dispel the Nation's "sea-blindness". The first

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step must be to remove many blinkers that account for governmental inaction in those roles where only governments can initiate effective actions.

February 1988

ANNEX 1

Changes in UK Registered Merchant Fleet 1978-86 over 5000 GRT (Including Isle of Man and Channel Island registration)

	3rd Qtr 1978		3rd Qtr 1983		1st Qtr 1987	
	No.	'000 Dwt	No.	'000 Dwt	No.	'000 Dwt
DEEP SEA						
Container and RoRo (Note 1)	85	1,957	90	2,049	57	1,638
Breakbulk: general cargo liner	220	2,651	27	413	5	76
General cargo tramp	30	427	4	75	8	136
Refrigerated tramp	46	411	27	241	6	67
Dry bulk/combination carrier	277	15,259	106	7,291	41	2,998
Tanker including chemical	257	28,918	167	15,699	66	4,634
Gas carrier	40	879	40	1,196	10	163
Sub Total — Deep Sea	955	50,502	461	26,964	193	9,712
SHORT SEA						
Ferries (Note 2)	74	201	64	170	67	202
General cargo/mini-bulk	226	655	167	557	149	464
Tanker	123	303	115	296	95	243
Sub Total — Short Sea	423	1,159	346	1,023	311	909
GRAND TOTAL	1,378	51,661	807	27,987	504	10,621
Passenger Cruise Ships			7		8	

Notes

1. In 1978 this included 11 vessels of 308,000 dwt managed for foreign owners.
2. Ferries exclude smaller passenger and car ferries below 800 dwt and/or 2,100 grt.
3. The 1978 and 1983 figures differ slightly from those given by Lloyds SIS and MR 15, mainly owing to changes in the description of some vessels after discussion with owners.
4. Excluded are some 300 offshore service vessels, comprising supply boats, oil rigs and accomodation units, diving support vessels, standby vessels etc.

DEEP SEA FLEET REDUCTION 1978-86 OF 79% (by number)

SHORT SEA FLEET REDUCTION 1978-86 OF 27% (by number)

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Table I

Principal Merchant Fleets of the World 1987
(as at 30th June)

	Number	GRT	Change 86/7	Position 1985	Position 1986
1. Liberia	1,574	51.412	− 1.237	1	1
2. Panama	5,136	43.255	+ 1.950	2	2
3. Japan	9,822	35.932	− 2.556	3	3
4. USSR	6,705	25.232	+ 0.272	5	5
5. Greece	1,948	23.559	− 4.831	4	4
6. USA[1]	6,427	20.178	+ 0.277	6	6
7. Cyprus	1,341	15.650	+ 5.033	12	9
8. PR of China	1,773	12.341	+ 0.774	9	8
9. Bahamas	469	9.105	+ 3.120	24	18
10. Philippines	1,394	8.681	+ 1.759	21	14
11. United Kingdom[2]	2,165	8.505	− 3.063	8	7
12. Hong Kong	409	8.035	− 0.145	14	11
13. Italy	1,571	7.817	− 0.080	10	12
14. South Korea	1,899	7.214	+ 0.030	13	13
15. Singapore	700	7.098	+ 0.830	16	16
16. India	803	6.726	+ 0.186	15	15
17. Norway	1,979	6.359	− 2.936	7	10
18. Brazil	718	6.324	+ 0.112	19	17
19. France[3]	954	5.371	− 0.565	11	19
20. Spain[4]	2,350	4.949	− 0.473	17	21
21. Denmark[5]	1,256	4.873	+ 0.222	20	22
22. Taiwan	594	4.513	+ 0.241	22	24
23. West Germany	1,414	4.318	− 1,247	18	20
24. Iran	370	3.977	+ 1.066	34	30
25. Netherlands[6]	1,307	3.908	− 0.416	23	23
26. Poland	719	3.470	+ 0.013	27	25
27. Turkey	852	3.336	+ 0.088	25	26
28. Romania	430	3.264	+ 0.030	30	27
29. Yugoslavia	498	3.164	+ 0.291	31	31
30. Canada	1,238	2,971	− 0.189	26	28
WORLD	75,240	403,498	− 1.412		

Notes:			
1. Includes 5 Overseas Territories	61	0.092
2. Includes Channel Islands & Isle of Man	146	1.937
Excludes 10 Dependent Territories	942	13.520
3. Includes 9 Overseas Territories	97	0.230
4. Includes Canary Islands	109	0.104
5. Includes Faeroes & Greenland	273	0.159
6. Includes Netherlands Antilles & Aruba	79	0.395

All tonnages in million GRT from Lloyd's Register of Shipping Statistical Tables.
Approximately half the World Fleet numbers are below 500 GRT.

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Table II

United Kingdom Merchant Fleet

(as at 30th June in each year)

	1981		1983		1985		1986		1987	
	Number	GRT	Number	GRT	Number	GRT	Number	GRT	Number	GRT
Totals over 100 GRT (all types)	2,975	25.4	2,570	19.1	2,378	14.3	2,256	11.6	2,165	8.5
including Trading Vessels	1,624	24.4	1,326	18.2	1,127	13.3	1,025	10.6	915	7.5
but of these — Tankers	527	15.8	417	9.7	345	6.8	298	5.3	262	3.1
Bulk Carriers	150	4.0	123	4.6	80	3.0	62	2.1	40	1.5
	677	19.8	540	14.3	425	9.8	360	7.4	302	4.6
also — General Cargo	724	2.5	578	1.7	513	1.3	472	1.1	421	0.9
Container Ships	65	1.6	64	1.6	53	1.5	55	1.4	50	1.4
Passenger Ships/Ferries	158	0.6	144	0.6	136	0.64	138	0.64	142	0.7
Fishing Vessels over 100 GRT	473	0.14	372	0.1	324	0.09	319	0.08	348	0.09
inc. over 500 GRT			33	0.033	23	0.024	18	0.018	20	0.21
Included above — UK Crown Dependencies: Channel Islands and Isle of Man.									146	1.94
ADD — UK Dependent Territories: Anguilla, Bermuda, Br. Virgin I, Cayman I, Falkland I, Gibraltar, Hong Kong, Montserrat, St. Helena. Turks & Caicos I.										
Totals over 100 GRT (all types)					869	8.9	963	12.4	942	13.5
including Trading Vessels					697	8.7	761	12.3	745	13.3
but of these — Tankers					81	1.3	128	3.3	129	4.7
Bulk Carriers					178	6.1	205	7.3	194	7.1
					259	7.4	333	10.6	323	11.8

At least half of the General Cargo vessel numbers listed are very small; few today are break-bulk.

Numerous Trading Vessels under UK Dependent Territories flags are very small.

All above figures from Lloyd's Register of Shipping Statistical Tables for year concerned; GRT in million tons

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Table III

EEC 12 Merchant Fleet

(as at 30th June in each year)

	1981		1983		1985		1986		1987	
	Number	GRT	Number	GRT	Number	GRT	Number	GRT	Number	GRT
Totals over 100 GRT (all types)	17,318	119.5	16,119	104.8	15,256	85.2	14,484	77.4	13,760	66.8
including trading vessels	10,471	116.0	9,484	101.4	8,509	83.2	7,888	73.9	7,002	63.1
but of these — Tankers	2,106	61.7	1,636	38.9	1,578	34.1	1,458	29.2	1,390	25.0
Bulk Carriers	1,314	26.1	1,259	30.8	1,107	27.6	945	23.6	741	19.4
	3,420	87.8	2,895	69.7	2,685	61.7	2,403	52.8	2,131	44.4
also — General Cargo	5,804	20.3	4,515	15.3	4,501	13.8	4,148	12.1	3,564	9.8
Container Ships	228	4.7	233	5.3	307	5.9	329	6.3	312	6.1
Passenger Ships/Ferries	1,118	3.0	944	2.8	1,016	2.8	1,008	2.8	995	2.9
Fishing Vessels over 100 GRT	4,211	1.44	3,988	1.25	3,928	1.3	3,814	1.2	4,014	1.3
inc. over 500 GRT					479	0.53	463	0.5	521	0.6
Included above are: Overseas Territories — Danish (Faeroes, Greenland), French (9), Netherlands (Antilles & Aruba), Portuguese (Azores, Macao, Madeira), Spanish (Canary Is), UK Crown Dependencies (Channel Is., Isle of Man).									729	2.8
ADD — UK Dependent Territories (10)					869	8.9	963	12.4	942	13.5
French (Djibouti)					6	0.003	7	0.003	7	0.003

A considerable number of tankers (mainly VLCCs) and large bulk carriers are laid up.
At least half of the General Cargo vessels listed are very small; few today are break-bulk.
Numerous Trading Vessels under Overseas and Dependent Territories' flags are very small.
All above figures from Lloyd's Register of Shipping Statistical Tables for year concerned; GRT in million tons.

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Table IV

NATO Merchant Fleet

(as at 30th June in each year)

	1983 Number	1983 GRT	1985 Number	1985 GRT	1986 Number	1986 GRT	1987 Number	1987 GRT
Totals over 100 GRT (all types)	27,277	149.5	26,268	130	25,396	113	24,499	99.6
including Trading Vessels	13,119	143.3	12,020	122.3	11,233	107	10,225	93.1
but of these — Tankers	2,570	66.2	2,282	53.8	2,070	43.7	1,962	38.6
Bulk Carriers	1,752	42.5	1,501	36.7	1,290	31.3	1,033	25.5
	4,322	108.7	3,783	90.5	3,360	75.0	2,995	64.1
Also — General Cargo	6,706	21.9	6,120	19.6	5,726	18.1	5,113	15.4
Container Ships	418	8.5	437	9.3	451	9.6	427	9.4
Passenger Ships/Ferries	1,670	4.2	1,688	4.0	1,696	4.2	1,690	4.1
Fishing Vessels over 100 GRT	8,612	2.4	8,507	2.4	8,310	2.3	8,521	2.5
inc. over 500 GRT			944	0.93	914	0.9	984	1.0
Included above are: EEC Overseas Territories & UK Crown Dependencies (18), US Overseas Territories (5)							790	2.9
ADD — UK Dependent Territories (Ten); French (Djibouti); before 87, Danish (Faeroes).								
Total (all types)			869	8.9	963	12.4	949	13.5
including Trading Vessels			697	8.7	761	12.3	748	13.3
of these — Tankers			81	1.3	128	3.3	129	4.7
Bulk Carriers			178	6.1	205	7.3	194	7.1
			259	7.4	333	10.6	323	11.8

A considerable number of the tankers (mainly VLCCs) and large bulk carriers are laid up.
At least half of the General Cargo vessels listed are very small; few are break-bulk.
Numerous Trading Vessels under Overseas and Dependent Territories' flags are very small.
All above figures from Lloyd's Register of Shipping Statistical Tables for year concerned; GRT in million tons.

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Table V

COMECON Merchant Fleet

(as at 30th June in each year)

	1983		1985		1986		1987	
	Number	GRT	Number	GRT	Number	GRT	Number	GRT
Totals over 100 GRT (all types)	9,597	33.6	8,785	32.8	8,551	34.8	8,470	35.2
(Excluding Albania, Cuba, Yugoslavia:			922	3.7	932	4.3	940	4.2)
including Trading Vessels	3,736	24.6	3,573	25.3	3,490	25.7	3,446	26.1
also—Fishing Vessels over 100 GRT*	4,981	7.8	4,209	7.5	3,903	7.6	3,858	7.8
inc. over 500 GRT*			2,676	3.5	2,695	7.4	2,736	7.5
Offshore Support Vessels	31	0.03	63	0.04	70	0.041	70	0.041
Research & Intelligence*	184	0.34	190	0.34	190	0.35	198	0.37
Icebreakers*	43	0.24	35	0.22	40	0.25	39	0.25
* Largest Fleets of their types in the world (but fish catch only 2nd after Japan).								
For Comparison:								
Japan is the largest national-flag fleet, ie. not 'flag of convenience':								
Totals over 100 GRT (All types)			10,288	40.0	10,011	38.5	9,822	35.9
including:								
2nd largest Fishing Fleet	3,003	1.1	2,917	1.0	2,828	1.1	2,776	1.1
but only over 500 GRT	110	0.36	147	0.39	195	0.4	208	0.4
WORLD	76,106	422.6	76,395	416.3	75,266	404,9	75,240	403.5
including Trading Vessels	40,665	399.6	40,217	392.5	39,200	381.0	38,725	379.2

All above figures from Lloyd's Register of Shipping Statistical Tables for year concerned; GRT in million tons.
(COMECON members above: Bulgaria, Czechoslovakia, E. Germany, Hungary, Poland, Romania, USSR)
(Other members: Cuba, Mongolia, Vietnam. Non-members: Albania, Yugoslavia)
(Mongolia no fleet; Vietnam excluded)

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Table VI

Open Registry (FOC) Ownership over 5000 GRT

(All figures at 7/87: DWT and GRT x 1,000)

TRUE FLAG	PANAMA		LIBERIA		CYPRUS		BAHAMAS		BERMUDA		TOTAL	
	NO	DWT	NO	DWT	NO	DWT	NO	DWT	NO	DWT	NO	DWT
Japan	1,365	25,083	173	8,919	20	116	21	425			1,579	34,543
Hong Kong	470	10,418	334	20,986							804	31,404
Greece	320	5,850	108	8,484	608	12,623	17	823			1,053	27,780
Panama	227	4,388									227	4,388
USA	227	4,542	303	27,151			37	4,262			567	35,955
Singapore	127	990					17	633			144	1,623
W Germany	118	210	99	3,369	177	1,571					394	5,150
Taiwan	116	1,849									116	1,849
Norway	99	3,571	178	8,241			45	2,049	10	265	332	14,126
UK	90	1,520	47	2,394	21	560	69	1,102	60	2,622	287	8,198
Switzerland	83	904	26	1,624							109	2,528
S Korea	73	1,702									73	1,702
Indonesia	52	836									52	836
London Greeks			63	4,063	100	7,550	19	1,749			182	13,362
Monaco			36	2,699							36	2,699
Holland			26	883	40	289	24	30			90	1,202
Cyprus					122	1,764					122	1,764
Belgium					29	169					29	169
Finland							35	1,452			35	1,452
Denmark							33	477			33	477
Other	512	9,223	183	10,110	111	2,880	79	2,721	20	241	905	25,175
TOTAL	3,879	71,086	1,576	98,923	1,228	27,522	396	15,723	90	3,128	7,169	216,382
GRT		43,168		51,962		15,745		9,088		1,920		121,883

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Table VII

MERCHANT SHIPS COMPLETED IN 1987

		Number	*GRT*	*% of Total*
F.	Japan	616	5,707,898	46.56
F.	South Korea	99	2,090,966	17.06
	Yugoslavia	18	350,406	2.86
F.	Taiwan	6	341,873	2.79
E.	Fed. Republic of Germany	56	341,319	2.78
E.	Spain	102	324,541	2.65
E.	Italy	34	312,989	2.55
C.	Dem. Republic of Germany	37	292,241	2.38
C.	Poland	43	288,033	2.35
F.	People's Republic of China	19	285,721	2.33
	Brazil	25	255,173	2.08
E.	Denmark	32	243,218	1.98
C.	Romania	6	198,443	1.62
E.	United Kingdom	31	194,231	1.58
E.	Finland	14	167,919	1.37
E.	France	21	167,027	1.36
	U.S.A.	29	164,326	1.34
C.	Bulgaria	7	84,822	0.69
E.	Sweden	20	74,997	0.61
E.	Norway	55	62,264	0.51
E.	Netherlands	68	59,300	0.48
C.	U.S.S.R.	6	51,590	0.42
	India	25	37,320	0.30
	Argentina	9	25,114	0.20
	Mexico	4	23,914	0.20
	Turkey	17	22,461	0.18
	Singapore	23	14,553	0.12
E.	Belgium	5	14,336	0.12
	Egypt	6	12,160	0.10
	Canada	20	11,691	0.10
E.	Portugal	17	11,543	0.09
	Australia	31	9,275	0.08
	E. Greece	2	4,401	0.04
	Malaysia	2	3,883	0.03
	Philippines	1	1,835	0.01
	Others (11 countries)	22	7,636	0.06
	WORLD	1,528	12,259,419	
F.	Far East	740	8,426,458	68.74
E.	Europe	458	1,978,085	16.12
C.	COMECON	99	915,228	7.46
	U.S.A. & Canada	49	176,017	1.44

Source: Lloyd's Register of Shipping: Annual Summary of Merchant Ships Completed in the World during 1987.

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APPENDIX 16

Memorandum by Mr Simon Bergstand and Professor Rigas Doganis, Transport Studies Group, Polytechnic of Central London

Introduction

Soviet merchant shipping is frequently portrayed as a major competitive threat to West European shipowners. Claims of damage to national shipping interests have come from operators, officials and other commentators especially in the UK. There have been calls for support from government to fight what is seen as a threat.

In particular, Soviet shipping firms have been criticised for undercutting rates and oversupplying capacity in the liner trades, especially where they are cross-traders, and in the cruise markets. At the same time they have been repeatedly criticised for ensuring that a disproportionately large share of their bilateral seaborne trade is carried on Soviet vessels.

The evidence contained in this memorandum is the result of research recently carried out in the Transport Studies Group, Polytechnic of Central London. We have been investigating the issue of Soviet competition in the shipping markets for three years and we are jointly authors of the first major objective analysis of the subject. This was published in January 1987 as a book entitled "The Impact of Soviet Shipping" (George Allen & Unwin).

The Liner Market

It is in the liner market that Western critics of the activities of Soviet shipping firms have been most vociferous. There are several liner routes where Soviet companies are conference members or tolerated outsiders and where they appear keen to maintain conference rates. Elsewhere Soviet lines often operate as outsiders to freight conferences and undercut the rates charged by these cartels. This is normal for outsiders who must undercut to compete with established conference members who have a marketing advantage and who offer rebates and other inducements to maintain the loyalty of shippers. The amounts by which Soviet lines undercut are often among the largest of any of the various non-conference lines and can exceed 20 per cent, though Soviet lines are at times themselves undercut by other outsiders.

But freight rates represents only one of the competitive features offered by a shipping line and for many shippers, especially of high value goods, they can be the least important. Factors such as transit time, reliability, frequency of sailings and the ability to meet particular specialised requirements can all be more important than price. Our analyses of the major liner trades routes on which Soviet lines compete show that they score poorly in these respects. Whether operating as conference members or outsiders their services are generally slow, relatively unreliable and in many cases operated by smaller and older vessels than their competitors. This is because the best Soviet vessels tend to be employed on trades between Comecon countries, especially on services to Cuba. Furthermore. the Soviet fleet has no container ships which would be considered large by international standards. Even on the Europe to South-East Asia route where the Soviet outsider Balt Orient is considered a particular threat their transit times are very slow and they have the worst reliability record. This is so despite using their largest and relatively most modern fully cellular container ships on this trade. Moreover, these vessels are still small compared with those used by the conference lines and by other outsiders such as Evergreen and Yang Ming of Taiwan. In essence shippers taking advantage of the low prices charges by Soviet non-conference lines are paying for a poorer service. Rate-cutting by Soviet lines may be partly or even totally necessary in order to offset the low quality of Soviet liner services compared with those of their major conference competitors.

It has proved difficult to establish whether or not the Soviet lines are a cause of instability in liner shipping because of the fluid nature of both macro-and micro-economic factors. However, no conferences or shipping lines have collapsed as a result of Soviet competition. One important point is that in most liner markets Soviet outsiders provide a small share of total capacity. On the North Europe-North America trade the two Soviet lines combined offer less than 2 per cent of route capacity and Balt Orient provides only about 4 per cent of space to the Far East although the Trans-Siberian Container Service adds to competition here. Only the Europe-East Africa trade features a Soviet outsider with a significant share of capacity at 15 per cent. On several major trades other outsiders, with large modern vessels, offer up to four times the capacity provided by Soviet lines. In so far as overcapacity is one of the major causes of liner market instability, it would be difficult to attribute such overtonnaging largely to Soviet participation when Soviet lines generally offer a small share of total capacity.

Direct Trade

One of the major criticisms of the Soviet Union in the shipping field is that they ensure that a

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disproportionately large share of their bilateral trade is carried on their own vessels. This is true as far as the UK trade is concerned as well as for the trades of a number of other Western countries.

The Soviet Union has the opportunity to control the means of shipment of almost all its international trade as foreign sales and purchases are undertaken by agencies of the Ministry of Foreign Trade. In many cases they buy foreign goods on "free-on-board" terms but sell exports "costs, insurance and freight". This means that the Terms of Sale for both exports and imports allow the Soviet Ministry to arrange transport of the goods.

In several cases there has been cooperation between the trading partners extending through Joint Shipping Commissions to joint services. Examples of the latter include the Service Maritime Combine Franco-Sovietique and the Soviet-German Joint Baltic Liner Service. In a few cases, such as trade with India, there is a bilateral agreement ensuring equal shares of cargo and revenue.

Despite the existence of a number of agreements some shipowners find it difficult to participate fully in Soviet trades. The overall share for French firms in their bilateral trade is only around eight per cent. In the West German trade three-quarters is carried on Soviet vessels.

The UK case is also one of major imbalance. The UK is one of the major non-communist trading partners of the Soviet Union with a fairly balanced flow of goods worth US$1 billion in each direction. In volume terms the trade is not however in balance with Soviet exports being as much as ten times the import figure. Soviet vessels dominate the trade. In recent years they have never carried *less* than two-thirds of their imports and three-quarters of their exports. British lines have never carried *more* than seventeen per cent of UK exports and twelve per cent of imports. Typically the figures are rather smaller for the UK lines and in 1985 they carried only five per cent of exports and six per cent of imports.

Much of the liner cargo between the two countries is carried by a joint shipping service comprising two Soviet and one British line: the Baltic Shipping Company of Leningrad, the Latvian Shipping Company of Riga and the United Baltic Company of London (UBC). UBC has been working with Soviet lines for a long period and in 1982 a full pooling system for cargo and revenue was introduced. Despite this system a large volume of non-bulk dry cargo is shipped outside the joint service either by Soviet vessels or by cross-traders. In some cases this is because the traffic is one-way, for example imports of cars to the UK, and the British line is not keen to attract it. The Soviets carry even larger proportions of their dry and liquid bulk trades with the UK. They claim that there are no regulations restricting participation of foreign vessels in Soviet trade and that such vessels are free to enter Soviet ports. However, by buying on 'fob' terms and selling 'cif' they can, and frequently do, allocate trade to Soviet vessels.

Bulk Trades

Although Soviet participation in the carriage of bilaterally traded general cargo appears disproportionately large this contrasts strongly with their performances in the bulk trades. They do charter out vessels on the tramp and time charter markets but on a small scale. Small vessels are generally involved, and on short routes, often during winter months when some northern ports are frozen.

On the other hand, the chartering in of large volumes of tonnage to carry Soviet grain imports is very significant. Grain constitutes one of the major commodity flows in world shipping accounting for eight per cent of total ton-mileage. This figure represents a doubling of its share in only 15 years and much of this is due to the level of Soviet imports which is in turn the result of failure to meet grain production targets within the Soviet Union. During the 1980s the Soviet harvest has been 170 to 195 million tonnes annually and imports of 32 to 57 million tonnes each year have helped to make up the shortfall. Imports on a large scale have been taking place since the early 1970s and have made the Soviet Union by far the largest grain importer. The major source has been the United States although Argentina, Canada, Australia and latterly the EEC are also important.

There are important shipping implications given the volumes and distances involved in this trade. The Soviet bulk carrier fleet is relatively small, comprising 161 vessels aggregating 2.9 million tonnes. Furthermore, most Soviet bulkers are small. As a result they have been unable to carry more than a small proportion of their grain imports themselves despite devoting many of their bulkers to this trade. We estimated that in 1983 only 9.3 per cent of their total grain imports was carried on Soviet vessels. In some cases shipment was arranged by the exporter but in most the Soviets have had to charter very large volumes of Western shipping tonnage to carry the grain. The Soviet fleet will now be carrying a larger amount themselves as a number of second-hand vessels have been purchased from the West but the bulk of the traffic is still on vessels chartered in.

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This has brought considerable benefit to Western shipowners. Many firms, especially those with vessels registered in Greece or with flags of convenience have chartered ships to the Soviet Union. For those not directly involved there has been the benefit of freight rates at higher levels than would have been found without Soviet chartering. It is possible to identify significant increases in world dry cargo freight rates during periods when Soviet chartering has reached high levels.

British shipowners may have been slow to respond to Soviet chartering needs. It has been estimated that in 1980 British vessels accounted for only 5 per cent of the flow from US ports to the Black Sea compared with 45 per cent for the Greek flag.

The Cruise Market

One of the most controversial areas of Soviet competition has been cruise shipping where they have been accused of dumping on Western markets. The British lines, Cunard and P&O, have been particularly critical of Soviet cruises operated under the name CTC out of UK ports, mainly Tilbury. CTC has around 18 per cent of the small market for cruises from Britain. (The fly-cruise market, in which there is less Soviet participation, is becoming more popular with British holidaymakers).

Our analysis shows that Soviet cruises are found only at the bottom end of this strongly segmented market. Soviet cruise ships are small, often old, and standards of accomodation and service are low. The cruises offered are relatively inexpensive though a few cheaper ones are offered by Greek and other companies, offering similar standards and like the Soviet lines, often benefitting from fully depreciated vessels and low crew costs. Soviet vessels cannot compete in the upper end of the market in which lines such as Royal Viking and Cunard operate. In the British market CTC is offering cruises of a lower standard than other lines but at a much lower price. Many of its passengers could not have afforded holidays offered by other operators. The Soviet line is generating entirely new markets for low priced cruises and not merely diverting demand from existing cruise lines.

Conclusion

It has been suggested in some quarters that the activities of the Soviet merchant marine have contributed to the decline of the UK registered merchant fleet. We have found very little evidence to support this claim. Although the Soviet fleet is very large, few vessels compete with UK shipping companies. In the liner trades Soviet competition is generally on a relatively small scale as well as being slow and unreliable with services being offered infrequently. The best Soviet liner vessels are not used to compete with freight conference lines. In cruise shipping the Soviets can only compete at the very bottom of a highly segmented market whereas British lines tend to concentrate on the upper and middle segments. In the bulk trades the Soviets have to charter large volumes of shipping owned by Western firms to carry their grain imports. It is estimated that the cost of doing this far exceeds the revenue they earn from cross-trading in the liner market. Although few British firms have earned freight revenue from carrying Soviet grain they have benefitted from the ensuing higher freight rates.

Criticism of Soviet shipping policy is more justified in the bilateral trades. Their policy of controlling shipment of their exports and imports undermines effective participation of vessels from the trading partners and ensures that Soviet lines carry a disproportionately high share of their international trade.

APPENDIX 17

Memorandum submitted by Mrs B Fletcher BA, DPSA, MCIT, Director of Education, Institute of Chartered Shibrokers

(I should like to thank Mr J Sapsford-Francis and Capt P M Alderton for their assistance in preparing this submission).

I have had the opportunity to attend the Committee's deliberations and analyse the evidence presented by the Department of Transport as published by HMSO and would like to make the following observations.

1. DECLINE OF THE U.K. FLEET

   While the decline of the U.K. registered fleet is not in question merely to state and illustrate that decline and not to make a detailed analysis of the structure of the decline of the Shipping industry is to misunderstand the 'problem'. This makes policy recommendations difficult and probably ineffective in the long run. The most important point to be made in this connection is that the time has long passed since the Shipping industry could be regarded as a single entity. It is an industry with very diverse trading conditions, ownership and demand structures requiring similarly diverse remedies for the decline.

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The general structure of the U.K. registered fleet (all vessels over 100 gross registered tons) has changed little over the last fourteen years, it is quite simply smaller than it used to be. However this masks fundamental changes which are of importance given the increasing specialisation in vessel type and trade.

2. STRUCTURE OF THE FLEET

The comments made in this section are based on Lloyd's Register Statistics covering the U.K. registered fleet of vessels of 100+ gross registered tons 1973 — 1986. (Annex) These figures indicate that the decline is not uniform either by vessel type or within vessel type when both numbers of ships and gross registered tonnage are considered.

Table 1 shows the percentage change in the fleet by vessel type and by both number of ship and gross registered tonnage.

TABLE 1

Analysis of the U.K. fleet (100+grt) and percentage change 1973-1986

		1973	1986	% change 1973-1986
Oil Tankers	Ships	590	216	– 63.4
	GRT	14107064	4302604	– 69.6
Oil Chemical Tankers	Ships	N/A	20	—
	GRT	N/A	91504	—
Liquified Gas Carriers	Ships	28	23	– 17.9
	GRT	533044	708166	+ 32.8
Chemical Tankers	Ships	13	32	+ 146.1
	GRT	88802	133023	+ 49.7
Miscellaneous Tankers	Ships	N/A	7	—
	GRT	N/A	20317	—
Bulk/Oil Carriers	Ships	33	6	– 81.9
	GRT	2436090	513536	– 79.0
Ore and Bulk Carriers	Ships	235	56	– 76.2
	GRT	4545276	1636180	– 64.1
General Cargo	Ships	1129	472	– 58.2
	GRT	5231668	1124850	– 78.5
Container Ships	Ships	92	49	– 46.8
	GRT	1344805	1418666	+ 5.4
Vehicle Carriers	Ships	6	6	0
	GRT	7378	6052	– 28.0
Ferries and other	Ships	167	138	– 17.4
Passenger Vessels (2)	GRT	938871	640400	– 31.8
Commercial Trading	Ships	2293	1025	– 55.3
Fleet (1)	GRT	29232998	10595298	– 63.8
Total Fleet	Ships	3628	2256	– 37.9
	GRT	30159543	11567117	– 61.7

Source: Lloyd's Register Statistical Tables 1973 — 1986

(1) The categories selected for detailed analysis exclude Supply ships and Tenders; and Livestock carriers, Fish Factories and Carriers, Fishing Vessels, Tugs, Dredgers, Cable Ships, Icebreakers, Research Ships and non trading miscellaneous. The categories selected are designated as the Commercial Trading Fleet (see Annex 2)

(2) This includes passenger liners which were included in the Lloyd's Register Statistics as a separate category until 1977.

It will be noted that the extent of the decline in gross tonnage terms is very similar for both the Commercial trading fleet (as defined in footnote (1) to Table 1) and the total fleet. The decline in the number of ships is, however, greater in the Commercial trading fleet than in the fleet as a whole. This is due, for the most part to the growth of supply ships and tenders sector of the total fleet from 97 ships and 171,298 grt in 1973 to 291 ships and 270,363 grt in 1986, a percentage change of +200% and +57% respectively. This growth is, of course, closely linked to the development of the North Sea oil resources. While manning levels are comparatively higher in supply ships this does not compensate for the loss of ships, and hence job opportunities, in the commercial trading fleet particularly as the North Sea developments have finite economic life. (A comparison of the Structure of the total fleet and commercial trading fleet is shown in the Annex.

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Even within groupings the decline over the period is by no means uniform. For example, in the case of tankers the large, generally crude carriers, have contracted by 63.4% by ship number and 69.6% by gross registered tonnage, whereas chemical tankers have increased by 146% and 49% respectively, while the latter category represents a relatively small number of vessels but of a highly sophisticated type, of growing importance in world trade.

In the case of bulk cargo and general cargo vessels the decline has been across the board, in both ships and tonnage ranging from 58% to 81%. On the other hand the container trade shows a cut of 47% in the number of ships but a 5% increase in tonnage. (An estimated rise in TEU's from 118,421 in 1973, 124,474 in 1986.) Here again this will have important implications for manning which is more closely related to ship numbers than tonnage. Incidentally this is an area of shipping in which the U.K. has in the past taken advantage of technical change and commercial opportunity.

It would seem reasonable to conclude from these comparisons that all sectors of the fleet do not face similar difficulties which can be solved by uniform solutions.

3. KEY ISSUES

Ship Building

The Department of Transport appear to recognise that different sectors of the fleet face different problems although they do not highlight the varying detailed rates of growth and decline. However it is difficult to understand the rationale for what they see as 'key issues' for particular sectors or trades. In part this is due to the fact that the Department emphasises the decline of the U.K. fleet in relation to the rest of the world. While such a comparison is relevant, a clear statement of the circumstances of the U.K. (as briefly attempted in point 1 above) would be more usuful in understanding the U.K. problem which is the primary and, perhaps only, concern of the Committee.

For example, shipbuilding capacity is designated as a key issue for dry bulkers. There is little evidence that factors affecting shipbuilding have been particularly relevant to this sector over comparable sectors of the U.K. industry. Indeed the Department states that:

"This complex situation (shipbuilding) has affected many sectors of shipping, perhaps most notably the dry bulk sector." (para.33) Hardly a 'key issue' argument. It goes on to say:

"Some companies (dry bulk) have taken strategic decisions to withdraw from the bulk sectors because of the poor financial results and limited prospects of an early upturn in the market . . . . Although different in origins and timing, the fundamental position has been the same for deep-sea tankers and dry bulk carriers: severe over-tonnaging, depressing freight rates, undermining profitability, and forcing shipowners to reduce their fleets or to operate them under registers where competitive crew costs can be obtained." (para 33)

In looking at the "problem" of the decline in the U.K. fleet the origins and timing of that decline in specific sectors (referred to in passing by the Department of Transport) is of the essence rather than the decline itself.

Crew Costs

Crew costs are stated as the key issue for tankers but on closer examination this is a specific statement in relation to the cost of crews from developing countries rather than a comparison of all manning. Furthermore there is little evidence that crew costs are any more a 'key issue' for tankers than shipbuilding is for dry bulk carriers. In the section on the short sea Bulk Trades there are two specific references to crew costs: paragraph 35 claims that: "competition is largely between vessels registered and in the main crewed in European countries, thus limiting the extent of crew cost disparities between operators"; and paragraph 39 "As crew costs account for well over half total operating costs in the short sea bulk trades, a modest crew cost disparity implies an appreciable commercial penalty".

The limited research I have carried out in this field suggests that since uniformity of labour costs is no longer a feature of the U.K. industry, assumptions about crew costs cannot be made even across sectors or trades let alone the industry as a whole. For example, in the short sea (near Continental trades) where 80% to 90% of crews of vessels of under 4,000 dwt (a substantial part of the short sea fleet) are non-federated* the U.K. manning costs are less than those of their European competitors and cheaper than the cost of the Spanish and Isle of Man flags. It is estimated that non-federated vessels have 25% less manning costs then federated vessels. It is

* Crews not on National Maritime Board Agreements.

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difficult, therefore, to support the crew cost argument across the whole sector and indeed most non-federated operations would argue that capital costs are their major constraint.

4. INVESTMENT

If it is accepted that even part of the difficulty faced by Shipowners generally, or by Sector, is capital constraint then one solution would be the introduction of some form of investment incentive. In addition maintenance of a fleet, at whatever level, must imply a renewal programme regardless of the economic climate.

One very simplistic measure of the failure to renew capital is the age distribution of the fleet. In comparison with the world fleet the U.K. fleet is becoming comparatively older.

TABLE 2

Age distribution of U.K. fleet compared with world fleet
(100+ grt)
(Per cent of Total Tonnage)

	Under 5 Years	5-10 Years	10-15 Years	15-20 Years	20-25 Years	25-30 Years	30+ Years
1975 U.K.	46	26	14	9	2	2	1
World	39	25	14	12	5	2	3
1985 U.K.	14	27	40	12	4	2	1
World	19	26	31	13	6	3	2

If its age distribution is broken down into the categories of tankers and bulk carriers the pattern of an ageing fleet emerges clearly although it may be argued there has been some re-investment in bulk carriers. In 1975 44% of the tanker fleet were below 5 years old whereas to-day this has fallen to 10% built since 1980, and in bulk carriers the figures are 64% and 26% respectively. See Table 3 below.

TABLE 3

Age distribution of the U.K. fleet
Total fleet, Tankers and Bulk Carriers
1975, 1980 and 1985
(Per cent of Total Tonnage)

	Under 5 Years	5-10 Years	10-15 Years	15-20 Years	20-25 Years	25-30 Years	30+ Years	Total Tonnage
Total fleet								
1975	46	26	14	9	2	2	1	33157400
1980	24	47	19	6	2	1	1	27135200
1985	14	27	40	12	4	2	1	14343500
Tankers (100+ grt)								
1975	44	31	15	5	1	0	1	16096100
1980	24	46	20	7	2	0	1	13229600
1985	10	30	43	11	4	1	1	5937100
Bulk Carriers (6000 + grt)								
1975	64	25	7	4	0	0	0	8107600
1980	21	60	15	3	1	0	0	6220900
1985	26	25	42	6	—	1	—	3014200

Source: Maritime Transport OECD 1975, 1980, 1985

Even in the area of containerisation, where gross tonnage has been maintained and grown in percentage terms from 4.6% to 13.3% of the commercial trading fleet between 1973 and 1986, and there has been considerable re-engining the container fleet is "ageing". In 1982 the average age of U.K. owned and registered cellular containers was 8.9 years, the average of the world container fleet was 8.8 years, by 1986 the respective figures were 12.1 and 8.9 years. This is shown in Table 4 below which is based on figures prepared by the General Council of British Shipping.

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TABLE 4
Average age of U.K. owned and registered fleet 100 grt and above
(Per cent of Total Tonnage)

	1982		1983		1984		1987		1986	
	World	UK	World	UK	World	UK	World	UK	World	UK
Ore/Bulk	10.3	6.9	10.4	6.8	10.3	6.9	9.9	7.4	9.9	7.8
Combination Carrier	10.0	9.6	10.7	10.2	11.2	11.3	11.6	11.3	11.9	12.5
Cellular Container	8.8	8.9	9.4	9.5	9.3	10.2	9.2	11.3	8.9	12.1
Oil Tanker	10.0	8.8	10.2	9.2	10.7	9.6	11.3	9.8	10.3	10.0
Total Fleet	11.0	8.7	10.5	9.1	11.4	9.7	11.5	10.1	11.6	10.5

Source: GCBS Statistical Brief

5. TRADE BY GEOGRAPHICAL AREA

The decline of the fleet is not only complicated by the experience of different sectors of the fleet but also by the fact that individual sectors have been affected unevenly across trading areas. Trading areas are currently categorised as Unlimited, Middle and Near Continental and were previously known as the Foreign-Going, Middle and Home Trades. Although the various categories do not directly coincide they are sufficiently similar to warrant comparison.

In the context of a declining fleet there is increasing emphasis on U.K. trade with the Near Continent, a reflection of the growth of the European market, and the percentage of vessels in the unlimited trade is contracting substantially, from 82% in 1975 to 57% in 1985, as shown in Table 5.

TABLE 5
Distribution (%) of U.K. fleet by trade as at 30th September 1975, 1980, 1985

	1975	1980	1985		
Foreign Trade		82.2	69.1	57.6	Unlimited Trade
Middle Trade	}	17.8	9.9	6.6	Middle Trade
Home Trade	}		21.0	35.8	Near Continental
		100.0	100.0	100.0	

Source: GCBS Fleet and Manpower Inquiry 1975, 1980, 1985

A more detailed analysis by vessel type is given in Table 6 which emphasises the diverse experience of U.K. fleet.

This table indicates for example that bulk carriers operating in the Unlimited Trade area are now only 22% of the total U.K. registered vessels (excluding laid-up vessels) whereas in 1975 they were 48% (excluding laid-up vessels). On the other hand the tanker percentage has remained fairly stable in this trade but doubled from 4% to 8.7% in the Home Trade. The ferries have also experienced a proportional expansion from 3% in the Short Sea trades in 1975 to 10% in the Home Trade alone.

CONCLUSION

In view of the points made in this submission, I would respectfully suggest that the Committee would find it useful to adopt a more specific approach to the 'problems' which have engendered the decline of the U.K. registered fleet in order to arrive at recommendations for its successful maintenance should this be deemed a proper economic pursuit.

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ANNEX

COMPARATIVE ANALYSIS OF THE STRUCTURE OF THE U.K. TOTAL FLEET AND COMMERCIAL TRADING FLEET BY PERCENTAGE 1973 AND 1986

	No of Ships as % of Total Fleet		No of Ships as % of Commercial Trading Fleet (1)		GRT as % of Total Fleet		GRT as % of Commercial Trading Fleet (1)	
	1973	1986	1973	1986	1973	1986	1973	1986
Oil Tankers	16.2	9.6	25.7	21.1	46.7	37.2	48.2	40.6
Oil/Chemical Tankers	N/A	0.9	N/A	2.0	N/A	0.8	N/A	0.9
Liquified Gas Carriers	0.8	1.0	1.2	2.2	1.7	6.1	1.8	6.7
Chemical Tankers	0.4	1.4	0.6	3.1	0.3	1.2	0.3	1.3
Miscellaneous Tankers	N/A	0.3	N/A	0.7	N/A	0.2	N/A	0.2
Bulk/Oil Carriers	0.9	0.3	1.4	0.6	8.0	4.4	8.3	4.8
Ore and Bulk Carriers	6.5	2.5	10.2	5.5	15.0	14.1	15.5	15.4
General Cargo	31.1	21.0	49.2	46.0	17.3	9.7	17.9	10.6
Container Ships	2.5	2.1	4.0	4.8	4.5	12.2	4.6	13.4
Vehicle Carriers	0.2	0.2	0.3	0.6	0.02	0.05	0.02	0.05
Ferries and Passenger Vessels (1)	4.6	6.1	7.3	13.5	3.1	5.5	3.2	6.0
Supply Ships and Tenders	2.6	12.8	—	—	0.6	2.3	—	—
Miscellaneous Non-Trading (2)	34.1	41.6	—	—	2.5	6.1	—	—

SOURCE: Lloyd's Register Statistical Tables 1973 — 1986 inclusive

(1) including Passenger Liners in 1973
(2) For definition of this category see Note (1) Table 1 in main text

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TABLE 6

Distribution (%) of U.K. fleet by trade and vessel type as at 30th September 1975, 1980, 1985*

	FERRY AND PASSENGER VESSELS			DRY CARGO			TANKERS			SPECIAL		
	1975	1980	1985	1975	1980	1985	1975	1980	1985	1975	1980	1985
FOREIGN TRADE UNLIMITED TRADE	1.5	1.4	3.0	48.0	37.0	22.6	24.0	27.0	24.3	2.2	2.4	3.6
MIDDLE TRADE MIDDLE TRADE			0.3		4.3	3.1		1.6	1.5		3.8	1.2
	3.0	5.0		9.6			4.0			1.0		
HOME TRADE NEAR CONTINENTAL			10.0		9.2	7.9		5.2	8.7		1.5	6.2

Source: GCBS Fleet and Manpower Inquiry Statistics

* Based on number of vessels only

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APPENDIX 18

Memorandum submitted by Lieutenant-Commander RM Frampton RN MNI FRSA FRGS FRMETS

THE MARINE INDUSTRIES DEVELOPMENT CORPORATION AS A WAY FORWARD

PREFACE

The concept of a coordinating organisation for the marine industries was first presented to the Council of The Marine Society in September 1981 when many shipping companies were being forced to reduce their fleets and make many of their newly recruited officers redundant. As a result of this paper The Marine Society wrote to the Minister expressing its concern at the likely effect of this situation continuing particularly as it affected manpower.

The call for evidence by the Select Committee on Transport enquiring into the decline of the UK registered fleet at the end of 1986 resulted in valuable contributions being submitted by many sectors of the shipping industry. However there seemed to be no proposal to consider the marine industries as a whole, as collectively they are a key sector of the economic and military defence of the nation.

The formal paper to the Select Committee proposing the setting up of a Marine Industries Development Corporation to revitalize the industries was submitted on 1st May 1987 and together with other papers was laid before the House on its dissolution.

The following paper refines and expands the reasons for this proposal, discusses the object to be achieved, outlines a strategy and proposes a Minister for Marine Affairs, or if this is politically unacceptable, a Cabinet Committee and The Marine Industries Development Corporation to achieve the object.

It should be noted that the views expressed in the following paper are those of the author and not those of The Marine Society.

SYNOPSIS

"Britain depends on her Merchant Navy". The Rt Hon Mrs Margaret Thatcher, Prime Minister, — 22nd September 1987.

Each sector of activity within the marine industry sector of the national ecomony is interdependent on the others for its prosperity and competitiveness in international markets. Central to this prosperity is that of commercial shipping.

UK commercial shipping has been in decline for some years. This decline has now reached the stage where the fleet is on average over 11 years old; there is no money for replacement; recruitment targets are not being met. The sea transport balance was £1,000 million in deficit in 1986. As a net result, economic survival and military defence are in jeopardy.

Any company faced with a declining market share and ageing product range has to decide whether to continue trading until it is no longer possible, sell out to the competition, or embark on a new strategy for growth. Companies which decide on the latter find that their existing organisation is rarely capable of making a success of it and therefore appoint a new manager and set up a new organisation.

The marine industries are collectively a key sector of the national economy and of its defence. Within this sector, merchant shipping is the key company in decline. A "No Action" policy will inevitably increase the sea transport balance deficit, decrease the opportunities for other sectors within the marine industries, and remove the merchant fleet's ability to meet economic survival and military defence requirements. A "Sell Out" policy will bring limited financial returns but lead to the same results in due course. A new object, and strategy to implement it is therefore needed if the economic and military needs are to be successfully met.

It is suggested that the object should be to obtain and retain at least 40% of UK seaborne imports and exports for UK owned, registered and manned ships (in 1986 only some 22% was achieved). Such a target would not only be in line with UNCTAD's guide and therefore politically defensible, it would also ensure a fleet of a size approaching that needed for economic and military defence. Its size would demand a recruitment programme of seafarers which would in turn meet the need to provide a sufficient number of trained and experienced personnel for senior marine appointments ashore in the public and private sectors. The spin-off of success for other sectors of the marine industries and for the economy in general would be substantial.

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While the tactical solutions in hand or proposed to the Select Committee on Transport during the last session of Parliament may stem the decline, they cannot be relied on to achieve such a target or implement a strategy which has not been formulated.

The 40% target would involve all those concerned within the marine sector. However, no one government department nor any other single organisation is in a position to take overall control, and a new organisation is needed.

A Minister for Marine Affairs of cabinet rank, together with a new department, authority and finance, would be the best solution. If this solution is not acceptable then a Cabinet Committee to determine the object and outline the strategy has to be the alternative. To implement this strategy a new organisation *The Marine Industries Development Corporation* is proposed. The terms of reference should include, inter alia, coordination of all concerned; recruitment and training; building programme; research and development; raising of funds; public relations; and a target of profitability within a specified period of time.

Britain needs her Merchant Navy. If it is to be a viable sector of the economy and of defence, then the marine industries as a whole must be coordinated to achieve the object. Political will and the organisation to implement that will is needed.

"From our insular situation, and as a state depending on commerce, our political object and naval interest are the same object meeting in the same point".

Jonas Hanway — 1780

"Britain depends on her merchant shipping"

Rt. Hon. Mrs Margaret Thatcher
The Prime Minister — 22nd September 1987

"Any case for assistance to the shipping industry therefore must be strategic; it has no compelling economic basis".

Memorandum by the Department of Transport to
The Select Committee on Transport — 28th February 1987

"I simply refuse to believe that British inventiveness, enterprise and determination are incapable of attacking the market and beating the competition. I am sure it can be done, but only if we sit down together and work out how it is to be done".

HRH Prince Philip, Duke of Edinburgh
Nautical Institute Command Seminar 1986

INTRODUCTION

There are any number of quotations appropriate to the present state of the marine industries of the nation. The first two have been selected because, although separated by two centuries, they say the same thing. The third is selected since it reflects the arguments against government intervention, yet leaves that possibility wide open. The final quotation happens to coincide with the views of many. This paper proposes a way forward to meet the sentiments of all four.

THE MARINE INDUSTRIES

Within the last few years individual sectors of the UK Marine Industries have been reviewed, proposals made, assistance given or withheld. Since the prosperity of the industrial sectors not only has a bearing on each other but also on the service sectors which support and are supported by them, it is clear that any particular proposal for one sector must consider the effect on all sectors. These are seen to be:

1. Commercial Shipping (Deep and Short Sea, Inland, fishing, offshore, special (non-cargo)).
2. Shipbuiling and repair
3. Marine equipment
4. Ports
5. Freight handling
6. Shipbroking
7. Insurance
8. Banking and finance
9. Pilotage and Lights
10. Marine Research
11. Consultancy and legal services
12. Government and Local Authority marine organisations

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13. Training and Education
14. Defence (RN, RFA, RMAS, Naval Bases and Research)

Defence requirements are significant in their impact on shipbuilding and repair, marine equipment and research, and to a lesser extent on shipping, training and education. Any proposal for a way forward must therefore take this sector into account.

It should also be noted that organisations, both public and private, and companies within each sector, frequently cooperate, and perhaps rather too often fail to do so through lack of appreciation of the threat from external forces, particularly international markets. Any proposals must therefore seek not only to encourage all the marine industries but also to encourage cooperation.

Finally it is worth emphasising that commercial shipping, and certain sectors of defence shipping are the 'driving' sectors. Their prosperity or decline has a major impact on the economics of the other sectors and on the state, as well as on the national defence capability. In order to retain a level of simplicity in a very complex situation, and to remain within the constraints of the time allowed for presentation, this paper concentrates on the way forward for commercial shipping with the primary concern for the cargo carrying sector. Military shipping is not further considered in detail.

CURRENT FACTORS AFFECTING THE CARGO FLEET

The major factors affecting the cargo fleet lie in the international market. The effect of this market on UK trade carried, manpower employed and recruited, and the size of the present fleet are considered.

The fleet operates in an international market where its overseas competitors more frequently than is desirable for a free market enjoy national cabotage, application of UNCTAD 40: 40: 20, shipbuilding grants, tax allowances, free training. In addition many seafarers have a lower social standard than their UK counterparts, accepting lower wages and no social benefits, and are not infrequently exploited by their employers in order to ensure the latters' continued operation.

To these cost advantages enjoyed by the competitors of the UK registered fleet should be added the depressed freight rates caused by excess tonnage. This excess tonnage largely arises from the desire by some nations to subsidise their yards to retain full employment regardless of the trade available for the ships so constructed (Annex A). Thus the international market is certainly not a 'free' market either for shipbuilding or shipping. As a result most UK shipping companies have neither made sufficient profits to satisfy investors nor have they reinvested in the new tonnage necessary to ensure that their future operations are competitive. Indeed UK companies, unsupported by Government, have taken action, including 'flagging out', to enable them to cut costs by using lower registry fees and survey costs, manning levels and benefits.

In the light of such market pressures great credit is due to those companies which have been able to remain on the UK register. However in spite of these companies, the decline in the number of UK registered vessels has continued and has undoubtedly affected the level of UK trade carried in UK flag ships. In 1976 the UK fleet carried 32% (58m DWT) of imports and 45% (25m DWT) of exports. In 1986 only 21% (31m DWT) of imports (total 147m DWT) and 22% (33m DWT) of exports (total 151m DWT) were carried (Annex B). The decline has also affected the UK Sea Transport Balance from £100m surplus in 1976 to a deficit of over £1000m in 1986 (Annex C). Such a deficit has to be offset from other profitable sectors. Cross-trading statistics are more difficult to determine. However it can be said that cross-trading by UK vessels has generated a positive contribution to the national economy and without it the balance would be in even greater deficit.

UK MANPOWER

The decline in the number of ships has had a serious effect on the number of seafarers. Redundancies and voluntary resignations, the latter in spite of high unemployment ashore, have together not only reduced the number of seafarers and demoralised them, but have also adversely affected recruitment into the industry. As a result less than 100 officer trainees were recruited in 1986 and 1987 is unlikely to be much better (Annex D). In both years individual companies have been unable to recruit the numbers of the right quality for their present needs. (It should be noted that the shipbuilding and repair industry is similarly affected).

Under-recruitment is arguably the most serious factor of all in economic and military defence terms for it is, at least in theory, easy to charter or buy ships or even build them within a year or so, but it takes years to train a seafarer to Class 1 standard to operate ships safely and efficiently.

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THE PRESENT FLEET

The UK commercial fleet at end of March 1987 comprised 193 deep-sea vessels (955 in 1976), 311 short sea (421 in 1976), a further 300 offshore vessels together with some 200 special non-trading vessels (Annex E). The total capacity of the cargo carrying fleet including ferries amounted to 10.6m DWT in 1986 (51.7m DWT in 1976). Comparing the trade carried with the present available fleet, it is clear that improved efficiency has played a significant part in holding on to a diminishing market share but that a significant increase on 10.6m DWT is needed if the sea transport balance is to show once again a surplus.

SUMMARY

The present situation in the commercial shipping sector (excluding military defence considerations) may be summarised as follows:

1. Only 21%-22% of UK Seaborne trade is carried in UK flag ships.
2. The sea transport balance is £1000 million in the red.
3. Recruitment requirements are not being met.
4. Little or no investment in replacing the ageing fleet (eg Deep Sea — currently 11+ years) (Annex F).
5. Little public investment and no private investment in new technology and research to develop a new generation of competitive ships.

There are those who consider that it will not matter if market forces are such that the fleet disappears. The following comments offer arguments for the continuing need for a viable fleet and strong marine industries, including the advantages of a strong home order book, high value added and turnover/employee factors, presence of a strong fleet to prevent exploitation of UK trade, and control of manpower.

Home Market To date the effects of the decline of shipping on the other marine industries have been largely offset by vigorous exporting. However it has to be recognised that a good home order book for new ships is of great advantage to the manufacturing sectors in their export drive.

Value Added The Marine Industries collectively add a significant value to the resources employed and compare favourably with other sectors of the national economy.

Strength of Cargo Fleet If the nation is to ensure that its goods are always moved at rates which make its imports economical and its exports competitive, then it must own a fleet of ships of such a number that a sizeable proportion of its trade is under its control. It is as much for the sake of national pride as for this reason that so many developing and developed countries take action in defence of their shipping, ports and other marine industries. Without such a fleet, a nation depending on seaborne trade will be subjected to commercial and political pressures which it will not be able to counter. The UNCTAD 40: 40: 20 rule is there as a guide and is followed by many nations. There is no good reason why the UK, now carrying well below 40% of its trade in its own ships, should not legitimately follow this guide. Indeed it would be unwise not to do so. The risk of losing cross-trade business will have to be taken, but not all this trade, less than in 1976, is likely to be lost if the UNCTAD percentages are followed.

Manpower There is an argument which currently has commercial advantages. This says that it does not matter if UK trade is carried in UK registered ships crewed by the cheapest labour available even if this is not UK national, since the need to make a profit is the over-riding factor. The profit factor cannot be denied and in a peaceful world this argument has merit, apart from the obvious drain on national resources arising from paying non-nationals. However the world is rarely peaceful. In times of tension political attitudes override commercial considerations. Lower cost labour coming from an autocratically run nation may well be withdrawn if the latter disagrees with UK policy. Alliances can generate the most unforeseen of embargoes on manpower (and on ships). Since it is essential that only seafarers loyal to the nation are employed at sea in time of war and tension, then it would be in the national interest to ensure that the UK fleet employs sufficient UK nationals in time of peace.

The arguments for a viable UK fleet may be summarised as follows:

1. Strong home market for other marine sectors.
2. Improved sea transport balance.
3. Good use of national resources.
4. Prevention of high freight costs being imposed by overseas fleets.
5. Pool of loyal trained seafarers in time of tension and war.
6. Defence (national and NATO) requirements.

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DECLINE IN MARKET SHARE – POSSIBLE ACTIONS

It is common practice for any company faced with a declining share of the market and an ageing product range to review the situation. The main options are:

a) To continue as at present and expect to go into liquidation in the not too distant future.
b) To sell out to the competition at best price, and if possible, take shares in the competition to offset the loss of income.
c) To embark on a new strategy, taking advantage of existing expertise and resources, hiring manpower and borrowing finance as necessary, while at the same time bolstering the profits from the existing product range.

NO ACTION

If the Marine Industries, and shipping in particular, continue as at present, the fleet will continue to reduce as each ship becomes unprofitable and the sea transport deficit will increase. Predictions (NUMAST and others) indicate that the deep-sea fleet will disappear within ten years. Short sea and special vessels will also disappear unless they too can remain profitable at a sufficient level to invest in new ships. Shipbuilding will decline further and only a few repair yards will continue in order to meet naval requirements, and make what profit they can from repairing non UK flag ships.

SELL OUT

As far as the marine industries are concerned it could be argued that, in default of a strategy, selling out is already taking place. This is essentially a short term financial recovery operation. It reduces the chances of improving the sea transport balance since any improvement in market share is offset by the cut taken by the overseas partner. It certainly does not meet defence requirements since there would be little or no control over the nationality of seafarers employed.

A NEW STRATEGY

It is therefore for consideration that a new positive strategy is needed as this is in fact the only option.

The following object is therefore proposed:

To carry 40% by weight of all UK imports and exports in UK owned and registered vessels.

ADVANTAGES

This object will

a) go far to reduce the sea transport balance
b) increase the number of deep-sea and short sea ships
c) demand the research, development and production of ships with new technology to ensure future profitibility
d) create a positive demand for manpower which will result in improved recruitment levels
e) ensure that the UK approaches, if not meets, its NATO and EC defence commitments
f) create a manpower reserve
g) create steady work for shipyards, marine equipment, etc.
h) help the other sectors to remain competitive internationally

40% TARGET – SEA TRANSPORT BALANCE

Before settling on the 40% target however, a cross-check on other requirements is needed. Based on the present trade figures the sea transport deficit would, at a conservative estimate, approach zero, if 1976 data is considered. However export figures have improved and a better than zero result might well be expected.

40% TARGET – UK FLEET SIZE

The fleet needed to carry 40% of exports based on 1986 trade and ship data would comprise 725 cargo carrying ships of over 500 GRT: 18.7 million DWT (437 ships: 10.4 million DWT in 1986) (Annex G). In addition a further 575 ships comprising offshore, commercially manned, non-cargo and passenger/ferry ships have to be considered as these are also important both for economic and defence reasons.

40% TARGET – MANPOWER

Skilled manpower is needed not only to man the ships but also to fill senior shore appointments in government, education, shipping, surveying, classification, pilotage and consultancy. The Nautical Institute, in its submission to the Select Committee, considered that there were some 2000 such

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appointments and that at least 100 new appointments had to be made annually. These come from Class 1 certificated and experienced deck and engineer officers.

In the shipping industry the wastage rate from cadet entry to Class 1 is of the order of 7 in 8 for physical, personal or academic/professional reasons. Thus some 400 new deck and 400 new engineer officer trainees are needed annually. If they are to be educated and trained to meet the demanding tasks imposed by a highly efficient and technologically orientated fleet of ships, and eventually the senior appointments, then ships will be needed together with an efficient and properly controlled training and career development programme. The absence of the latter will result in a continuing or even increased wastage rate as the new ships and reduced manning levels demand even more of individuals than the present ships.

Until such time as the unmanned ship is acceptable internationally and the vast infrastructure set up to deal with the control of these vessels, it has to be assumed that a trained crew is required for each UK registered ship. Reduced manning experiments have suggested that a crew of 10 can operate a ship. On this basis (a minimum average), the UK fleet needed to meet the 40% target will require 1500 masters and 1500 chief engineers to allow for leave and sickness (Annex H).

The manning structure of each ship based on a 10 man crew might be as follows:

Master		Master	
Chief Officer		Chief Watchkeeper	— Deck/Engine
2nd Officer		(2nd Officer)	
3rd Officer	OR	3rd Officer	— Communications
Chief Engineer		1 Electronic/Electrical	
2nd Engineer		4 Mechanics	
3 GP ratings		1 Catering	
1 Catering staff			

(Seascape — September 1987)

Thus the trained manpower needed would be 9000 officers, 4500 GP ratings, 1500 catering (cook/steward). The new entry requirement would need to be some 600 deck and 300 engineer officers or, if the dual purpose scheme could be accepted, 900 entries in order to meet the top sea appointments based on an average ten-year career at sea for officers (Annex H)

The annual intake of ratings would be some 750 annually of which at least 300 would be needed for the deep-sea fleet (NSTC Gravesend took 230 in 1986) and if *Seascape's* suggested manning is to be the situation then the recruiting and training problems are more severe and might even prove impractical.

It should be noted that unqualified officers and ratings under training are supernumerary to the 10 man crew and would add a further 2 to 3 onboard some but not all ships. It should also be noted that some types of ships, particularly ferries and special vessels, would need extra staff.

40% TARGET — SUMMARY

The 40% target for the transport of UK seaborne trade in UK ships has the following advantages:

a) It conforms with UNCTAD guidelines.
b) It would significantly improve the Sea Transport balance.
c) It would provide the manpower training base for senior marine appointments shore.
d) It would make a major contribution to the UK's commitment to NATO and to national defence.
e) It would ensure efficient use of training and educational resources and a sound base for research.
f) It acts as a spur to implement the tactics necessary to prevent further decline in market share and in recruitment of personnel (Annex J).

A SUGGESTED STRATEGY

This is a subject which needs weeks of study and several papers. However for the purposes of this paper it is assumed that the strategy will be as follows:

a) maintain the current UK fleet share of UK trade
b) start a replacement programme for the existing fleet
c) set up the careers recruiting, training and career development organisation
d) work towards the increased numbers of ships needed, using initially the higher value markets as the preferred trading sector.

In considering the new building programme it should be noted that both economic and military defence requirements will demand a significant number of tankers and dry bulkers. Thus the more profitable shipping sectors will have to support those which are likely to be less profitable. Annex G

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indicates the number of ships likely to be needed in each sector to achieve 40% target of the carriage of UK trade based on export levels in 1986.

It should also be noted that the offshore service fleet and other non-commercial, and non-military ships are also ageing and will require replacement. The building programme therefore would have a significant and beneficial impact on the other marine industries and on the national economy.

ACTIONS TO IMPLEMENT THE STRATEGY

Implementation of a strategy to achieve an object requires dedicated attention. It cannot be treated as a side-line. Companies which have taken this route have always failed to achieve the target. Indeed companies faced with similar problems to those of the shipping industry, not only review the present situation and decide on a strategy, they also review their organisation. Rarely is the latter capable of taking on a new role. There are usually too many gaps and too much overlapping of responsibilities for effective implementation, and the longer the present organisation has been in existence and coping with a declining market share, the larger are the gaps and the greater the overlaps. For these reasons a new organisation is introduced with specific authority and responsibility to implement the strategy.

PRESENT ORGANISATIONS

The Marine Industries are in such a situation. At national level there are fourteen ministries. Within the commercial sector, trade associations, unions and institutions, represent, but rarely fully, companies and personnel. Gaps and overlaps abound.

NATIONAL PRACTICE

This nation at national level has generally preferred the collective approach to single control. There are good reasons for accepting the obvious inefficiencies arising in return for reducing the chance of monopolistic control by one organisation or a dictatorship. The UK however is no longer isolated and its national interests have to be properly represented in the European Community, NATO and UNO. As far as the Marine Industries are concerned this representation is spread between government departments. When each sector of these industries was significant to the economy, this organisational approach may have been acceptable as the UK was internationally strong in each sector. Today the UK is no longer in this situation and the marine industries are much weaker. Only by collective representation will the UK marine voice be listened to internationally. At national level a similar collective voice is required. As no one company or organisation at the national level nor one government department at national or international level exists, political not commercial action is required. The political options are:

1. Do nothing and allow these industries to fade away.
2. Accept the continuing need for commercial shipping at the present level.
3. Adopt the object proposed, or a similar 'growth' target, and decide on the strategy to achieve it.

A NEW NATIONAL ORGANISATION

It is contested that the arguments for a strategy for growth are sufficiently strong to justify setting up the necessary organisation to implement the strategy.

The Marine Industries form part of the national defence and are therefore of sufficient importance to justify cabinet level attention. A Minister of Cabinet rank responsible for marine affairs is therefore the prime suggestion. Given the necessary terms of reference and financial and political strength, the implementation and maintenance of the strategy would remain totally within the machinery of government. However, it is recognised that this proposal may not for political reasons be acceptable, and the individual must therefore be set aside in favour of a Cabinet committee who would set the object, outline the strategy and pass the implementation to another organisation. As this organisation does not exist as such, it is proposed that an independent corporation is set up and, initially at least, funded with public money. Government and Marine Industries' representation on the board together with non-executive directors will be essential.

·The general terms of reference based on the object of achieving 40% share of the carriage of UK seaborne trade would include the following:

1. To ensure adequate numbers of trained personnel for the industries.
2. To recruit and train on its own account if companies are unable to do so.
3. To oversee the efficient use of national training resources.
4. To operate the Merchant Navy Reserve.
5 To initiate research and development for the industries.
6. To bring to production development projects.

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7. To use wherever possible existing UK companies and organisations to achieve the object.
8. To encourage scrap and build policy.
9. To build, own, and charter when necessary, UK-built ships of the latest standard, in order to ensure the maintenance of the UK fleet capacity and its efficiency.
10. To raise funds from the private sector and to minimise the requirement for public funds.
11. To advise the Cabinet Committee on tactical solutions to maintain international competitiveness of the industries.
12. To oversee and develop the necessary reporting and data collection processes to monitor the implementation of the strategy.
13. To encourage cooperation of all organisations involved in implementing the object.
14. To become profitable within fifteen years.
15. To keep the public fully informed of the Marine Industries.

As for a title for this new organisation, the words *'Marine Industries'* seems essential. *Development* is useful in its implication of a new activity (London Docks Development Corporation, Telford Development Corporation, etc) and Corporation is a more "active" word than Forum, Board or Commission.

It is therefore suggested that the title should be

The Marine Industries Development Corporation

No new idea is without some disadvantages as well as advantages which, if the idea is to go ahead, must outweigh the former. Disadvantages are therefore considered first since, if they are overwhelming, then that is an end to this particular solution.

DISADVANTAGES

The main disadvantage, if it is one, is that it is a new organisation, where so many already exist, but these do not and cannot do the same job. The second disadvantage is the need for public funds, not just fiscal adjustments. In this context it has to be pointed out that public funds have been used in recent years to support, to enable modernisation, and hence profitability, of many industries (aerospace, aero engine, steel, automobile). They have also been used to ensure the continued availability of strategic operations, (road, rail, coal, shipbuilding and repair). The Marine Industries, and shipping in particular, are undoubtedly strategic industries. There is good reason, in view of the present situation, to prime their pumps with public funds for strategic as well as economic reasons. These two disadvantages are not therefore seen as long term, since, unless it is badly managed, and worse still inadequately supported, the corporation will not be a long term financial drain on the economy since the sea transport balance will improve.

Finally there will be some who will raise objections to a national rather than a European Community approach. Of all the countries in the community the United Kingdom is one of the few where economic survival depends almost totally on sea transport. A weakened UK economy is not in the interests of the European Community.

ADVANTAGES

The commercial and employment spin-offs from implementing the strategy are clear. The present deep-sea fleet has an average age exceeding 11 years. A steady replacement and scrap programme is needed together with new building to meet the tonnage target. Such a programme will enhance the ability of the shipbuilding and marine equipment sectors to compete successfully in the international market. The additional 8 million DWT is insignificant in terms of world tonnage of 609 million DWT and the rate of its introduction will have little if any deleterious effect on freight rates, and therefore in reduction on profitability.

The strategy properly presented to the public will have beneficial effect on recruitment as careers advisers, parents and potential recruits see a future career in the Marine Industries, particularly in shipping and shipbuilding.

The regular intake of recruits will allow an efficient use of education and training resources, while the increased activity generated by a larger fleet will encourage additional jobs in other Marine Industries and in other sectors of the economy.

The central coordinating function of the Corporation will also help to ensure that the best tactical measures possible are taken to ensure the continued viability of the existing industries and meet the strategy devised to achieve the object. The tactical solutions proposed in the many submissions made to the Select Committee could thus be considered collectively and implemented where these criteria are met (Annex J).

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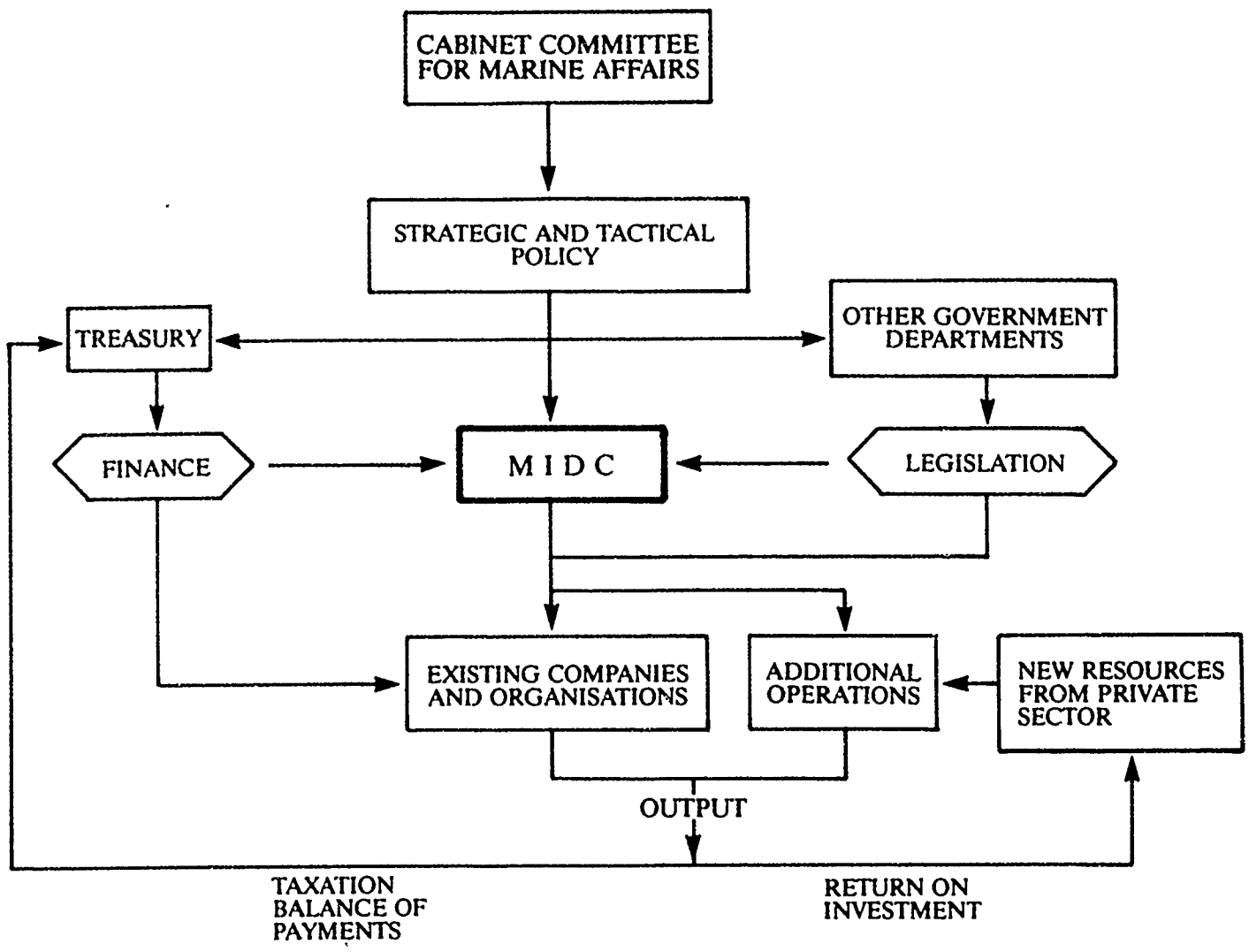
THE MARINE INDUSTRIES DEVELOPMENT CORPORATION



CONCLUSIONS

Economic and military considerations dictate the need for a viable marine industry sector of the economy. The Marine Industries, and shipping in particular, are no longer in a position financially or organisationally to embark on a new strategy to achieve profitability without government assistance in the form of guidance and financial support. The latter is an investment which will be returned as profitability develops and the sea transport balance reduces from its present £1000 million deficit.

Political will and decision taking is therefore needed to formulate the object and set up the necessary organisation to implement the strategy to achieve and maintain this object.

RECOMMENDATIONS

A *Minister for Marine Affairs* is the prime recommendation. If this is not acceptable then a *Cabinet Committee for Marine Affairs* must be set up to define the object and oversee the strategy which would be implemented by *The Marine Industries Development Corporation*. Such a proposal if properly implemented, would meet the sentiments of Jonas Hanway and The Prime Minister, take up the comment made by the Department of Transport, the challenge by HRH Prince Philip, Duke of Edinburgh, increase the overall prosperity of the nation, and ensure its economic and military defence.

November 1987

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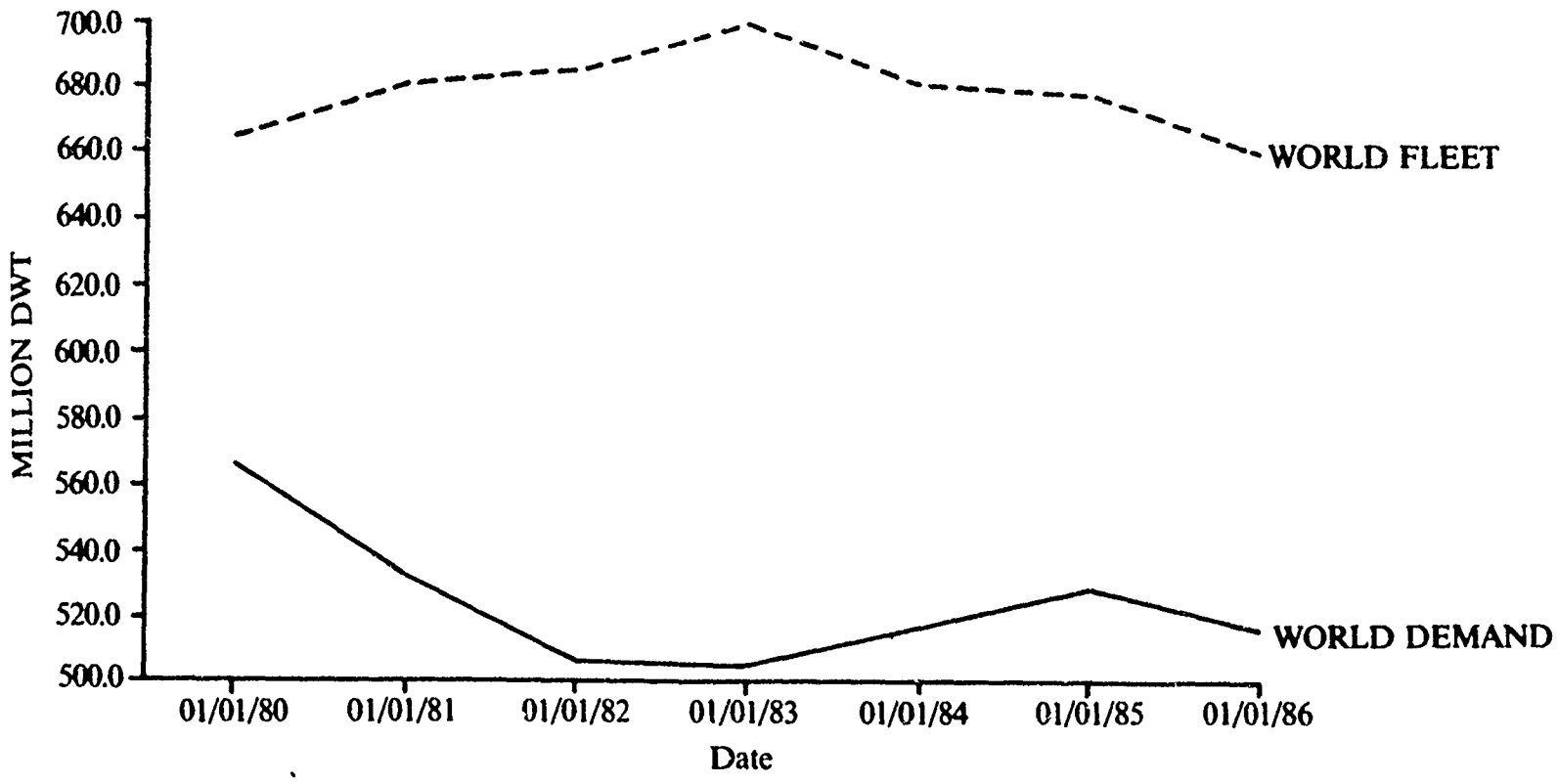
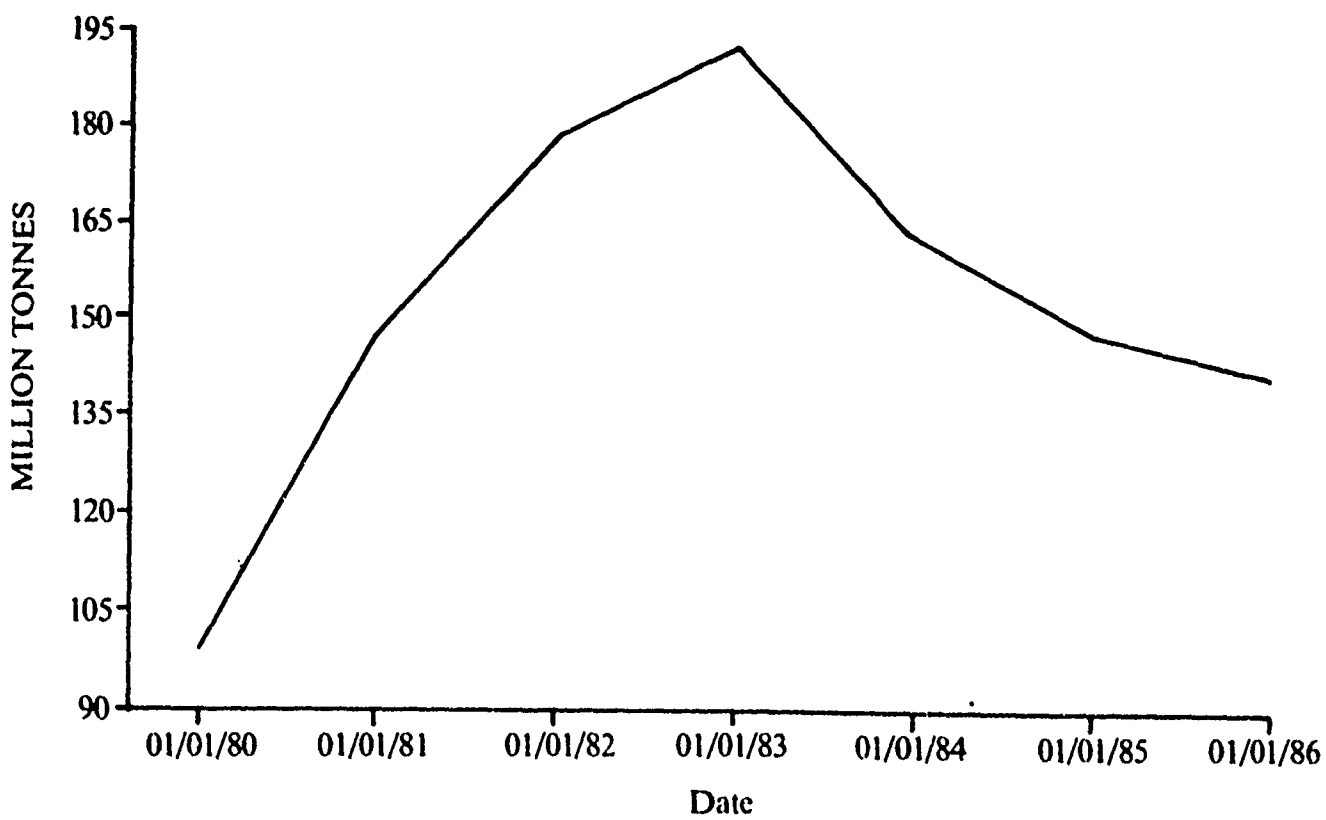
ANNEX A

WORLD FLEET - TRADE AND SURPLUS TONNAGE

WORLD FLEET - SUPPLY AND DEMAND



WORLD FLEET - SURPLUS TONNAGE



Note: All vessels in world fleet including vessels built before 1967

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ANNEX B

UK SEABORNE TRADE

TABLE 1 — UK SEABORNE TRADE (DWT AND £s) AND PERCENTAGE CARRIED BY FLAG

TABLE 2 — UK SEABORNE TRADE (DWT) ANALYSED BY TRADE SECTOR AND FLAG

TABLE 3 — UK SEABORNE TRADE (DWT AND £s) ANALYSED BY VESSEL TYPE AND FLAG

TABLE 4 — UK SEABORNE TRADE (DWT) — COMPARISON OF SEABORNE TRADE AND AIR FREIGHT DATA FOR 1984

TRADE FIGURES ARE TAKEN FROM MA8 (1987) AND FROM WHITAKERS ALMANACK FOR 1987. THEY SHOW A STEADY DECREASE IN UK SHARE BY VOLUME AND BY VALUE OVER THE PERIOD 1976 — 1986. OVER 99.6% OF ALL UK TRADE IS TRANSPORTED BY SEA.

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TABLE 1: UK SEABORNE TRADE (DWT AND £) AND PERCENTAGE CARRIED BY FLAG

A. IMPORTS	TOTAL		UK (%)		EC (%)		OTHER (%)	
	DWT (M. Tonnes)	£ BILLION	DWT	£	DWT	£	DWT	£
1976	181	26	32	41	25	30	43	29
1977	159	29	33	42	24	29	43	29
1978	154	32	29	41	27	33	44	26
1979	156	38	27	39	31	34	42	27
1980	131	38	31	39	30	35	39	26
1981	121	40	29	36	30	37	41	27
1982	121	46	29	35	31	37	40	28
1983	118	52	25	31	32	37	43	27
1984	138	61	22	36	33	36	45	28
1985	142	67	23	37	31	35	46	28
1986	147	67	21	37	27	38	50	25

Note: In 1986 MA8 (1987) shows UK Flag Share as 16% of Import trade (422 Million Tonne miles) and 15% of export trade (235 Million Tonne Miles) compared with 32% of 901 MTM and 40% of 109 MTM in 1976.

B. EXPORTS								
1976	56	20	45	49	31	29	24	22
1977	70	25	40	46	31	30	29	24
1978	81	28	37	45	37	32	26	23
1979	96	32	33	43	35	32	32	25
1980	100	37	37	42	36	32	27	26
1981	122	41	28	36	36	35	36	29
1982	122	44	21	34	33	35	40	31
1983	130	48	24	33	33	34	43	33
1984	136	55	24	35	29	31	47	34
1985	144	61	23	35	28	31	49	34
1986	151	54	22	36	27	35	51	29

(MA8 – 1987)

TABLE 2: UK SEABORNE TRADE: ANALYSED BY TRADE SECTOR AND FLAG

A. IMPORTS:	Near & Short Sea	(EC, Scandinavia Baltic, Europe			
	TOTAL (DWT MILLION)	UK %	EC %	OTHER %	EXPORT FLAG %
1984	87.2	23	38	12	27
1985	90.5	24	35	14	27
1986	96.4	22	35	15	28
B. IMPORTS:	Deep Sea				
1984	50.4	26	21	54	5
1985	51.7	21	20	56	3
1986	50.7	17	18	62	3
C. EXPORTS:	Near and Short Sea				
1984	105.2	28	28	30	14
1985	114.1	25	27	36	12
1986	114.0	26	28	32	14
D. EXPORTS:	Deep Sea				
1984	31.2	12	22	57	9
1985	29.8	14	22	52	12
1986	36.7	11	25	60	4

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TABLE 3: UK SEABORNE TRADE (DWT AND £) ANALYSED BY VESSEL TYPE AND FLAG

A. IMPORTS

		DWT (M TONNES)	VALUE (£B)	UK (%) DWT	UK (%) £	EC % DWT	EC % £	OTHER (%) DWT	OTHER (%) £
1984	Dry Bulk	50	5	23	20	33	38	44	42
	Other Dry	38	48	31	41	43	38	26	21
	Tanker	50	8	14	15	25	26	61	59
	TOTAL	138	61	22	36	33	36	55	28
1985	Dry Bulk	54	6	26	22	30	35	44	43
	Other Dry	40	53	31	42	43	37	26	21
	Tanker	48	8	13	14	23	24	64	62
	TOTAL	142	67	23	37	31	35	56	28
1986	Dry Bulk	51	5	22	17	27	39	51	44
	Other Dry	42	58	27	40	44	39	29	21
	Tanker	54	4	14	15	19	20	67	65
	TOTAL	147	67	21	37	29	38	50	25

B. EXPORTS

1984	Dry Bulk	20	2	28	27	46	48	26	25
	Other Dry	25	38	30	40	39	35	31	25
	Tanker	91	15	22	22	23	23	55	55
	TOTAL	136	55	24	35	29	31	47	34
1985	Dry Bulk	19	2	26	24	47	49	27	27
	Other Dry	27	43	30	41	39	35	31	24
	Tanker	98	16	21	21	11	21	58	58
	TOTAL	144	61	23	35	28	31	49	34
1986	Dry Bulk	22	2	21	20	44	47	35	33
	Other Dry	27	44	28	39	43	31	29	24
	Tanker	102	8	21	21	20	20	59	59
	TOTAL	151	54	22	36	27	35	51	29

(MA8 — 1987)

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TABLE 4: UK SEABORNE TRADE FIGURES — A COMPARISON FOR 1984

	MA8 (1987)	WHITAKERS (1987)	DIFF
A. IMPORTS (DWT MILLION)			
DRY BULK	50	52	2
OTHER DRY	38	46	8
TANKER	50	126	76
TOTAL	138	224	86
B. EXPORTS (DWT MILLION)			
DRY BULK	20	32	12
OTHER DRY	25	32	7
TANKER	91	154	63
TOTAL	136	218	82

Note: Commercial freight handled by aircraft (Whitakers 1987):

	DWT MILLION	% TOTAL FREIGHT	
		(MA8)	WHITAKERS
SET DOWN	0.39	0.28	0.17
PICKED UP	0.47	0.35	0.22

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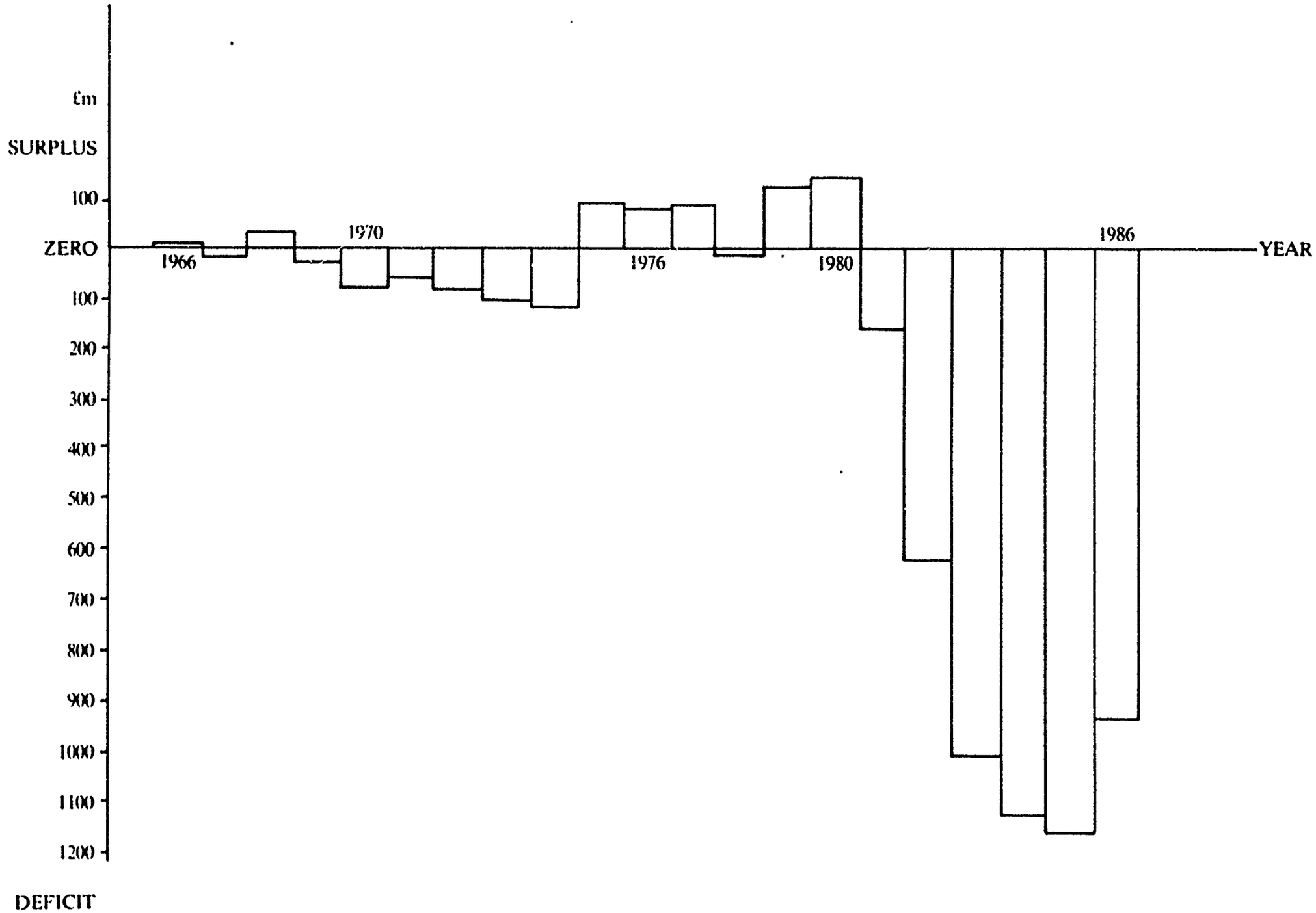
UK SEA TRANSPORT BALANCE 1965-1986



(*Source:* UK Balance of Payments Central Statistics Office 1987)

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ANNEX D

UK FEDERATED SECTOR – OFFICER RECRUITMENT (1961-1987)

Year	Deck Cadets		Engineer Cadets	
	New Entry	Under Training*	New	Under Training*
(1)	(2)	(3)	(4)	(5)
1961	1690		505	
2	1381		501	
3	1420		591	
4	1421	1421	559	2156
5	1389	5611	686	2337
6	1281	5511	738	2574
7	1127	5218	776	2759
8	948	4745	705	2905
9	1089	4445	737	2956
1970	1220	4384	846	3064
1	1309	4566	958	3446
2	1031	4649	852	3393
3	1016	4576	818	3474
4	1151	4507	952	3590
5	1284	4482	1031	3663
6	882	4333	697	3508
7	985	4302	911	3601
8	990	4141	833	3472
9	859	3716	713	3154
1980	650	3484	624	3081
1	320	2819	336	2506
2	140	1969	156	1829
3	81	1191	71	1187
4	77	618	80	643
5	85	383	80	387
6	39	282	43	278
7	43(E)	243	50(E)	257

(Source GCBS) 1961-1985

* 4 years under training. In fact many had a 5 year apprenticeship in the 1960's

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ANNEX E

UK REGISTERED MERCHANT FLEET 1976-86 OVER 500 GRT

SUMMARY

Deep Sea Fleet reduced in number by 79%

Short Fleet reduced innumber by 27%

	3RD QTR 1978		3RD QTR 1983		1ST QTR 1987	
	No.	000 DWT	No.	000 DWT	No.	000 DWT
DEEP SEA						
Container and RoRo (Note 2)	85	1,957	90	2,049	57	1,638
Breakbulk: General Cargo Liner	220	2,651	27	413	5	76
: General Cargo Tramp	30	427	4	75	8	136
: Refrigerated Tramp	46	411	27	241	6	67
Dry Bulk/Combination Carrier	277	15,259	106	7,291	41	2,998
Tanker including Chemical	257	28,918	167	15,699	66	4,634
Gas Carrier	40	879	40	1,196	10	163
Sub Total — Deep Sea	955	50,502	461	26,964	193	9,712
SHORT SEA						
Ferries (Note 3)	74	201	64	170	67	202
General Cargo/Mini-Bulk	226	655	167	557	149	464
Tanker	123	303	115	296	95	243
Sub Total — Short Sea	423	1,159	346	1,023	311	909
Grand Total	1,378	51,661	807	27,987	504	10,621
Passenger Cruise Ships			7		8	

Notes:
1. Table includes Isle of Man and Channel Island Registry.
2. In 1978 this included 11 vessels of 308,000 dwt managed for foreign owners.
3. Ferries exclude smaller passenger and car ferries below 800 dwt and/or 2,100 grt.
4. The 1978 and 1983 figures differ slightly from those given by Lloyds SIS and MR 15, through changes in the description of some vessels after discussion with owners.
5. Excluded are some 300 offshore service vessels, comprising supply boats, oil rigs and accommodation units, diving support vessels, standby vessels etc.
6. Some 200 vessels manned by Merchant Navy trained personnel but not commercial or offshore are also excluded (RFA, RMAS, Harbours, Pilotage, Research etc).

(British Maritime Charitable Foundation)

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ANNEX F

UK DEEP SEA FLEET — 1st Quarter 1987

AGE ANALYSIS

Type	Number	Average Age (yrs)	No 15 yrs+	No 10 yrs+
Container	57	11	22	33
Cargo liner	5	13	—	5
General cargo tramp	8	15	3	7
Reefer tramp	6	2½	—	—
Tanker	66	12	23	43
Gas carrier	10	11	4	6
Bulker	41	9	3	23
	193	11yrs	55	117
	100%		28%	61%

(British Maritime Charitable Foundation — 1987)

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ANNEX G

THE NEW FLEET

40% TARGET — UK SEABORNE TRADE AND UK FLEET

The new fleet required to meet the 40% target of the carriage of UK Seaborne TRADE IS CALCULATED on the 1986 data

References A) MA8 (1987) — (Table 1)
B) British Maritime Charitable Foundation (1987) — (Table 2)

1. 1986 SEABORNE TRADE

(DWT MILLION)			% FLAG					
SECTOR	IMPORTS	EXPORTS	UK		EC		Other	
			Imp	Exp	Imp	Exp	Imp	Exp
Dry Bulk	51	22	22	21	27	44	51	35
Other Dry	42	27	27	28	44	43	29	29
Tanker	54	102	14	21	19	20	67	59
Total	147	151						

2. 1987 (1ST QTR) — UK FLEET (OVER 500 GRT)

SECTOR	DEEP SEA		SHORT SEA		TOTALS	
	No	DWT (000)	No	DWT (000)	No	DWT (000)
Dry Bulk	41	2,998	—	—	41	2,998
Other Dry	76	1,917	149	464	225	2,381
Tanker	76	4,797	95	243	171	5,040
	193	9,712	244	707	437	10,419
Passenger/Ferries	8	—	67*	—	75	—
Offshore Service	—	—	311	—	311	—
	201	—	622	—	823	—

Note: 67* Ferries (202000 DWT) excluded vessels below 800 DWT and/or 2100GRT.

3. UK EXPORTS CARRIED IN UK FLEET IN 1986 (TABLE 1 AND 2)

SECTOR	EXPORTS		FLEET		EXPORTS/SHIP	
	DWT (mn)	% UK Total	DWT (000)	No	Per annum DWT	DWT/Ship
Dry Bulk	4.62	21	2,998	41	112,731	73,121
Other Dry	7.56	28	2,381	225	33,600	10,582
Deep Sea	6.09	23	1,917	76	80,132	25,224
Short Sea	1.47	5	464	149	9,866	3,114
Tankers	21.42	21	5,040	171	125,263	29,474
Deep Sea	20.39	20	4,797	76	268,289	63,118
Short Sea	1.03	1	243	95	10,842	2,558
Totals	33.6	22	10,419	437	—	—

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4. FLEET REQUIRED TO MEET 40% TARGET
(Using data from Table 3)

SECTOR	40% Exports DWT (mn)	Fleet for 40% Target		Fleet Nos	
		DWT (000)	No	1986	1983
Dry Bulk	*8.8*	*5,708*	*78*	*41*	*106*
Other Dry	*10.8*	*3,401*	*321*	*225*	*315*
Deep Sea	8.7	2,239	109	76	148
Short Sea	2.1	662	212	149	167
Tankers	*40.8*	*9,600*	*326*	*171*	*322*
Deep Sea	38.8	9,128	144	76	207
Short Sea	2.0	472	182	95	115
▷ Total	60.4	18,709	725		
C/F 1986 (22%)	33.6	10,419		437	
C/F 1983 (24%)	36.2	27,817			743

ASSUMPTIONS

1. Exports at 1986 level
2. Fleet with same capability

BUT

1. Exports are rising as national economy improves
2. Fleet efficiency and new ships to meet target could offset need for more ships to maintain 40% target of exports

5. THE NEW UK FLEET

1.	Cargo carrying		725
2.	Passenger ships	8	
3.	Ferries (202,000 DWT)	67	75
4.	Offshore service		300
5.	Other vessels requiring fully trained seafarers (estimate)		200
	▶ Total		1,300

Of the above some 1,000 will each require Class 1 certificate officers in command and Class 1 chief engineers. The remaining vessels are likely to be commanded by officers with lower levels of certificates and command endorsements.

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ANNEX H

THE MANPOWER BALANCE

A FLEET REQUIREMENTS TO MEET 40% TARGET

1. Fleet Size 1000 Ships
2. Manpower — For 10 Man Crew Ships (minimum size)

   1500 Masters 1500 Chief Engineers
   4500 Deck Officers 1500 2nd Engineers
   4500 GP Ratings (or Mechanics) 1500 Catering
   (Add extra trained seafarers for special and passenger vessels)
3. Wastage rate 7 in 8 by age 35-40

THUS

4. a) 600 Deck and 300 Engineer Officers

   OR

   900 Dual purpose officers

   AND

   b) 750 Ratings
   c) 250 Catering

NEW ENTRIES REQUIRED ANNUALLY

B SENIOR SHORE APPOINTMENT REQUIREMENTS

1. Not less than 2000 required
2. 100 new appointments from experienced seafarers
3. Wastage rate 7 in 8.

THUS

4. a) 400 Deck and 400 Engineer

   OR

   b) 800 dual purpose new officer entries required ANNUALLY.

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ANNEX J

TACTICAL SOLUTIONS

The evidence presented to the Select Committee on Transport enquiring into the decline in the UK registered fleet included many solutions to arrest this decline. Some are in hand and some are yet to be considered:

A. IN HAND

1. Merchant Shipping Bill
   - A. Training
   - B. Repatriation costs
   - C. Merchant Navy Reserve
     (unless there is improved recruitment this is a tactical solution not strategic)
   - D. New restrictions (UK register and fishing vessels)

2. Regulation of Offshore Sector

B. *SOME OTHER SOLUTIONS PROPOSED TO THE SELECT COMMITTEE*

1. Restoration of pre-1984 fiscal allowances for companies and seafarers including:
   - A. First year allowances
   - B. Roll-over tax relief
   - C. Accelerated depreciation
   - D. Tax free reserves for replacement
   - E. Cheap credit
   - F. Tax relief for seafarers

2. Reduction abolition of Light Dues
3. Aid to purchase secondhand ships
4. Imposition of cabotage against ships of countries practising against UK flag
5. Offshore sector as a "National Interest" not *EC*
6. Pressure on other governments to support scrapping of excess tonnage
7. Support for "Social Benefit" costs
8. UK registry costs to be no greater than other registries
9. Investment in UK shipping to be beneficial to other sectors of UK economy not to overseas interests

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APPENDIX 19

Memorandum submitted by The President of The Nautical Institute, Commodore G. G. Greenfield, RD, FNI, RNR

I have chosen the contradictory title of this address as "Britain's Private Navy". Success, history and tradition have all played their part in obscuring the true facts behind the alarming decline in Britain's maritime capability. It was George V who in 1922 after the first World War conferred upon the Island's shipping industry, the title British Merchant Navy. The red ensign flew valiantly again in the second great war at sea.

Britain's merchant fleet has declined rapidly and remorselessly. In 1975 there were 1614 U.K. registered ships over 500 g.r.t., representing a carrying capacity of 50 million tons. Today there are just 500 ships of 10.5 million tons. The worst affected sector has been the deep sea fleet and I will revert to that latter. Unless something is done, the whole deep sea merchant navy will go. Let me explain.

The factors which helped to create Great Britain as the first major industrial nation were abundant coal, steel-making, industrial innovation, empire preference, monopoly trading, and cheap labour. In short, this led to the development of the largest and most prestigious fleet in the world. Britain's dominant position was toppled when oil from the Gulf became a more versatile energy source than coal. The Greeks were the first to see the significance of cross-trading in oil, whilst the production companies also built fleets for their own distribution services.

After the second world war, Japan used shipping and ship building as the industries upon which to generate economic revival. Other countries like Korea, Mexico and Brazil have followed the lead. It was a heady time, because the ship losses during the war and the industrial activity afterwards, led to a sustained growth in demand for shipping services and new ships until the 1960s.

Worldwide shipbuilding capacity became enormous, so that by the 1970s new ships were already being built, surplus to requirements. To compound the situation still further, the oil crisis effectively cut demand by one third. Ships are still being built, surplus to requirements, largely because whole communities in Japan, Korea and Europe depend upon orders for their livelihood.

Japan and Korea continue to subsidise their shipbuilding, which is alarming, when there is nearly 20 percent of the world fleet tonnage in some sectors laid up already. The effect of this is that freight rates do not reflect the actual costs of operating ships but, more realistically, the marginal costs of bringing idle tonnage back into service. As Mr. Jim Davis, Chairman of the International Marine Industries' Forum keeps pointing out, this is an underlying structural change with no short- term solution.

Apart from some specialist sections like passenger ships, ferries and liner services, public companies cannot make shipping pay and so like British and Commonwealth, Bank Line and Ocean Transport and Trading, they have followed government advice and sold out.

This advice was given to the Select Committee looking into the decline of the British Merchant Navy by The Shipping Policy Division of The Department of Transport, and I quote:-

"It is apparent therefore, that any initial adverse economic effects on the shipping sector, resulting from the transfer of vessels away from the UK register will be offset by economic adjustments elsewhere in the economy, which leave the overall level of employment and output largely unaffected. Indeed, the sale of loss-making vessels to overseas interests and the redeployment of resources into more profitable industries will help to improve the overall performance of the economy. Any case for assistance to the shipping industry therefore, must be strategic; it has no compelling economic base".

This is a truthful but, I believe, also particularly revealing statement. Reading Mandarin shorthand, it says no government support for shipowners; we do not know anything about replacing tonnage — shipbuilding is another department; if you want money you will have to go to the Ministry of Defence and we do not not think you will get it.

Shipping of course is not the only industry to suffer from over-capacity, steel, cars, machine-tools, agriculture, are all representative enough; however I find the Department of Transport's attitude to shipping both dangerous and wrongly conceived. First, it is telling the world in the same sort of language that the Foreign Office signalled to Galtieri that we are pulling out of shipping, taking down the red ensign and hauling up the white flag.

Secondly, the average age of Britain's deep sea fleet is about 12 years and becoming more obsolete. As sales increase so the vessels go to owners who compete with the existing fleet, whilst new ships built for foreign owners are up to 20 percent more fuel efficient and have modern equipment on board which

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enables them to operate with smaller crews. Last year UK owners took delivery of only 32 new vessels, mostly coasters, and sold 118.

The current policy has had a devastating effect on the deep sea fleet, the traditional training ground for British seafarers, which has dropped from 1,000 ships in 1978 to just 150 today. In short the UK has become a flag of inconvenience and owners find it too expensive. The time has come to re-consider what goes on in the real world of shipping and to recommend new initiatives to make the UK flag attractive. We do not want a lowering of standards, but we do want fair competition.

Some people argued to the Select Committee that there is no shortage of ships worldwide and that the real problem both strategically and commercially is lack of trained seafarers, but since seafarers are trained on deep-sea ships, the two must go together. As Captain Vendrell wrote to me, there will be no seafarers if there are no career prospects and he is right.

Anybody seeking an apprenticeship today will find that they receive less than half the remuneration and no study leave, as compared to that offered to a trainee accountant. After ten years' training to obtain a Master's Certificate of Competency the recruit is likely to be employed as casual labour by a manning agency which offers no more than six months' security. It is a risk that school-leavers are not willing to take.

There has been talk of government assistance for training but, without a parallel commitment to more ships, it is doubtful if it will be possible to stimulate enough interest in our profession.

The same argument goes for our marine equipment industries and shipbroking. Once Britain ceases to be a maritime nation, shipping and insurance services will also fall away and the whole infrastructure supporting shipping activity will falter.

There is no doubt in my mind that there is a growing divide between understanding maritime affairs and our maritime capability. The UK is caught with its sea defences down and nationalism is seen as an irrelevance. Admiral Sir John Fieldhouse calls it "sea-blindness".

I simply do not believe that 57 million people living on the islands which make up the United Kingdom realise that they will have no deep sea fleet soon. That in about ten years' time, pilots and harbour masters may have to be recruited from overseas — Russian, Pakistani, Chinese and that the UK's bargaining position in maritime affairs will have gone.

More significantly, all our shipbuilding and marine equipment industries will be closed down and there will be nobody with international shipping experience in government or surveyors with deep sea qualifications. Of course, such expertise can be bought, but I am old-fashioned enough to believe that the current fashion of making more money by selling other people's goods and dealing in other peoples' shares, is something of a Trojan Horse, and recent events have borne this out. Why stop in the City? Why not use mercenary troops? Why not auction our Universities? Why not sell off the contents of our museums? Why not return to slavery? Why bother, if the market is there?

On what grounds then should the United Kingdom support that difference between viability and loss in shipping and does that margin have a significance which has more value in the national context?

The recent study by The British Maritime League demonstrates a strong economic case for shipping based on the income generated to the nation but there are still deeper arguments, less easy to quantify which I believe should also be taken into account.

Merchant shipping is an indispensable element of defence to an island nation. It is necessary to ensure our survival and that of continental Europe under NATO. Some say that the nuclear deterrent makes conventional war obsolete. If that is so, then belligerent objectives will best be secured through economic blockade and blackmail; alternatively, lack of the means to control the sea means that the first few rungs in the ladder of nuclear escalation are taken away. Either way, merchant shipping is essential.

But for effective intervention, the Arabian Gulf would probably have been closed. Suez, Panama, access to the Baltic, Mediterranean and Pacific are all negotiable. Without merchant ships the Falklands campaign could not have been contemplated. It was ironical that when two ships were taken up from trade for an exercise recently — they were Polish-owned and operated. Real life simulation they call it!

The future, in my opinion, is going to be much more volatile in terms of trade wars. There is a growing divide between the haves and have nots and mounting pressures between the major trading nations. If

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there are signs of weakness in the liner trades, they will be exploited. Competitors like Evergreen and United States Lines have to know that they cannot starve out our container shipping.

In making our submission to the Department of Transport on future training requirements, the Nautical Institute argued that the current intake of just 50 deck cadets a year would be insufficient to operate more than one hundred ships and would not provide enough qualified mariners to run our ports and harbours, survey services, training establishments and government inspectorate.

When shipping was prosperous, most companies trained. Now few do so. The problem is serious because there is a shortage of junior officers and nobody can afford to train cadets at about £14,000 per head if they are going to be poached.

There is an even more disturbing trend whereby some companies are recruiting junior officers and ratings from overseas to make up the shortfall. At the same time, new integrated ship systems demand officers with considerable experience and high standards of qualification.

Once junior officers are employed from overseas the training ladder is taken away and it will be impossible to replace senior officers with our own nationals. This subject was of vital concern to shipowners attending our Bridge Design and Ship Operations Conference recently in Oslo as they started to realise that the introduction of modern control equipment, which might provide a competitive advantage, may be too sophisticated for their flagged out crews to operate.

This led us to the conclusion that the U.K. now needs a national scheme of sea training funded independently of the shipping companies for the deep sea fleet.

It would be wrong however, not to recognise the vitality and success of the coastal and middle trade companies. In ships where the division between officers and ratings is not so wide, it has been very heartening to see the imaginative way in which recruits are brought in on deck and trained in stages for their certificates.

However, even this successful approach is being undercut by vessels operating with cheaper crews and varying degrees of support from governments overseas. As coastal trades are opened up within Europe, so British owners must have parity of opportunity, or there will be no British seamen in those ships either.

A merchant fleet is required to keep in touch with world commodity markets and to provide bargaining power for those resources which are imported and goods which are exported. The more that goods are carried in British ships the less freight is paid to foreign owners and the more foreign currency is earned.

This type of invisible return, like insurance and shipbroking that go with it, do not appear in the shipping companies' accounts but they do provide a net revenue to the nation. The alternative is lack of bargaining power, increased costs of carriage caused by bilateral trading agreements and cabotage and the loss of trading contacts.

As an island nation dependent on exports for survival, we must use the sea. It must be part of our culture so that we understand it and have freedom to trade worldwide. We are good at seafaring, our companies are efficient and we should sustain our maritime industries. If they go, they are not likely to come back.

The Nautical Institute's primary role is to promote high standards at sea and to demonstrate in the public interest how this objective can be achieved. Selling ships is not the way to salvation for an island nation, and I am arguing for a renaissance in our national commitment to shipping enterprise.

A speech made to The Grand Nautical Charity Dinner held at The Middle Temple Great Hall on Friday 30th October 1987.

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APPENDIX 20

Further Memorandum from Captain L A Holder, M Phil, FRIN, FNI, Head of Department of Maritime Studies, Liverpool Polytechnic

Since I gave my earlier evidence, the first steps have been taken towards implementing the recommendations of the Technology and Manning project. If these are carried through, and matched with investment in high-technology ships, they should enable UK shipowners and seafarers' organisations to implement training and manning which will be at least as efficient as that in other developed countries. However, shipowners quite naturally take a narrow view of their future training and manpower requirements.

The UK surely needs managers and leaders in the following posts, who have had some experience of ships and the sea:-

- ship and marine systems designers
- surveyors and examiners
- harbour masters and pilots
- marine underwriters and assessors
- specialist lawyers and investigators
- maritime administrators
- researchers and academic staff

No provision is being made, to my knowledge, for sea experience to be gained by those who could fill this wider role in the UK national economy in future. Many international services are currently manned by experienced mariners from the UK, who are thereby making a contribution to our economy.

26 January 1988

APPENDIX 21

Memorandum submitted by The Institute of London Underwriters

The economic future for ships flying the British Flag, along with other European community flag vessels, does not look promising at the present time nor indeed for the foreseeable future.

It would be extremely easy to argue that it was not necessarily undesirable to allow shipowners to 'flag out' in order to compete with the less scrupulous. This however would inevitably lead to a drop in standards with the more responsible countries having less control over vessels sailing in or near their territorial waters with the ever present threat of massive pollution events and other marine disasters. Moreover an industry, with all its supporting expertise, once lost is rarely ever regained. As this report is being written news reaches us that one of Britain's most responsible shipowners, namely Ocean Transport & Trading, are planning to flag out eleven of their vessels totalling approximately 324,000 GRT. This will lead to the loss of fifty British Seafarers jobs which represents 12½% of the total crewing requirements under the British Flag.

Britain in particular has contributed more than most countries in ensuring the safety of life and property at sea by way of communications, intelligence, advice on salvage and general technical expertise. This could all be lost in one generation together with the personnel who are not being trained for the future and without whom no revival is possible. New ships can be built or even purchased from overseas but without trained British crews to run them the benefit to the British economy is minimal.

The importance of a healthy shipping industry to onshore industries cannot be over emphasised. Shipyards whether building or repairing rely on shipowners for their livelihood as do numerous trades and technologies such as the electronics industry which produces navigational equipment and the like. The loss of the British Merchant Navy would see the demise of many of these industries with the ensuing loss of foreign earnings as well as the jobs that go with them.

Once owners have flagged out their vessels they are normally lost to British industry as far as shiprepairing and maintenance is concerned. With the lower safety standards endemic with many foreign flags the use of low quality shiprepairing companies overseas is possible.

All these points (and those made further in the paper) indicate that a British Flag fleet is not only desirable but a definite necessity.

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Evidence is available to show how many of the major British Institutions have suffered in the last ten years as a result of the decline of British and other traditional national flag fleets.

The Baltic Exchange has experienced a drop in earnings of some 25% in this time.

Lloyd's Register has seen a declining proportion of its business from British Flag vessels and this is one of only a few Classification Societies which maintain their standards and do not have dual or second class classification of vessels.

Insurance and Banking have contributed enormously to the country's wealth by way of invisible earnings but both have suffered from the demise of major British shipowners and by the loss of other responsible shipowners from the other traditional maritime nations.

Some responsibility for the state of British shipping must rest with successive British Governments for not having heeded the warning signs of the last twenty years.

If the shipping industry is to survive, and that includes ship-repairing and ship construction, some form of financial help must be made available now either by way of subsidies or tax incentives. This should either be conditional on vessels being built in British Yards and flying the British Flag for a period of say not less than ten years — or be related to real incentive to investors to subscribe to British Shipping Companies.

It is also felt desirable that greater consultation needs to take place between HM Government and the GCBS in order to try and determine what vessels are likely to be needed when the shipping cycle improves. It is necessary to have such vessels ready for this time rather than delay the construction until the next trade up-turn arrives. (For instance with many of the world's VLCCs now approaching 12-15 years and the loss of others in the Arabian Gulf War, that would seem to indicate a shortage in this area in the future).

We would like to cover some of these major points in greater depth under the following headings.

LOW STANDARDS ON MANY FOREIGN FLAG VESSELS

Statistics show that certain overseas fleets flying flags of the non-traditional maritime nations suffer worse loss ratios than the traditional nations. Between 1981-1985 the world average of tonnage lost through various causes was a factor of 0.34%. However, during this period the following examples of the percentages lost of fleets by national flag are of interest:

Gibraltar	3.44%
Lebanon	1.87%
Honduras	1.62%
Cyprus	0.95%
Panama	0.86%
Cuba	0.72%
Philippines	0.41%
Malta	0.60%
Indonesia	0.57%
Mexico	3.36%
Brazil	0.48%

During the same period a number of the above fleets have grown in size, some at quite an alarming rate (see table following).

Flag	Tonnage Afloat 1981	Tonnage Afloat 1985	Increase %
Cyprus	1,818,997	8,196,056	350.58
Panama	27,656,573	40,674,201	47.07
Philippines	2,539,817	4,593,979	80.88
Malta	231,353	1,855,807	702.15
Indonesia	1,744,958	1,936,420	11.00
Mexico	1,134,625	1,467,191	29.31
Brazil	5,133,224	6,057,364	18.00

In comparison to the above the UK fleet during this time scale has reduced by 43.58%. Other major European fleets such as West Germany, the Netherlands, Sweden, Spain, France and Norway have also declined by factors of approximately 20% or more.

One telling statistic which bears out the fact that many flagged out or flag of convenience operators seek the lowest costs and hence the lowest standard requirement is shown by the Liberian statistics.

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Once thought of as one of the worse flags of convenience Liberia has in recent years made great efforts to improve its standards and inspection services. These activities have proved extremely successful and have brought down the average tonnage lost figure to 0.23% (well below the world average of 0.34%). This exemplary attitude has been rewarded by a drop in registered tonnage of 22% as certain shipowners who do not want too many questions asked have switched to more 'liberal' registers!

Technical comparisons can be made by experts of the differentials between safety standards required by the UK Registry and those of other less stringent Registers. We are sure that such comparisons will be made elsewhere by others with more technical expertise than us. Nevertheless, bottom line statistics such as illustrated above are hard to refute and must reflect that flagged out vessels are more vulnerable to loss and damage than those under the British Flag.

LONG TERM INCREASE IN COSTS CAUSED BY THE USE OF FOREIGN FLAG VESSELS

With British importers and exporters being (increasingly) forced to rely more and more on foreign flag vessels their trading position in world markets will deteriorate.

Many foreign flag operations are operated on a low budget with low cost crews and their preferential freight rates are therefore advantageous.

If UK shipowners were to leave the stage to foreign flagged vessels the UK economy would be at the mercy of overseas operators. One wonders just how long their hitherto low freight rates would be maintained given the demise of British flag competitors.

Secondly, there would be a tendency by foreign flag vessels to limit the number of European ports of call to a minimum for purely cost saving purposes. Undoubtedly. some of the North European ports such as Hamburg, Rotterdam and Antwerp would prove favourite choices leaving British shippers to meet the additional expenses of transshipment by feeder services to and from the UK.

Lastly, the use of foreign flagged vessels means a drop in safety standards. This point is made elsewhere in this report but the consequences to UK cargo shippers should be highlighted.

Many foreign flag operators use old vessels that are uneconomic for first class shipowners to trade. Many such vessels of over 15 years of age attract a surcharge on the cargo premiums thereby increasing shipping costs.

More insidiously however, cargo insurance costs would unquestionably increase through the use of substantial foreign flag ships because of the inevitable bad claim experience that they will suffer. Poor quality tonnage coupled with inexperienced crews will mean damage and loss of cargo and Insurers will be forced to increase basic rates.

Furthermore, the delays and losses caused by low standard shipping methods has a further negative effect on UK trade. Overseas customers of British companies require our exported goods in prime condition and on time. Late and damaged cargoes, regardless of their original quality and cost effectiveness, are no good to such customers.

THE HUMAN RESOURCE FACTOR

The decline of tonnage entered under the United Kingdom Register whether caused by flagging out or the actual reduction of vessels owned by United Kingdom residents will have a very serious negative effect on the quality and quantity of the future generation of experienced (and well trained) mariners.

Any industry in decline fails to attract quality recruits who would form the cadre of senior personnel in ten to twenty years time. Such a declining industry furthermore becomes introverted and, in its attempts to cut losses will drop all apprenticeship and training schemes. This is certainly the case on flagged out vessels which do not carry cadets either on the bridge or in the engine room. The effect of this as it concerns the manning of the vessels of the future is obvious but less apparent would be the loss to the ancillary industries and professions who draw from this expertise.

Examples of this are manifest and the more obvious would include the following:

i) The Pilotage Services
ii) Harbour Masters
iii) Marine and Engineering Superintendents
iv) Ship Management
v) Marine Training Establishments

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However, the marine insurance industry itself both directly and indirectly relies heavily on ex-seagoing personnel. Many such individuals find jobs as underwriters, claims adjusters and brokers and their experience and knowledge adds greatly to the sum total of the market's expertise.

It is however on the less direct examples where experienced deck officers and marine engineers are utterly indispensible to marine insurers.

Examples of these requirements are as follows:

i) Marine Hull and Cargo Surveyors
ii) Consultants with expertise in matters such as cargo, stowage and towage risks
iii) Maritime Lawyers, a number of whom combine the Law Society qualifications with those of Master Mariner
iv) Classification Society Surveyors

If the United Kingdom was to lose this reservoir of highly trained and practical know-how, the Marine Insurance market in particular would suffer a body blow of considerable magnitude. Without British trained personnel reliance would have to be placed on resources from overseas with all the ensuing problems and consequent drop in standards. In the competitive world market the loss of such an asset would be extremely detrimental.

In summary, it is our belief that a healthy British flagged fleet is of prime importance to the United Kingdom. Short- term views may indicate otherwise but in the long run this contrary opinion cannot be maintained.

Massive subsidies and cotton-wool protectionism often produces the opposite to health and vibrancy in an industry. Nevertheless, we are of the strong opinion that Governmental aid is required by the British Shipping Industry in the form of tax incentives and other beneficial forms of assistance.

At the same time we feel that the Seafaring Unions must co-operate and face the realities of the present situation with flexibility.

I hope these observations will be of some interest to your Committee.

17 March 1987

APPENDIX 22

Memorandum submitted by the International Association of Dry Cargo Shipowners (INTERCARGO)

INTRODUCTION

1. The International Association of Dry Cargo Shipowners (Intercargo) was formed in 1980 for the purpose of promoting and protecting the interests of owners, operators and managers of dry cargo vessels in the bulk trades. Today it has some one hundred members from twelve countries drawn from the North American continent, Europe (including the U.K.) and Hong Kong. All are independent in the sense that they operate on free enterprise principles without government control, subsidy or supervision, and at arms length from cargo and commodity interests.

2. The Association is pleased to respond briefly to the invitation to submit a paper to your Committee because many of the reasons for the decline in the U.K. Registered Fleet are not confined to British shipowners but are common to shipowners from the traditional maritime nations and others in membership of Intercargo. It is therefore appropriate that we should set these out from a broader perspective. Obviously no attempt is made to go into the special considerations which our U.K.

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members may wish to draw to your attention through other representations such as the reasons which make the U.K. flag less attractive than hitherto or which put them at a competitive disadvantage vis a vis others.

REASONS FOR DECLINE

3. The basic reasons for decline whether of the U.K. Registered fleet or others are threefold:-
— Costs
— Overcapacity
— Protectionism

4. These are related. Protectionism of all sorts, and subsidies to shipowners and shipbuilders of many varieties, leads to overcapacity. This in turn reduces freight earnings to such a level that operating costs are barely covered and no contribution to replacement or capital charges is possible. The result is that every endeavour has to be made if an owner is to stay in business, to cut costs. One method is to move to a cheaper flag — a main reason for the departure from the U.K. Register. The same applies in other traditional maritime nations.

COSTS

5. Operating costs are those incurred in keeping a ship in service. They include crew costs, insurance, stores and victuals, repairs, maintenance and surveys. Of these, crew costs are the most significant and it is to savings in this area by rationalisation, automation, increased efficiency and generally cheaper operation that owners primarily look. With the freight market as it has persisted since the oil crisis in 1973/4, this has inevitably meant that owners have reduced their fleet, gone to cheaper operations or, in a number of cases, simply gone out of business either through design or because it was the only alternative.

6. The dramatically depressed state of the world's dry bulk shipping markets is shown from the fact that the GCBS Index of Tramp Rates set at 100 in 1976 is currently, and has consistently stayed below, its starting level during these 10 years except on a few occasions. Also that the Baltic Freight Futures Index which was set at 1000 in January 1985 (representing a low market level) has only briefly gone above that figure and today hovers around 760 to 780.

OVERCAPACITY

7. Since the mid 1970's there has been massive inbalance between supply and demand especially in the bulk shipping markets. In other words, too many ships chasing too few cargoes. Current estimates are that excess tonnage in the dry bulk sector stands at about 40m tons dwt. Taking shipping as a whole the following figures are very indicative of today's malaise.

TOTAL WORLD FLEET

1921	60 million grt
1939	68 million grt
1965	180 million grt
1980	420 million grt

One respected authority in the industry estimated recently that taking into account the greater speed and efficiency of modern ships the carrying capacity has increased tenfold since the war. There has been no comparable increase in world trade, although the trend has been slowly upwards. A significant increase seems unlikley and certainly cannot be expected in the short term.

8. This is the result in part of artificial stimulae, in part faulty judgement on the part of shipowners. Artificial stimulus stems from subsidies of one sort or another, overt or covert, to shipowners and — especially — to shipbuilders. It is a fact of life world wide that shipbuilding means employment and votes in politically sensitive areas. It is thus not surprising that governments world wide have found a variety of means of propping up their ailing shipyards thereby encouraging the production of ships for which there is no commercial demand. These frequently have a knock-on effect so as to provide an indirect benefit to shipowners in terms of price and financial (credit) arrangements. Shipowners are induced to buy these unwanted ships through artificially low prices and very attractive credit terms.

9. Among a wide range of methods used by governments come the following:-
— straight grants or other forms of financial assistance
— schemes for selling ships at 'knock down' prices
— schemes for building ships 'for stock'
— 'scrap and build' schemes when the requirement is to scrap and not build.

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10. Aside from the above there are many direct governmental subsidies or other aids to shipowners. These include:-
- operating subsidies
- construction subsidies
- special taxation treatment
- social schemes giving free training or free medical treatment to seafarers
- politically motivated schemes to give an advantage to national carriers
- beneficial credit arrangements

11. On top of all this have been very attractive financing terms offered by the banks and financial institutions. This coupled with the inherent desire of shipowners 'not to miss the next upturn' and to take advantage of very attractive financial packages has all contributed to overcapacity. During the last 10 years there have been many false dawns and shipowners world wide have on numerous occasions shown (in retrospect) faulty judgement. This is not to condemn but to explain.

PROTECTIONISM

12. Protectionism takes many forms but the result always is to increase capacity without there being a corresponding commercial need. All, in one way or another, distort the market.

13. The most common form of protectionism is the denial of access to national shipping markets. Methods include:-
- reservation of cargoes to national flag ships
- other forms of directing cargo (Freight bureaux, credit arrangements, licences etc.)
- cabotage
- boycotts
- directions that all exports are cif and all imports fob
- special provisions for 'aid' cargoes aside from defence or stategic requirements
- ship national campaigns

14. Bilateral government to government, or other intergovernmental agreements may also have the effect of dividing up the market on the basis of non commercial considerations. These include agreements which divide the market 50/50 between bilateral partners and thereby exclude cross-traders; or others which result in a 40/20/40 or 33/33/33 split. All in their way are restrictive of free competition and thereby lead to overtonnaging.

15. The point should be made in this context that examples of the above are found mainly, but not exclusively,in the liner trades. The bulk markets are largely free from governmental agreements or pressures to divide them up on a non commercial basis despite suggestions to the contrary in order (it is said) to assist developing nations. For Intercargo members the maintenance of a free market is of the highest priority. Such bending of market forces as there is arises as a result of so called vertical integration between cargo interests and carriers. These arrangements are not to the liking of truly independent shipowners. They arise nonetheless from commercial considerations and the efficient carriage of 'own cargoes' and not from governmental dictat.

CONCLUDING REMARKS

16. It is to be stressed that this agreement is made from a broad international viewpoint in order to illustrate that the problems of British shipowners are not peculiar to them. But, as has already been said, British shipowners have special problems to which they will undoubtedly allude and which, for example, have made the British flag unattractive not only to them but to others.

17. The major problems explained in this statement are not capable of easy or quick resolution or indeed as a result of action by any one government or private sector interest. This will only come as a result of international action coordinated so far as possible at both governmental and private level. Such action should have the following aims:
- the rolling back of protectionism in its various forms
- the elimination, so far as possible, of all forms of subsidy, whether direct or indirect, which have the effect of creating shipping tonnage for which there is no commercial need
- a major cooperative effort to reduce the current over supply through scrapping, less building or in other ways
- the development of a better understanding at international level of the interrelationship between all sectors of the maritime business-shipowners, shippers, shipbuilders and unions — and the fact that shipping can best serve world trade if based upon commercial principles.

18. The Committee may feel that the U.K. is particularly well placed, with its European colleagues, to give a lead in the above areas.

October, 1986.

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APPENDIX 23

Memorandum submitted by Dr P A Milne

The United Kingdom Merchant Fleet in 1977 totalled just over over 30 million gross tonnes. Since then, there has been a sharp decline, which has averaged some 15% per year, such that by the third quarter of 1986, the total fleet had been reduced to 8.6 million gross tonnes. In contrast to this, the total world fleet had grown, starting at 393m gross tonnes in 1977, rising to a total of 405m gross tonnes by June, 1986. This means that the British fleet was some 2% of the world total. Unfair or non commercial competition from Eastern block countries is a major concern and their fleets have increased by 42% in the last ten years. The main problem, however, is the result of action taken in the Far East, where the fleets have expanded by 300% in ten years, particularly those of the Japanese and Koreans. Their actions have resulted in severe overtonnaging, particularly in the tanker and bulk carrier market.

WHY THE FLEET HAS DECLINED

The overtonnaging mentioned has led to severe competition and depressed frieght rates. One of the key elements in operating costs is the servicing of capital. On some types of ship, this can be half the operating cost. This means that the fiscal policy of the flag state is of crucial importance to the owner. National governments can protect the size of their fleet or respond to unfair competition by the policy approach taken in this area. For example, the General Council of British Shipping has suggested that the 25% writing down allowance already available should be increased to 75%. As shipbuilders, we would ask that any such concession be linked to a requirement that the new tonnage be built in domestic yards. There should at least be an onus on the ship owner to show that in the event that they should place an order outside the EEC, they will have achieved a more favourable position. There has also been an increasing and accelerating trend towards flagging out. This is done mainly to reduce crew costs, which are higher in Europe than those of non EEC competitors. The shipping industry has seen the wage levels of its nationals rise in line with those of land based activities. The common market ship owners group (CAACE) has recently called for a reduction in the employment costs imposed by governments on ship owners and seafarers and has asked for a coordinated approach to revising financial and tax treatment in order to reduce operating costs.

EUROPEAN SHIPPING POLICY

At the end of last year, the EEC took its first real steps to implement a maritime transport policy. Four regulations were adopted, aimed generally to promote free and fair trade. Cargo reservation and similar restrictions on trade between EEC countries and with the rest of the world are to be phased out over the next six years, subject to the modified version of the UNCTAD code of conduct for liner conferences, which the EEC endorsed in 1979.

- the EEC's competition rules are to be applied to shipping but will accomodate the conference system in its traditional form.
- retaliatory duties can be imposed to counter unfairly low freight rates offered by non-EEC lines.
- counter-measures can be taken or threatened if another country restricts the access of EEC shipping companies to a particular trade.

However, Britain was not able to secure the inclusion in the first of these regulations of any timetable for the relaxation of cabotage restrictions, i.e. the reservation of trade between a country's ports to ships flying its national flag. Thus a British registered ship will be allowed to carry any kind of cargo, say from Spain to France, at least from 1990 onwards, and from 1992, to France from anywhere in the world, but it will not be able to carry cargo from one Spanish port to another.

Moreover, the trades which are now to be opened up to ships flying the flags of any Member States have to be opened to the rest of the world's fleets by 1993, so we will then lose any advantage we have gained in the meantime. At least we have an unofficial bilateral agreement, made in 1985, which allows our ships to operate in the German coasting trade.

Some of us have thought that the European Community would have done better to have extended the cabotage principal, to reserve all the trade between EEC ports to ships registered in EEC countries and better still, to ships built in EEC yards, on the lines of the American Jones Act (the Merchant Marine Act 1920).

The European Commision is now going on to study port operating conditions and subsidies, with a view to further legislation.

One further area in which some countries gain an advantage concerns the standard of their tonnage. Port state control, a measure agreed between European countries in 1982, is beginning to have some impact. This provides for 25 per cent of all foreign vessels entering ports to be inspected to ensure they meet the standards laid down by both IMO and ILO. This is a welcome attempt to eliminate sub standard ships but unfortunately, to date, those involved have refused to make a full disclosure of the information obtained during inspections. This means that it is not possible to identify those flags which are deficient.

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It also means that vessels are only seen when visiting ports and are able to pass through coastal waters where intervention can only take place if there is a suspected threat of oil or chemical pollution. Surplus tonnage could certainly be reduced by a more rigorous application of existing rules and extending the control of standards to include the boarding of vessels, as practised by the U.S. coast guards.

IMPORTANCE OF THE U.K. MERCHANT FLEET.

(a) *Trade & EEC/UK Economy*

Over 90% of the goods imported to or exported from this country are transported by ships. We are also members of the world's largest trading area, with at least 95% of its trade with non member states and 30% of intracommunity traffic being carried by sea. The present member states are responsible for some 45% of all the world's seaborne trade and it is therefore vital to our commercial interests that we are able to control the costs of this movement. Some authorities have argued that the fleet should be big enough to carry at least 40% of the Community's trading requirements, the latter figure coming from the UNCTAD code for liner conferences, which has been seen in other situations as a reasonable basis for cargo sharing. If this is applied to the 45% already mentioned, it means that the fleet should be capable of moving 18% of the world's requirements. In fact, by 1985, the fleets of member states were already down to 21%, both in terms of gross tonnage and dead weight, and were still declining rapidly. It is hard to understand why the EEC, when considering maritime policy, concluded that it was not necessary to change from a non protectionist approach.

(b) *The importance of the UK Fleet to the Shipbuilding Industry*

Until quite recently, ship builders were able to establish a base load, using orders from home owners. In 1981, for example, ships ordered by British owners totalled 319,000 grt out of a total order intake of 504,000 grt. We in the United Kingdom, incidentally, have not protected our home market as vigorously as other members of the EEC.

Prices for new ships have never been lower and it is now possible to buy a 30,000 dwt bulk carrier for $10m, whereas in 1976 the price for the same ship was £11m. Despite such pricing, the demand for new building has slumped because of the surplus tonnage. There have, however, recently been encouraging signs, which are the result of high levels of scrapping in recent years, a reduction in shipbuilding capacity and some improvement in world trade. The result is that there has been some improvement in freight rates, which is vital to the future of ship owning.

In Western Europe, the shipbuilders have reduced capacity on average by more than 50%. We in the U.K. have reduced by 87%. In contrast, the South Koreans trebled their shipbuilding capacity between 1978 and 1985 and continue to mount a major selling effort, on some occasions offering ships for something like 15% to 20% below their own cost.

(c) *Joint Action for Future.*

It has already been mentioned that there is a need to improve the fiscal regime available to domestic ship owners to arrest the decline in our fleet. They would also be helped by higher standards of ship inspection and a positive response to unfair competition, whether it comes through cabotage arrangements or aggressive pricing policies. The disadvantages faced by Western European operators can, however, only be offset by the application of advanced technology. This must be aimed at the reduction of operating costs by optimising routing, reducing fuel consumption and manning levels. In this respect, the Efficient Ship programme, a project sponsored by the Department of Trade & Industry to encourage collaboration among the maritime industries, is of some importance, although it has to be admitted that other nations have already covered some of the ground. The urgent need for the United Kingdom is to progress a project of this type into hardware, so that it is tested at sea and can be used with confidence in future installations. This is the type of project by which we can introduce technologically advanced ships, offering incentives, whether writing down allowances or increased price subsidy, to encourage their introduction into service. Such projects would be of benefit to the ship owner, ship builders and the marine equipment suppliers. As far as politicians are concerned, it is crucial that they recognise they are in fact determining the size of these industries because they are open to international competition, which in many cases is unfair and motivated by longer term commercial considerations. A short term view on the part of the United Kingdom will only damage our future. It is difficult to decide on the level at which a stand should be made but this is what must now be done.

17 March 1987

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APPENDIX 24

Memorandum submitted by Shell Tankers (U.K.) Limited

I was pleased to see from your Press Notice that the Transport Committee has resumed its inquiries.

You have invited further correspondence and although I gave oral evidence at the end of March, things have moved since then. I would particularly like to comment on several personnel points which I hope may be helpful to the Committee.

There has been a considerable transfer of tonnage and personnel employment from the mainland U.K. to the Isle of Man. These need not be lost to the national interest and I would suggest that for some purposes the U.K. and the Crown Dependencies be considered together.

Employment of seafarers offshore through the Isle of Man can provide a valuable means for retaining a core of experienced British seafarers in all ranks, some serving in British ships and some in foreign. (The Norwegian Government has gone to a great deal of trouble to establish an International Ship Register. We have a ready-made facility in the Isle of Man and should use it to best advantage.)

One should remember that the traditional shipping company structure has now largely disappeared. The business of operating ships is frequently split into a number of components, ownership, trading, technical/financial management and personnel. These may be provided by different companies bound by a network of contracts.

The success of the personnel component in this structure, even when providing British seafarers from a Dependency, is still fairly delicately balanced and could flourish or wither. The balance relates to cost and to the availability of trained men.

British seamen are still relatively expensive compared to some of their foreign competitors and personnel costs are the major component in tanker operating costs. (Refer to the GCBS evidence on this point.)

Shortages are beginning to appear in some ranks. This is not unexpected in view of the drastic reduction in training over recent years.

There is a need, therefore, to ensure that personnel costs are as competitive as possible, that a career at sea is reasonably attractive, that people will be interested in joining, even if only for a limited number of years, and that training and certification are suited to the needs of the 1990s and ahead of the competition.

One can identify a number of elements, some by no means new which, if taken together, should go a long way towards satisfying these needs.

— Seafarers who have had to move offshore have suffered a significant reduction in their remuneration package. They mostly recognise the economic forces which have given rise to this but retain a degree of scepticism as to whether there is a genuine commitment to a maritime industry in Britain and thus whether they can look forward to reasonable career prospects. This lack of confidence is unhealthy and is also discernible at the prospective entrant level. It needs to be corrected.

— Foreign trading ships are an international undertaking. Serving in such ships is an international occupation subject to market forces prevailing around the world. The British seafarer working offshore is at a disadvantage against many foreign seamen, particularly from the Far East. The pay that he needs in order to live in Britain is higher. Additionally, he may incur a full liability for income tax and N.H. Insurance or he may be subjected to uncertainty year by year as to the extent of his liability. Obligations to deduct PAYE may be levelled against one or other of the parties in the ship operating system. The consequences of these liabilities and uncertainties may well be that the individual leaves the sea, leaves the country or goes foreign and that the ship operation is pushed further offshore. What is required is an examination of all of these matters to ensure that the British seafarer and his employer are not disadvantaged by tax laws against their competitors.

— Financial help has been promised by the Government towards the cost of training. This will be very welcome provided that good recruits come forward and proper training facilities continue to exist. It is useless without. A few companies are recruiting, but not enough. An industry drive is required to promote careers at sea which offer prospects to the interested youngster. Funding in the colleges for maritime training raises difficulties and, as an example, the severe financial constraints of recent years has meant that the industry has not been able to find the capital injection necessary to maintain the Gravesend Sea School, the only training establishment for rating entrants, at the level it would wish and the school has suffered in consequence.

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— The Department of Transport has recently brought about the formation of a Strategic Policy Committee to consider modifications to the structure of certification and training. This is an important initiative which, if successful, will ensure both that British seafarers and those who employ them will be in a position to respond to the changes in manning structures which many of us see as necessary and that Britain is in the forefront in such matters.

— Were the Committee prepared to give a "fair wind" to these matters I submit that this would contribute significantly to reversing at least a part of the decline. But, perhaps the most important thing that could be done would be to raise a sense of common purpose in the Government and the country aimed at demonstrating a positive commitment to Britain's maritime affairs.

23 December 1987

APPENDIX 25

Memorandum submitted by the Association of Marine Engineering Schools

Membership of this Association includes all educational centres in the United Kingdom offering education and training for Merchant Navy Officers and for young people intending to become such Officers. These centres are at Aberdeen, Glasgow, South Shields, Liverpool, Cardiff, Southampton, Plymouth. It is one measure of the decline of the shipping industry that these courses have been withdrawn completely, over the last few years, from Dundee, Leith, Belfast, Birkenhead, Hull, London and Portsmouth.

Prior to the introduction of the Engineer Cadet system in 1952, the sole method of entry to the Merchant Navy for potential Engineer Officers was by serving an apprenticeship in shipbuilding, shiprepairing, marine engineering or other heavy industry, and then going to sea as a Junior Engineer Officer. The Engineer Cadet Scheme was introduced in order to attract the 16-year-old school-leaver with 'O' Levels: normally of 4-years duration, it leads typically to a Diploma (BTEC or SCOTVEC) after two years in College, with a Higher Diploma after a further year at sea and a final year at College. Recruitment from both sources became approximately equal some 12 to 15 years ago, and for the last 5 or 6 it has been exclusively through the cadet system.

The extent to which recruitment even from this sole source has fallen is clearly illustrated in the Institute of Marine Engineers paper "The Marine Engineering Audit", copies of which it is understood the Committee has seen. This document, of course, is two years old and the graph of cadet recruitment now shows some levelling off, but below a figure of 100 per annum. It is this aspect more than any other which concerns this Association.

The Committee will already know of the number of shipping companies who have transferred their registrations away from the U.K. mainland and of those employing manning agencies. In the Association's experience, these changes are almost always accompanied by a cessation of cadet recruitment. Bearing in mind that a 4-year cadetship, together with the qualifying sea service subsequently necessary for a class 2, and then for a class 1, certificate of competency, the overall time from recruitment as a cadet to Chief Engineer is unlikely to be less than 10 years.

Although the number of Engineer Officers attending courses for Certificates of Competency has declined, the reduction has been by no means so dramatic as in the case of engineer cadets. The fact remains that this drastically reduced engineer cadet recruitment, will over the next few years, be reflected in a considerable decline in Certificate students.

There is unquestionably a need for more people to come into the Merchant Navy, in order to become Engineer Officers if this country intends to keep a Merchant Fleet manned by holders of British Certificates of Competency. The costs of educating and training an Engineer Cadet are not inconsiderable and in the past have fallen entirely upon the employing company. At present, some relief from these costs is possible from Y.T.S. and also by Colleges recruiting young people, with little or no grant assistance, until such time as a company is able and prepared to take them on as Engineer Cadets. The reference to British Certificates is very pertinent: the standard of these is undoubtedly as high as any available anywhere, and their possession is undoubtedly properly valued by the holders. This in turn is relevant, since it is by no means clear the manning agencies will restrict their recruitment of officers to holders of British Certificates.

Finally, the 4-year Cadet Scheme provides a package of integrated ecucation and training in engineering which it would be difficult to match anywhere for the 16-year-old school-leaver with 'O' levels. It is not very long since three or four cadets completing their cadetship satisfactorily found that

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there was no seafaring employment: they also found that this package enabled them to undertake a variety of different types of employment, in engineering and allied areas, or to proceed to Higher Education. This Association recognises that this very valuable element of engineer education and training is now being used to such a very limited extent.

APPENDIX 26

Further Memorandum submitted by Mr G J Bonwick

INDUSTRIAL RELATIONS

A striking omission from evidence given to the Transport Committee in the course of its inquiry was reference to industrial relations. Committee members did not ask a single question in public despite the fact that during the inquiry serious strikes have occurred which immobilised ferries for long periods, diverting passenger and vehicle traffic to foreign ships, and causing heavy losses to companies as well as to unions and moronic malcontents among their members. There is nothing novel about these strikes. Messrs. Marshall and Bidwell, who appear to be totally disinterested in the past, may care to be reminded that costly disputes have been frequent in merchant shipping in recent years, especially among ratings. In fact, they became inevitable in 1973 with the death in harness of the moderate NUS general secretary. The dregs of what Prime Minister Wilson, during the 1966 seamen's strike, termed "a tight-knit group of politically motivated men" then gained power and influence in the National Union of Seamen. Industrial strife has been a feature of UK maritime life ever since.

A year later the equally moderate and sensible general secretary of the officers' union, MNAOA, (now NUMAST) also died in harness in tragic circumstances at a relatively young age. His passing marked the end of generations of moderation and reasonableness among union officials and ships' officers from which they benefited considerably and the beginning of confrontation, disputes, demonstrations, sit-ins and strikes. The subsequent granting to the MNAOA of a closed shop, at a time of shipping boom and officer shortage, was bound to make matters worse. So, too, was a sly, private arrangement between shipowners and the NUS under which the former paid the union a levy on non-UK ratings, the vast majority Asian, employed in UK ships on wages and conditions far inferior to those of British ratings. Both sides agreed that this unsavoury arrangement was to be kept secret and, in fact, NUS members were not told of its existence until disclosure in the national Press forced NUS leaders to mention it briefly in the union's journal. Initially, in NUS returns to the Registrar in the mid 1970s the levy was described as a receipt under "Non-UK Manning Agreements" but this was soon changed to "Contributions under National Maritime Board Agreements" which did not have the same racist connotation. The highest annual payment by shipowners to the union appears to have been £255,173 in 1976. By the time the levy ended around £1½ million had been pocketed by the NUS. This undoubtedly encouraged militancy, strikes and seemingly constant threats of one kind or another.

It is not therefore surprising that many owners of UK-registered ships who could transfer ships abroad have done so. This was especially true of foreigners who had registered ships in the UK and employed UK seamen rather than risk boycotting under Flags of Convenience. Outlawing of secondary picketing effectively ended all such boycotts in UK ports. As a consequence many hundreds of UK seafarers' jobs have been permanently lost, union membership has dwindled, and it is doubtful if the NUS or NUMAST can remain viable for much longer. Absorption by larger unions is already under discussion and is inevitable. Of NUMAST and NUS officials it can truly be said that they have proved to be their own members' worst enemies.

It is interesting to note that none of the numerous suggestions advanced to Governments over the years by NUMAST and the NUS, ostensibly to assist UK shipping has ever been accepted or adopted. This might have been expected of the NUS whose officials are ex-ratings with no academic or technical qualification of any importance. Unfortunately, it is also true of NUMAST. Indeed, towards the end of 1987 NUMAST produced a leaflet entitled *The UK fleet in crisis* which was submitted to Shipping Minister Lord Brabazon. The leaflet listed 16 recommendations which the union naively contended would assist the industry, every one of which was rejected by the Minister — and rightly so, in my view. It is difficult to select the least sensible but the proposed banning of ships flying Flag of Convenience from UK ports had nothing whatsover to commend it — especially considering that many are officered by NUMAST members, a point conveniently overlooked, incidentally, when NUMAST alleges that FoC ships are sub-standard.

Needless to say, reservation of the UK coastal trade to UK-registered ships was among NUMAST's 16 proposals. It has been proposed for generations by the NUS. Bearing in mind the monopoly this would give to shiftless, strike-happy seamen as well as to shipowners there is every prospect of the *status quo* being maintained. The current protracted strikes of cross-Channel ferry-men is an indication of the chaos that would inevitably ensue. The latest strikes in a long series have probably made construction of a second Channel Tunnel inevitable.

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It is suggested that the Transport Committee's inquiry into the decline of the UK-registered fleet would be incomplete without consideration, even at this late stage, of the part played by UK unions and their members. It may not be exaggeration to say that the strike record of UK seafarers and UK shipping's labour relations generally in the last decade and more compare unfavourably with those of all other maritime nations. Be that as it may, there can be no doubt that our competitors have benefited substantially from trade which has been lost to them because of the mindless militancy of UK seafarers and the reputation for unreliability UK shipping has unfortunately though unavoidably acquired.

21 March 1988

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HOUSE OF COMMONS SESSION 1987-88

TRANSPORT COMMITTEE

DECLINE IN THE UK-REGISTERED MERCHANT FLEET

MINUTES OF EVIDENCE

Tuesday 2 February 1988

General Council of British Shipping

Mr K St Johnston, Mr I Denholm, Mr P Le Cheminant and Mr J Lusted

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Ordered by The House of Commons *to be printed 2 February 1988*

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MINUTES OF EVIDENCE

TAKEN BEFORE THE TRANSPORT COMMITTEE

TUESDAY 2 FEBRUARY 1988

Members present:

Mr David Marshall, in the Chair

Mr David Gilroy Bevan — Mr Derek Conway
Mr Sydney Bidwell — Mr Terry Dicks
Mr Jim Callaghan — Mrs Gwyneth Dunwoody

Memorandum submitted by the General Council of British Shipping.

THE FUTURE OF THE BRITISH MERCHANT FLEET: AN ANALYSIS OF POLICY OPTIONS

SUMMARY

1. This paper seeks to set out the factors which bear on national decisions affecting Britain's merchant fleet and to analyse the options open to Government to influence the size, composition and commercial viability of that fleet in the future. It is not a set of demands but a contribution to public discussion.

2. The background is one of a massive reduction in the size of the British-owned fleet in the past decade and a massive change in the last two years in the ports of registry of the remaining fleet. The UK is not alone in these developments which have affected virtually all developed nations' merchant fleets, but the changes have gone further and faster with us that with most of the others.

3. The fierce international competition which has characterised the period of change and adjustment continued in 1987 as has the distortion of the market occasioned by the financial and other support given by other Governments to their national fleets. And the disparity of the cost of crews of different nationalities still bears heavily in an era of low trading returns. The British shipping industry has continued to react by removing its ships to offshore registers, often at considerable expense, in order to reduce crew costs and regain competitivity. The effect has been broadly to stabilise the size of the British owned and controlled fleet. But this is probably only a temporary respite. The ships get older and replacement by new or secondhand tonnage is far below the level needed to sustain a fleet even of the present size. It is the lack of replacements for existing tonnage, the steady erosion of the pool of trained British seafarers, and the threat to our wider maritime interests, which are the most worrying features of the situation from the national point of view.

4. Despite these massive changes most British shipping companies are profitable although a growing proportion of their income comes from activities other than the owning and operating of ships. Indeed for many profitability stems from the fact that they are moving the focus of their activity away from shipping. The key questions are whether these changes matter and, if so, what can be done about them?

5. This paper examines both questions. On the first it argues that Britain's Merchant Navy (MN) still has a vital national role to play in peace and in war. In peace it enables a measure of control over our own vital imports and exports; it makes a significant — though often underrated — contribution to our balance of payments and it acts as a vital focus for a wide range of maritime industries and services which provide employment and income going far beyond the direct contribution of the shipping companies. In war and times of tension the MN has a recognised role within NATO of direct support to the armed forces, reinforcement of the European theatre and of civilian resupply. All these roles are vitally important both in themselves and in ensuring the credibility of the NATO deterrent. And all depend for their effectiveness upon there being a UK-owned merchant fleet of considerable size together with an adequate supply of seafarers to man it. The place of the registration of the fleet is less material.

6. Even if these views are not shared it remains important that whatever size of British-owned merchant fleet continues to exist should be assured, so far as it lies in the Government's power, of a fair competitive arena in which to conduct its business. Other Governments bias the rules in favour of their national fleets. It is right that a British Government should seek to counter or offset such bias where it can. It may, of course, be that Government sees, as we do, a need to secure a merchant fleet of a size that will meet national objectives in the fields of defence, the balance of payments and trade. If so, there is a wide range of measures which could be brought into play to stimulate investment and to assist with running costs. Measures to improve the competitive climate in which British ships operate are common to both scenarios.

7. The measures we have in mind are set out in the paper. It should be emphasised again that they are not a set of demands. Instead they are a costed menu of options which we hope will aid Goverment in its difficult task of deciding where the national interest lies and how best to further it. The options fall into three groups.

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(i) *Aids for reinvestment* (paras 44-49)
An important example here would be the introduction of roll-over relief for balancing charges on new or secondhand ships. Such an arrangement, already familiar in the taxation of capital gains and widely available to our overseas competitors, would undoubtedly stimulate investment in ships. But there are others;

(ii) *Aids for running costs* (paras. 50-61)
These go further than the measures proposed in the current Merchant Shipping Bill. Possibilities include a Merchant Navy Strategic Contract for each ship or key seafarer;

(iii) *Other measures* (paras. 62-70)
There is a wide range of measures and actions which could improve the competitive environment for British shipping. Examples include improving European Port State Control over substandard competition, opening up European cabotage trades to British ships and removing restrictions on ferry companies facing competition from the Channel Tunnel.

8. In presenting these arguments the General Council of British Shipping seeks above all to ensure a clearer understanding of what is happening to British shipping in the late 1980's. The industry has put itself in good shape, at substantial cost, to compete in the world. But the crucial dimension of the strategic and economic national interest, civil as well as military, needs to be recognised. We do not doubt its importance and are confident others will share our views. If they do, the range of measures set out in this paper offers ample scope and choice for determined action by Government.

THE FUTURE OF THE BRITISH MERCHANT FLEET

Introduction

9. Each Autumn GCBS has sent to Ministers and MPs its analysis of the position of the British merchant fleet and its assessment of the measures which need to be taken by Government, normally in the context of the annual Finance Bill, to sustain a British merchant navy. GCBS believes that it is manifestly in the national interest for there to be a UK-controlled merchant fleet, although not necessarily in the commercial interests of those companies currently involved in shipping. This paper up-dates previous papers and presents a menu of measures, a selection from which, in the judgement of the shipping industry, would ensure continued British involvement in merchant shipping by bringing the commercial interests of the shipping companies into line with the country's interest *if Government were to conclude that that was in the national interest.*

10. 1987 has been a year of mixed fortunes for British merchant shipping. The year was overshadowed by the 'HERALD OF FREE ENTERPRISE' tragedy. Revenues have fluctuated with some sectors remaining depressed by an oversupply of ships, while others show signs of perhaps a fragile recovery. But the size of the fleet controlled by British shipping companies to some extent stabilised as companies continued to take the difficult decision to transfer large numbers of vessels to foreign registries in order to save costs. Only two new ships were ordered in the first nine months of the year, of 5,000 dwt. The questions to be answered are whether the existing, ageing fleet will be replaced in due time and whether it is in the national interest for our ships to be manned by an increasingly high percentage of foreign nationals and flagged out to ever more remote registers.

The UK Merchant Fleet

11. During the twelve months from July, 1986 the UK-owned or controlled trading fleet (ships over 500 grt on all registers) has declined by 10%, from around 19m dwt to 17m dwt. The decline in the number and tonnage of ships on the mainland UK register has been even greater than we predicted this time last year, from 515 ships of 10.3m dwt to 400 of 6m dwt. In addition there are now some 75 ships of 3m dwt registered in the Isle of Man and the Channel Islands and 160 ships of 8m dwt registered further afield, mainly in the British Dependent Territories* but some in independent flag of convenience states (FOCs).

12. The overwhelming majority of British-owned ships registered outside the "UK mainland" are not manned with full UK national crews. And the further afield they are registered — from the Isle of Man, through a Dependent Territory to an independent FOC — the less likely it is that there will be British nationals on board. The effect of flagging out on employment is demonstrated by the 12% decline over the last 12 months in the number of British seafarers registered with the Merchant Navy Establishment (MNE) — ie resident in the UK and fully accessible in time of emergency — from 29,000 to around 25,000 officers and ratings. This compares with 50,000 less than five years ago. The decline is not nearly bridged by the estimated 7,000 unregistered British seafarers serving on UK owned ships outside the ambit of the MNE.

13. The overall decline in the UK controlled fleet and the displacement of UK owned ships from the UK mainland register is shown in the table at Annex A.

*The British Dependent Territories (BDTs) with shipping registers are Anguilla, Bermuda, British Virgin Islands, Cayman Islands, Falkland Islands, Gibraltar, Hong Kong, Montserrat, St. Helena and Turks & Caicos Islands.

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14. The most alarming development is the almost total absence of any orders for new buildings. Even when market conditions are depressed over a lengthy period, ships fall due for replacement. Ships are on order for other countries in considerably greater numbers than for the UK registry. The position at the end of June 1987 showed the UK 39th in the world order book league table (Annex B). It will be seen that amongst our EEC partners, the order books of Denmark (27x), Italy (27x), Greece (12.5x), Spain (4x) and Germany (3.5x) are very substantially larger than that of the UK fleet. (As far as GCBS is aware no new ships are on order for UK owners for registry outside the UK.) No ships at all were ordered from August 1986 until September 1987, when one ship was ordered. New ships will certainly be ordered by UK owners from time to time — even for mainland registry — but the trend is a stark one.

15. By contrast in 1983, the last complete year before the 1984 Budget withdrew the previous fiscal regime for shipping, which provided assistance broadly equivalent to the support measures given by other Governments to their merchant fleets, orders for UK registry were of 363,000 dwt. Secondhand ships have been bought in 1984-87 as in earlier periods, but these purchases have not been sufficient to offset the reduction in orders for new ships.

16. The position then is of a still large but ageing merchant fleet — average age of the whole fleet is 11.4 years, of container ships 12.9 years — increasingly registered outside mainland UK and manned with foreigners. Replacement investment has almost vanished. New ships ordered within the last three years have either been ferries — many of which will inevitably be affected radically by the completion of the Channel Tunnel, possibly in 1993 — or specialist ships for specialist trades, such as nuclear fuel carriers, single well oil production tankers, or large bulk carriers tied to British Steel's trade. Reinvestment in general trading bulk carriers and tankers, or in containerships, has been almost entirely absent. Dramatic changes are therefore needed if these types of ships are not to vanish from the British controlled merchant fleet as existing vessels reach the end of their economic life. This is generally reckoned to be 15-20 years.

THE NATIONAL INTEREST

17. GCBS recognises that there is a *considerable difference* between the *fundamental interest* of individual British *shipping companies* and those *of the nation as a whole*. Shipping companies have taken decisions which will enable them to survive. They have sold a great deal of uneconomic tonnage; they have transferred other ships from the mainland register to save costs and they have diversified into other industries. For example, more than 80% of the ships entered in GCBS are now owned either by companies who derive a significant part of their turnover from other activities — shore-based distribution, insurance broking, engineering, etc — or are large industrial conglomerates. This is in contrast to some less cautious, foreign owners who have over-burdened themselves with tonnage at the wrong time and, together with their bankers, paid the penalty of insolvency. The major question that faces all companies is whether to reinvest in shipping or adopt some other strategy. Companies only buy ships to make profits. Many existing ships for some time have not been generating sufficient profits to finance their replacement costs. And of course Company Directors have an obligation to their shareholders to invest not only in activities which are profitable, but in those which will provide the best return on their capital, taking one year with another. So *one option* must be reinvestment outside shipping, where most diversified companies have ample opportunity to earn good projected rates of return.

18. And there is always a *second option* for shipping companies to continue operations but using chartered-in tonnage with well trained crews available from the Third World and elsewhere. This must remain a viable alternative to ownership. Chartering has long been a pattern of the tanker trades and has increasingly become a viable option for containership operators. Many of the ships which are available for charter have been the beneficiaries of subsidies from their flag state Governments.

19. The conclusion many companies may reach is that owning ships is *not* essential to — or even compatible with — their commercial prosperity. GCBS believes that ship-owning is vital to the *national interest*. There are a number of reasons why we believe this to be the case.

(a) *National security*

20. The merchant navies of Britain and the member countries of NATO have a vital role to play in any period of tension or war in which the Alliance may become involved. Their task is threefold: to provide direct support to the armed forces (oilers, tugs, minesweepers, etc); to provide ships to bring military reinforcements and equipment to continental Europe across the Atlantic and the North Sea ("Sealift"); and to provide the ocean transport needed to keep the economies of NATO members functioning during the emergency ("Civil re-supply"). Until quite recently the Alliance has been able to assume that the maritime resources of its member countries would provide an adequate supply both of ships and of the crews to man them, and that local mismatches of demand and supply could be overcome by pooling those resources (the "NATO pool").

21. The drastic reduction in the size of NATO merchant fleets in recent years has thrown doubt on these assumptions and NATO is expected shortly to embark on a study of the situation. Annex C shows the

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total tonnage available under NATO flags (including the Hong Kong and other British Dependent Territories' tonnage).

22. It will be seen that the total NATO flag tonnage has declined from 153m grt to 102m grt — or by one-third — in the last 5 years. Even taking into account the tonnage on the main FOC registers — Liberia, Panama, Cyprus, Bahamas and Singapore — much but far from all of which is controlled in NATO countries, the total tonnage is down by 15%. And not all NATO Governments have the powers to requisition FOC tonnage owned by their nationals nor have all the flag stages all agreed that their ships be available in time of emergency. And many of these vessels will be manned entirely by non-NATO nationals who might not wish to become embroiled in hostilities.

23. It is not for GCBS to suggest what NATO's role should be. But if it is to deter aggression by conventional as well as nuclear means, NATO's ability to sustain a prolonged conventional campaign must appear credible in peacetime. Central to that capability is a massive requirement for merchant shipping. *GCBS believes that adequate shipping must be seen in peacetime to be available to NATO powers if the organisation is to continue to be an effective deterrent.*

(b) *Control over our own trade*

24. Britain continues to export goods — particularly manufactured goods — to the value of some 22% of its Gross National Product, one of the highest proportions of any developed country. UK registered ships — mainland and Isle of Man — currently still carry 36% of that trade by value. British controlled vessels must carry considerably more than this because the Customs statistics upon which this figure is based can only take account of flag, not of the country of ultimate control. So the UK maintains a substantial degree of control over, in particular, the vital liner shipping services that support its trading effort. Ultimately British shipowners are under the control of the UK Government and they can be and are responsive to the needs of British exporters and importers. By their very existence they provide the competition necessary to ensure that the foreign shipping interests are also responsive to British needs. *If British-controlled ships were to cease to exist the country would lose control over its vital lifeline,* in peace as well as in war.

(c) *Balance of payments*

25. The net direct contribution of UK owned ships to the UK balance of payments in 1986 was £979m, with further gross import savings of £673 million. Although these are considerable sums the overall balance on the sea transport account in 1986 was negative to the massive extent of £937m, compared with a rough balance prior to 1981. The Government argues (memorandum submitted by the Department of Transport to the House of Commons Select Committee on Transport, 25 February 1987) that this does not matter. That memorandum claims that withdrawal of resources from shipping would, after initial adverse economic effects on the shipping sector, be offset by economic adjustments elsewhere in the economy which would leave the overall balance of payments largely unaffected.

26. This argument ignores the special feature of shipping that it contributes directly and immediately to the balance of payments whereas most other industries do so by a chain of substitutions, with many opportunities for leakage. Indeed, the DTp reasoning is based on most dubious assumptions, namely:

(i) that reinvestment out of shipping will be into industries of balance of payments consequence — instead of, say, into domestic service industries;

(ii) that there are profitable opportunities for investment in the economy which are currently not going ahead because of a shortage of finance. This is not realistic. If profitable opportunities for investment exist they can be, and are, already financed without the need for disinvestment in other activities;

(iii) shipping company managements and trained seafarers will be as effective and productive redeployed to other industries. We do not doubt that skilled employees released from the shipping industry — and trained ships' officers, for example, are highly skilled — could find alternative employment. But again it would be wrong to assume that their release from employment in shipping would remove a constraint on profitable developments elsewhere in the economy;

(iv) that no regard need be had to the unproductive payments — such as redundancy payments — that are a consequence of liquidating an investment in an industry and starting afresh.

27. The existence of a British-owned merchant fleet is acknowledged to be a necessary precondition for the health of many UK manufacturing and service industries operating in the maritime field. The contribution of these — shipbuilding, marine equipment, shipbroking, marine insurance, etc. — to the economy as a whole is immense. Precise figures of their combined contribution to the balance of payments are not available but such evidence as we have suggests that between them they probably contribute something like half a billion pounds a year in foreign earnings to the UK economy. Taken together with the net earnings and import savings of UK shipping companies, the maritime sector as a whole probably earns this country over £2 billion in foreign exchange a year. This is equal to about one-quarter of our nation's net invisible earnings and offsets as much as one-third of our deficit on visible account.

28. There is a direct correlation between the size of the UK owned and registered fleet and the contribution the industry makes to the country's balance of payments. This is shown in Annex D. It seems to the industry to be highly dubious to write off £2 billion of earnings as if they were of no consequence and

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could readily be replaced. At the margin surpluses of this kind can have a major impact on the health of sterling and thus on inflation. *These benefits must be taken into account when assessing the cost of supporting a British merchant fleet* to obtain other objectives.

(d) *Employment*

29. As indicated above, 25,000 officers and ratings are still employed on UK registered ships and perhaps a further 7,000 on British controlled ships under foreign registers. Many more work in shipping company head offices. But all these are only the tip of the iceberg. There are many UK based industries — for example, shipbroking, marine insurance, loss adjusting, arbitration, shipbuilding, the manufacture of marine equipment — which grew up on the back of a large and dominant British shipping industry. Precise figures of total shipping-related employment in the UK are not available, but an informed guess is that the total number of UK citizens whose employment derives from maritime-related activities is about 300,000. The continued prosperity of these activities of course depends to a considerable extent on their own merits, but the continued dominance of the UK in many of these fields depends on a continuing high level of domestic shipping activity. Many of them rely on the Merchant Navy as a source of supply of technically qualified middle management who have had considerable first-hand experience of running ships.

30. As the British shipping industry declines so will the supply of ex-seafarers and the demand for the services of these industries. It must be expected that these industries will move to where the central gravity of shipping has moved if the domestic industry declines to a negligible size. Certainly this was one of the major motives of the Norwegian Government when it created the Norwegian International Ship Register. They feared that comparable industries in Norway would vanish if their fleet dwindled away. If the British shipping industry were to disappear, perhaps one-third of the shipping-related jobs in the UK — say 100,000 — would be at risk initially, followed by many more as the centre of maritime activity shifted from the UK to overseas centres.

31. A national cadre of trained seafarers cannot be rebuilt in a hurry. It takes 7 to 10 years for a cadet to obtain a Master's or a Chief Engineer's certificate of competency. To obtain the necessary sea-experience there must be ships to serve on and qualified officers to supervise the trainee. Already many of Britain's maritime colleges have closed down. Local Authorities are facing increasing difficulties justifying allocating scarce resources to those that remain for only a handful of trainees. But above all a merchant fleet needs a supply of willing recruits prepared to go to sea and to undertake the lengthy training. British shipping companies are finding it hard to recruit even the limited number of good quality cadets and trainee ratings that they now require. Parents and careers teachers cannot be blamed for steering youngsters away from a career in an industry in obvious decline. And shipping companies are now even beginning to find it difficult to recruit high quality graduates as management trainees for a career on shore. The pace of decline is already alarming and if remedial action is not taken it must be only a matter of time before a career in shipping, either at sea or on shore, becomes as alien to the Briton as it is to the average Swiss or Austrian.

(e) *Comparison with other UK industries*

32. The impression is sometimes given that the UK shipping industry is perceived to be seeking special favours. This is not the case. The plain fact is that the UK shipping industry, far from being pampered, is almost alone among British industries in its full exposure to foreign, and often unfair, competition. UK manufacturing industry, for example, operates behind the Common External Tariff of the EEC which averages about 10% and which, allied to the cost of transport, gives it perhaps a 20% edge on its non-EEC competition. UK agriculture enjoys the support of the Common Agricultural Policy — which is still massive despite the attempts of the British Government to achieve substantial reform. Our sister international transport industry — Civil Aviation — is defended by Government agreements. Shipbuilding receives subsidies equivalent to 28% of the cost of any orders in order to match Far-Eastern competition.

33. We note, too, that manufacturing industry, with whom our taxation arrangements are now almost identical, also has available to it a range of investment incentives such as Regional Development Grants, for example, from which we are excluded. We do not object to these arrangements. We merely note that there is no pure national doctrine of free and unfettered competition for capital which can be prayed in aid by Government to our specific disadvantage.

WHAT THE GOVERNMENT COULD DO

The action needed

34. GCBS readily acknowledges that this Government has taken action of benefit to shipping. Political action against the tide of protectionism and useful agreements negotiated within the European Community have been helpful. So is the "Moore package" of aid for training and repatriation, even though this is small and yet to be put into force.

35. But the Government also dealt a blow to investment in shipping in the 1984 Budget when it withdrew the previous tax allowances for investment in shipping. These were but the latest in a range of measures that for more than 30 years had recognised that shipping was a vital industry for Britain that needed and deserved a modest degree of support over and above that provided to the generality of industrial and commercial activity. The lower rate of corporation tax, the universal 25% writing-down allowances and their subsequent extension to secondhand ships and the extension of the BES scheme to investment in ships, have not

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adequately compensated for the damage done in 1984. Further action is needed if the Government concludes that it needs a British shipping industry. Annex E shows in constant money terms investment by UK owners in new and secondhand ships over the last 10 years. 1984 was the last year in which deliveries were entirely unaffected by the budget changes but even in 1986 some of the expenditure was on ships ordered under the old regime. Yet by 1986 expenditure had already fallen to less than 40% of the average expenditure between 1977 and 1984, and to less than half of 1984 expenditure, which was a year heavily affected by trade recession and over-capacity.

36. Many other "market economy" governments are far more active than HMG in promoting their merchant navies, which thus have a significant advantage over the British shipping industry. Attached at Annex F is a note of the measures taken by some of them to support their shipping industries. It will be seen that all the other EEC governments are prepared to give substantial help to their shipping industries. The Commission is even now preparing proposals for measures to improve the competitiveness of Community shipping. HMG is virtually alone in Europe in regarding the health of its shipping industry as a matter to be left substantially to market forces.

37. GCBS believes that there is a wide range of measures which the British Government could take which would promote the British shipping industry. Not all of these need to be taken in order to achieve a healthy industry. Not all types of assistance are even needed by every sector of the industry. But overall, action is needed on three fronts:

(a) to tilt the balance in favour of *reinvestment* in new and good quality secondhand ships as opposed to investment in some other industry of lesser national importance but higher rate of return;

(b) to bridge the gap between the *cost of running a ship* with a British crew and the cost of running a ship with one of the foreign crews readily available on the market: and

(c) to improve the *trading prospects* of British ships and to *reduce other, Government imposed, costs* of operation.

Paragraphs 44-70 describe a menu of measures from which a selection could be drawn which would achieve the above objectives in the opinion of the GCBS.

THE COST

38. The cost of these measures obviously depends on the size of fleet that it is decided that the UK ought to have. For the purposes of the arithmetic only we have taken as a convenient benchmark the current British controlled fleet of some 640 trading vessels of more than 500 grt and based our calculations on the assumptions shown in Annex G. But we accept that the current fleet may not be the optimum one in the national interest — it may be too big or it may be too small. So this paper presents our estimate of costs in terms of the amount of expenditure we believe would be necessary for every 100 ships that it is concluded that the nation needs. Further, we have necessarily assumed, for reasons of simplicity, that the economic position of all types of ship is the same. This is obviously an over-simplification, particularly in respect of crew costs, which are more significant to some categories of operation than to others. And some sectors — particularly those operating short sea ships entirely within the EEC — might be better served in the longer term by a Community-wide agreement that there should be no subsidies for their type of ship rather than by more cash assistance provided that they were protected from subsidised competition from outside.

39. Precision in the amount of support needed to stimulate *investment* in shipping is not possible. However, two good indications of the level of support needed are available:

(a) *The pre-1984 fiscal regime*
From 1971 to 1984 a regime of special tax allowances for investment in shipping was in place. In 1975 the UK owned and registered fleet peaked at 50m dwt and although the fleet reduced in size by some 60% — due to a combination of the world oil recession and the containerisation of the liner trades — between 1975 and 1984, some 12m dwt of new ships were ordered by British owners. The fleet was modernised despite the market upheavals of the time. *Those incentives worked very well!* We calculate that, for every 100 ships which it is desired to see in the fleet, the 1984 tax incentives, at the then rate of Corporation Tax, would have provided about £40m per annum *more* to the industry than today's tax incentives. Taking account of the one-third reduction in the rate of Corporation Tax which has occurred since 1984 — which leaves more money in the pockets of profitable companies — rough equivalence with 1984 would require some £25m in tax relief or other aids to investment over and above those currently available, for every 100 ships in the merchant fleet.

(b) *German and Dutch experience*
Information from various studies suggest that if UK owners were to receive the same benefits (investment grants plus accelerated depreciation) as are currently enjoyed by our German colleagues they would obtain some £30m a year more than is currently available in the UK for the investment programme needed to sustain a 100 ship fleet. Dutch incentives would give roughly the same answer. These incentives too seem to work. The June, 1987 order book for the German registry was 180,000 dwt (15 ships) and for Dutch registration 100,000 dwt (19 ships) compared with only 50,000 dwt (5 ships) for UK ownership and registration.

40. In bald terms, therefore, the target is about *£25m a year of aids to investment*, over and above those currently available, for every 100 ships that the Government decides are needed in a British merchant fleet.

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41. The key variable in *running costs* is the cost of crew. It is this above all which determines flag, particularly for as long as the UK Government maintains its current officer nationality requirements. The bench marks are:-

(i) *Third World/Polish crews* — saving per annum for every 100 ships as against UK mainland costs — £30m.

(ii) *Isle of Man terms* — saving per annum for every 100 ships as against UK mainland costs — £15m.

42. Thus if the Government wanted UK owners to keep their ships on the UK mainland register they would need to pay perhaps £30m per annum for every 100 ships to match Third World costs or *£15m to keep them on the Isle of Man or a British Dependent Territory Register*. This latter represents the difference between "Isle of Man" and Third World crew costs.

43. The distinction between aids to capital and to running costs is not vital to the shipowner — it is the overall effect on the Balance Sheet which matters. If the Government were to adopt the objective of keeping a decent sized British owned merchant fleet on readily accessible registers with at least partial British crews, we estimate that it would cost *in total something like £40m a year* in aids to the industry's capital and running costs *for every 100 ships* that they decided to support. If, say, the equivalent of half the current fleet of 640 ships needed support at this level to remain in profitable service on a British or other readily accessible register, the cost would thus be something like £130m a year. To put this sum in perspective by comparing it with the Government's subsidies to another transport mode, it would represent half of the Department of Transport's proposed subvention to London Regional Transport for 1988.

MEASURES TO AID REINVESTMENT

44. How could this be achieved? GCBS believes that there are a number of options open to a Government which decided to take action. One measure that GCBS has put forward for several years is for *roll-over relief for balancing charges*: ie, for the Treasury to forego the repayments of tax on the excess of the sale value of a ship over its written-down value, provided that the receipts were reinvested in a new or secondhand ship acquired within, say, three years of the disposal of the old one. Besides targetting precisely the objective of renewing and updating the fleet, the measure would be in line with the existing roll-over relief given in respect of capital gains tax on, say, property disposal and purchase, and would mirror the current practice in Japan, Spain, the Federal Republic of Germany, Netherlands, Norway and Sweden. An additional advantage to the Exchequer would be that, unlike general tax allowances, roll-over relief of this kind would carry little risk of leakage of allowances to other activities within a company group structure.

45. It is impossible to calculate precisely the relevant costs and benefits — much will depend on developments in the market for secondhand ships — but there is no doubt that roll-over relief would tend to equalize the potential return on investment in ships as against other capital goods. This would be of particular help in the years immediately ahead when the industry is faced with a concentration of replacement decisions whose resolution will effectively determine the size and composition of the fleet in the 1990's.

46. In the industry's view roll-over relief would be the most useful single early measure Government could take to assist the shipping industry. Costing here is very difficult but on the theoretical assumptions in Appendix G the benefit would be of the order of £21m for every 100 ships.

47. Ever since the 1984 budget GCBS has argued for a 50% ship allowance as an incentive for investment in new or secondhand ships. This would enable front-end loading, which is so important to the shipping industry, whose investment is neccessarily discrete and lumpy. GCBS has long argued that this would be a most beneficial measure, permitting shipping companies to tap the profits of other businesses, or of other acitivities within their groups, to restore investment to appropriate levels. It would also be a highly efficient way of providing support. The *value to the industry* of the lower tax payments — discounted to allow for 5% inflation and 15% return on funds — would be of the order of £15m per annum for every 100 ships in the fleet. Yet the *cost to Government*, after an initial high cost of £30m, if there was a quick start to re-ordering, would be only £8½m p.a. (or some £55m p.a. to sustain a fleet of the current size).

48. However, GCBS is told that to introduce such a measure for shipping would represent a significant breach in the new structure of corporate taxation that was introduced by the 1984 Finance Act. We believe that argument is mistaken but it is clear that such a scheme also would have to apply across the industry and could not be tailored to the size of the fleet that the Government decided to support.

49. GCBS believes that either of the above fiscal measures are preferable to grants for assisting with capital investment. Together they would meet the industry's needs. However it should not be ignored that the *Industry Act 1972* contains powers which would permit grants to be tailored to match the Government's requirements. No doubt if the Government were to provide a "*Merchant Navy Strategic Investment*

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Grant", it would be appropriate for conditions to be imposed concerning flag and hence the nationality of at least the senior officers of grant aided ships. Further, the Balance of Payments test that was somewhat belatedly introduced when investment grants were last available for shipping — up until 1970 — would again be needed to prevent aid "leaking" to foreign interests. We also accept that there would need to be a mechanism for clawing back if the ships concerned were subsequently sold within whatever period of commitment attached to the grant. However, it would be important that any conditions did not:—

(a) require registry on the mainland UK register (unless further support was envisaged to enable the shipowner to meet that level of operating costs);

(b) rule out investment in good quality secondhand as well as new ships;

(c) limit the freedom to build new ships anywhere in the world.

MEASURES TO ASSIST RUNNING COSTS

50. There are a number of possible ways in which a Government could, if it were so minded, so assist with *running costs* as to make operation under a British registry competitive with world markets.

51. It must be said that the "Moore package" of measures to assist the shipping industry, welcome though it is, does not go very far to bridge this gap. *Aid for training costs* is indeed vital, because without it British seafarers may not be available for employment in the future. But the immediate gap that has to be bridged is that in direct employment costs, on the assumption that trained seafarers are readily available on the open market. And for many nationalities, Government subsidies have already ensured that fully trained officers and ratings are available. *Aid to Repatriation costs* is a real and welcome contribution to direct employment costs to those who employ UK nationals on qualifying ships. Both forms of aid will only be possible when the Merchant Shipping Bill has received the approval of Parliament. But the amounts which will be made available — £3½m p.a. for training and £5m p.a. for repatriation — will not make a major impact on the problem of competitiveness.

52. *Income tax and social security charges* provide the real disincentive to the employment of Western European crews. The current annual wage and related costs for vessels on the UK register is around £440m a year. Of this sum about £70m represents income tax payable by seafarers, £50m the joint employer/employee national insurance contribution and another £65m the employer/employee contributions to pension funds. There is thus a 40% differential between what the employer pays gross for labour and what the seafarer receives net. It is startling to realise that these on-costs represent over three-quarters of the difference between the cost of employing a UK crew on a UK registered ship and the cost of crewing that ship with Far Eastern crews.

53. It would be unrealistic to assume that all of these costs could be eliminated for UK seafarers. Pension costs are a real part of a seafarer's income and have to be reflected in wage costs, whether paid by the employer or by the employee from an upstanding wage. But income tax and social security contributions are an impost of Government and could be modified by them.

54. The combined employer/employee *contributions to National Insurance* are about 13% of the wage bill. These payments are already abated marginally to reflect the industry's collective redundancy payment system. A further reduction of 50% in the employers' contribution would represent nearly £2m per annum to the industry for every 100 ships in the fleet that the Government decided to support.

55. The elimination of *income tax* on UK seafarer's earnings would remove two-thirds of the cost advantage of the Isle of Man and similar registers. But a mechanism would be needed to ensure that the benefit were reflected in company accounts. The Finnish Government and shipowners recently contemplated a system whereby 75% of the total yield of income tax paid by Finnish seafarers would be returned to the shipping companies. This proposal foundered on the refusal of Finnish Seamen's Union to contemplate reductions in manning which would have made the Finnish register competitive even under those circumstances. But the idea is worthy of consideration. A 75% *remission of income tax* would yield to companies over £7½m for every 100 UK manned ships in the fleet.

56. The EEC Commission is giving serious consideration to measures of this kind in its work on the second stage of the Community's shipping policy. At the very least HMG should support EEC-wide measures of this nature, and it would give these concepts considerable impetus if they were to be introduced in the UK in the meantime.

57. More direct methods of support would be possible. One would be a *Merchant Navy Strategic Reserve Contract* entered into in respect of each UK owned ship kept on a UK or designated register, in recognition of its availability to HMG in times of emergency. To yield the £15m per 100 ships which is the difference between Isle of Man and cheapest crewing it would have to be set at an average of about £150,000 per annum per ship for full UK crews. In practice a more sophisticated basis of calculation would need to be adopted to reflect the difference in cost structures of various sizes and classes of ship. The arrangement would need

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to be contractual so that if a ship moved off a qualifying register or ceased to employ the required numbers of UK citizens, the payment would cease. And the more stringent the qualifications concerning the nationality of all or some of the crew, the larger the bounty that would be required.

58. An alternative would be a *crew-related allowance*, payable in respect of each British seafarer employed by UK owners on their ships, irrespective of flag. This would give meaning to the Merchant Navy Reserve for which provision is made in the current Merchant Shipping Bill. Instead of a register of retired ex-seafarers, whose skills must inevitably become less useful with lack of use and increasing age, a Merchant Navy Reserve Allowance would ensure the continued seagoing employment of active mariners. But inevitably it would be more expensive. A payment set at £5,000 per head per annum for five senior officers and £2,500 per annum for five junior officers per ship would yield some £4m per annum for each 100 ships in the merchant fleet the Government decided to support.

59. If a scheme were introduced combining Contract payments in respect of ships with Reserve Allowances for men, the gap between Isle of Man and Third World crew costs could be bridged by a Merchant Navy Strategic Reserve Contract payment averaging £75,000 per ship per annum and the level of crew bounty described above. Any effective concession on income tax and social security costs would of course enable these payments to be set at a lower level.

60. There is, of course, a direct link between the nationality of crew and the degree of support needed to keep the average ship competitive. British owners have transferred ships to the Isle of Man and British Dependent Territory registers to enable them to re-negotiate the terms of employment of their predominantly British crews. As Annex G indicates, this still leaves costs 40% above world market levels. Ships which cannot bear this differential can be manned with non-British ratings, but not by non-British officers and remain on these British registers. Indeed HMG has recently encouraged the BDT administrations to *increase* their requirements for British officers to the UK mainland standards.

61. British owners, wherever economically possible, would prefer to employ British officers. Yet large numbers of highly competent, well trained officers are available, with internationally recognised certificates of competency, from the Far East who cannot be employed on any British registered ship. Some minimal national presence on board is clearly desirable for defence purposes. For example, the new Norwegian International Ship-register (NIS) requires the Master to be a Norwegian national (and it is understood that even this requirement can be waived if that is needed to attract a ship to the register). But there is a price to be paid for a national presence as this note indicates. A reduction of nationality requirements to NIS levels would obviously greatly reduce that price.

MEASURES TO IMPROVE TRADING PROSPECTS AND REDUCE COSTS

62. There are a number of miscellaneous measures which HMG could take which, while in no way a substitute for the financial support mentioned above, could *help* to restore the competitiveness of UK-owned ships. Costs could be minimal.

63. *International safety standards.* GCBS member companies are as anxious as anyone to see their ships operated safely and in full conformity with all generally accepted international laws and regulations. And with IMO looking after the physical condition of the ship and ILO responsible for conditions of employment there is a comprehensive corpus of international law. Yet the British Government continues to insist on putting its own gloss on international regulations, placing British shipowners at a competitive disadvantage in order to comply with them. It has been calculated that an additional 2% is added to the cost of a new or secondhand ship to comply with British requirements that go beyond international standards. This is a burden which should be removed.

64. An allied point is the need to ensure that any additional safety measures applied to UK ferries in the aftermath of the "Herald of Free Enterprise" tragedy, must be applied equally to foreign competitors. Not only must the economic burden of compliance not put UK ferries at a disadvantage, but the whole purpose of any changes would be lost if foreign companies could operate ships in the same trades which did not meet the new requirements. The foreign companies would be able to charge lower fares and attract all the passengers.

65. *Delegation of surveys to classification societies.* Existing duplication of hull and machinery surveys of passenger ships represents a significant and unnecessary burden on British companies, particularly where such surveys are carried out at ports outside the UK. GCBS continues to urge DTp to accept such surveys carried out by the major classification societies as most of our competitors do.

66. *Port State Control.* The existing European system of Port State Control is a valuable instrument for improving the standards of vessels trading in European waters. But it would be a more efficient mechanism for eliminating the sub-standard — and therefore unfairly cut-price — competition to UK controlled ships if:

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(i) all member states increased their inspections to the agreed level;

(ii) publicity was given to those ships which are detained as sub-standard;

(iii) surveyors concentrated on ships flying the flags of distant countries with minimal administrations rather than (very humanly) on British ships where they can expect a civil welcome.

Action by HMG to achieve these ends would be useful.

67. *Action within the EEC.* GCBS readily acknowledges that the Government has already done much within the Community to help shipping. A wide range of further measures, if promoted vigorously by HMG, could also be beneficial to the shipping industry. Positive measures would be:

(i) to allow the unimpeded transfer of ships that meet internationally accepted standards onto the British register if they have previously been acceptable to any other EEC administration;

(ii) to accept for all positions on board ship any EEC national who has an appropriate certificate of competency issued by an EEC member state;

(iii) vigorous action to implement the shipping provisions of the Lome Convention, which call for free shipping relations as between the EEC and the Lome states. These are flouted by many Lome states which are nevertheless fully prepared to enjoy the benefits the Convention gives;

(iv) elimination of cabotage restrictions of many other EEC states. It is intolerable that British ships are excluded from the coastal trades of five of its Community partners, whilst any ship can trade around our coasts regardless of whether it benefits from domestic protection or unfair government subsidy;

(v) rapid negotiation of the Stage II of the EEC shipping policy, which is intended to improve the competitive position of EEC shipowners vis-a-vis their non-EEC competitors.

68. Equally, defensive action is needed:

(i) to challenge the intention of the Commission to remove the VAT exemption for passenger fares, both within and between EEC counties, and to ensure that the proposed imposition of VAT on all expenditure needed to operate a passenger or cargo ship will not increase operating costs of companies whether by net VAT payments or excessive administrative costs;

(ii) to retain duty-free sales until the last moment when the harmonisation of EEC taxes and duties is achieved. Although arguably anachronistic if harmonisation is achieved in due course, these sales effectively subsidise passenger and freight traffic and if lost would necessitate increases in fares and tariffs of the order of 25% to maintain the present quality of service.

69. *Reform of the Merchant Shipping Act.* It would place shipowners in the same position as other employers if Section 42(2) of the Merchant Shipping Act, 1970 were to be repealed. This at present can permit the seafarers' unions to evade the requirement of the Trade Union Act, 1984 to hold a ballot before calling members out on strike.

70. *Channel Tunnel.* Action is needed to ensure that ferry companies are enabled to compete with the Tunnel when it is completed. In particular, the Tunnel will provide such competition as to render irrelevant the current OFT restrictions on the ferry companies' ability to rationalise services. The operators must be allowed to co-operate, which would merely put them in exactly the same position as liner companies in all other trades, who are free to operate within a conference provided that they meet the requirements of the EEC Competition Regulation. This provides very adequate safeguards for the consumer. Customs and other procedures must also be the same if there is to be fair competition and passengers and shippers are to be given a choice of transport mode.

CONCLUSION

71. Britain's Merchant Navy has a vital role to play in peace and in war. In peace it enables a measure of control over our own vital imports and exports; it makes a significant — though sadly underrated — contribution to our balance of payments and provides employment for many, both directly and indirectly. In war it has a role in direct support of the Royal Navy, in reinforcement of the European theatre and in civilian resupply. GCBS believes that these roles are utterly interdependent and vitally important and depend upon there being a British owned merchant fleet.

72. Of course British shipping companies will continue to compete vigorously in the international market — albeit against shipowners that often enjoy significantly more support from their governments — for as long as they remain involved in shipping. But shipping is almost uniquely exposed to international competition and is not and seldom has been highly profitable over the long term. The question is whether companies will re-invest in new ships when the present fleet has to be replaced and, if they do, whether in British-registered ships employing at least some British seafarers. But the problem is a national one not a commercial one. The decision on action lies with Government and Parliament.

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ANNEX A

UK OWNED TRADING FLEET

		31.12.82		31.8.85		31.8.86		31.8.87	
		m dwt	(no)	m dwt	(no)	m dwt	(no)	m dwt	(no)
(a)	UK-owned and UK mainland registered	24.8	(868)	16.0	(640)	10.3	(515)	5.9	(400)
(b)	UK-owned and Isle of Man/Channel Islands registered	Included in (a) but negligible.		Included in (a) but negligible		0.5	(37)	3.2	(75)
(c)*	UK-owned and registered in BDTs	1.2	(50)	1.0	(45)	5.2	(70)	6.2	(85)
(d)*	UK-owned and foreign registered	2.8	(145)	2.3	(100)	2.6	(85)	1.6	(75)
	Total	28.8	(1063)	19.3	(785)	18.6	(707)	16.9	(635)

* Partially estimated and based on Lloyd's Register figures.
BDT = British Dependent Territory.

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ANNEX B

TOTAL OF PRINCIPAL TRADING TYPES IN THE WORLD ORDER BOOK.
30th JUNE 1987

COUNTRY OF REGISTRATION	NO.	DWT
LIBERIA	79	4,986,409
PANAMA	62	4,600,452
JAPAN	116	3,829,988
DENMARK	64	1,365,580
ITALY	58	1,355,581
BRAZIL	34	1,288,115
ROMANIA	23	1,084,950
KOREA (SOUTH)	23	1,043,454
BAHAMAS	12	854,430
CHINA, PEOPLE'S REPUBLIC OF	42	799,449
INDIA	27	796,230
POLAND	39	677,050
GREECE	26	638,640
U.S.S.R.	88	579,621
SINGAPORE	12	579,300
TAIWAN, PROVINCE OF	11	413,050
KUWAIT	6	380,000
UNITED STATES OF AMERICA	13	372,958
NORWAY	20	343,524
MEXICO	15	287,573
ARGENTINA	8	239,020
TURKEY	46	231,315
SPAIN	15	218,305
MALAYSIA	7	190,871
GERMANY, FEDERAL REPUBLIC OF	15	181,403
CZECHOSLOVAKIA	8	169,820
AUSTRALIA	10	162,155
NETHERLANDS	19	101,420
GERMAN DEMOCRATIC REPUBLIC	6	97,880
BELGIUM	4	96,900
PORTUGAL	3	89,073
CYPRUS	3	78,918
SWEDEN	9	78,895
YUGOSLAVIA	5	72,660
UNITED ARAB EMIRATES	2	68,200
SWITZERLAND	1	63,700
BULGARIA	5	58,300
FINLAND	6	53,960
UNITED KINGDOM	5	51,011
WORLD TOTALS	947	28,580,160

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ANNEX C

TRADING VESSELS ON NATO, BRITISH DEPENDENT TERRITORIES AND FLAG OF CONVENIENCE REGISTRIES. VESSELS 100 GRT & OVER

	Mid 1982		Mid 1987	
NATO				
COUNTRY	NO.	GRT	NO.	GRT
BELGIUM	105	2,140,486	101	2,092,741
CANADA	189	827,810	163	714,400
DENMARK	632	5,052,648	513	4,551,896
FRANCE	365	10,355,062	237	4,870,405
FRG	1,304	7,397,357	1,003	4,075,916
GREECE	3,122	39,881,293	1,512	23,330,394
ICELAND	52	76,103	40	61,716
ITALY	932	10,108,693	807	7,509,288
NETHERLANDS	555	3,301,371	563	2,999,348
NORWAY	1,169	21,296,130	763	5,698,059
PORTUGAL	99	1,245,145	65	903,651
SPAIN	722	7,456,685	557	4,282,292
TURKEY	484	2,058,877	665	3,253,892
UK	1,425	21,522,018	846	7,490,096
BRITISH OVERSEAS TERRITORIES	412	4,209,609	657	13,331,625
USA	931	15,858,859	863	17,046,042
TOTAL	12,498	152,788,146	9,355	102,211,761
FLAG OF CONVENIENCE				
COUNTRY	NO.	GRT	NO.	GRT
BAHAMAS	59	367,346	375	8,990,075
CYPRUS	529	2,135,010	1,301	15,633,675
LIBERIA	2,112	70,588,746	1,493	51,205,159
PANAMA	3,848	31,605,205	3,873	42,230,526
SINGAPORE	641	7,106,939	486	7,018,735
TOTAL	7,189	111,823,246	7,528	125,078,170

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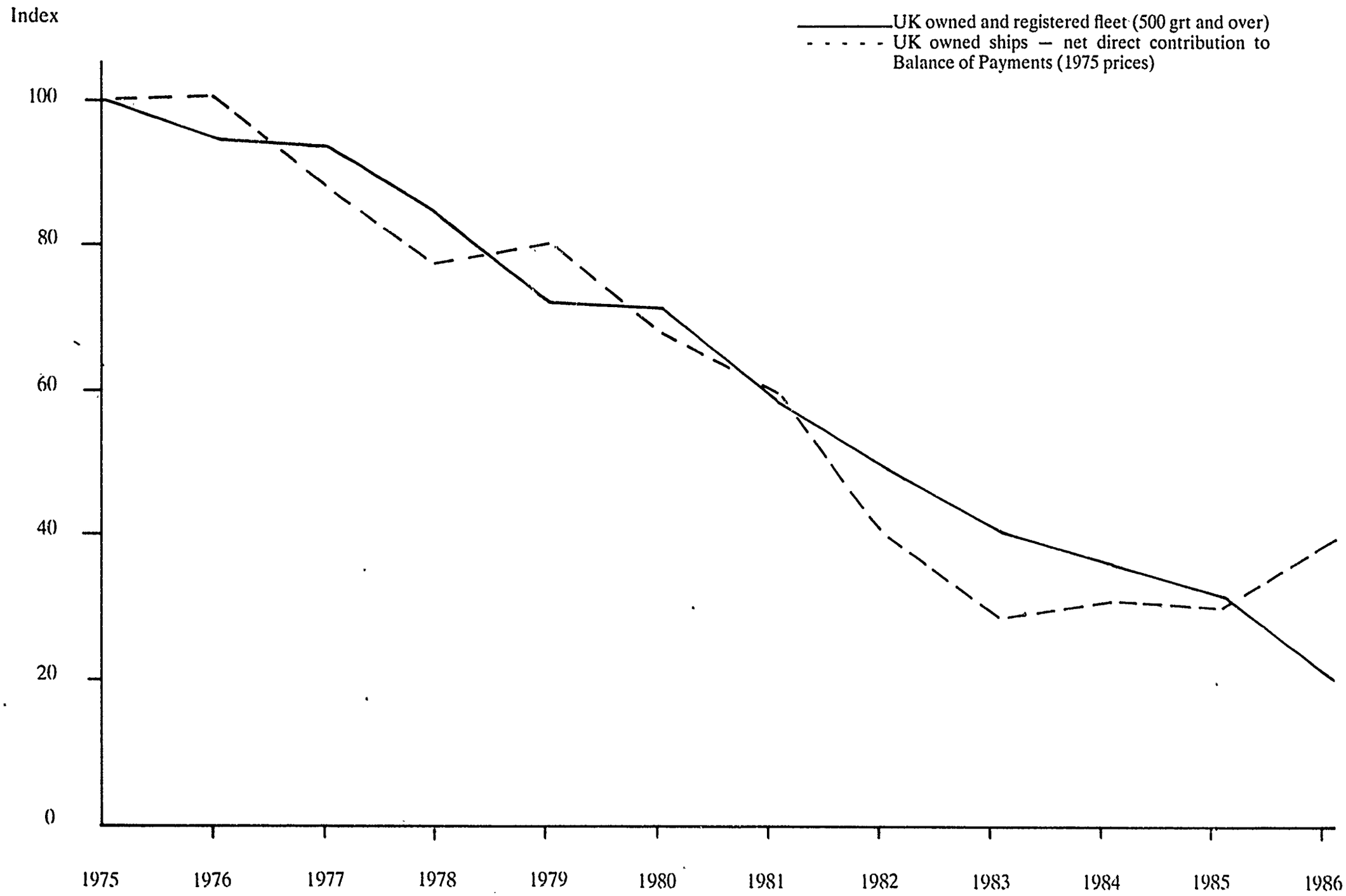
ANNEX D

UK BALANCE OF PAYMENTS: UK OWNED AND REGISTERED SHIPS



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ANNEX E

EXPENDITURE ON NEW AND SECOND-HAND SHIPS, 1977-86

Year	New Ships (£mn)	Second-hand ships (£mn)	Total (£mn)	Total (1977) Prices (£mn)
1977	611	39	650	650
1978	657	28	685	633
1979	469	97	566	461
1980	331	72	403	278
1981	322	109	431	266
1982	525	99	624	354
1983	365	139	504	274
1984	554	91	645	334
1985	268	94	362	177
1986	221	122	343	162

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ANNEX F

MEASURES TAKEN BY OTHER GOVERNMENTS TO SUPPORT THEIR SHIPPING INDUSTRIES

COUNTRY	HOME CREDIT SCHEME			SUBSIDIES	TAX-FREE RESERVE	OTHER
	% of Cost	Interest Rate %	Repay-ment Period Grace-Period In ( )			
BELGIUM	70	4-5	15 years			
DENMARK	80	8	12 (2) [a]		Companies: 25% of taxable income for new investment.	(i) Guarantees of loans for smaller cargo ships. (ii) Special rates of tax for seafarers.
FINLAND	70-80	10-10.5	7-12 normally 8 or 10		Book profits resulting from the sale or loss of a vessel as a reserve for future purchase of a vessel.	
FRANCE	80	8	8½	Government will offer exceptional grants to shipping companies carrying out restructuring operations aimed at improving their competitivity. New vessels: 7½-10% of investment. Second-hand vessels: 5-10% of cost of vessel or a subsidised loan.	(i) To cover salary element resulting from expansion. (ii) Re-evaluation of assets.	Investment aid now available for the purchase of ships up to 8 years old and will also be offered to owners carrying out modernisation work on ships bought second-hand. Professional tax obligations of French companies to be reduced by 66% for 1987 and 1988.
GREECE	30	14	4		Proceeds received from the sale of ships are exempted unconditionally from tax.	

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MEASURES TAKEN BY OTHER GOVERNMENTS TO SUPPORT THEIR SHIPPING INDUSTRIES (continued)

COUNTRY	HOME CREDIT SCHEME			SUBSIDIES	TAX-FREE RESERVE	OTHER
	% of Cost	Interest Rate %	Repay-ment Period Grace-Period In ( )			
JAPAN	60 50	7.3 7.3	13 (3) [d] 13 (3) [e]	1979-81: 89.7 bn Yen Government-sponsored ship-building programme (payment delayed: interest on 1987-1991 loans on ship-building frozen).	(i) Replacement of business assets. (ii) Special repairs of ships. (iii) Special depreciation. (iv) Unusual rise in war risks premiums.	Coastal vessels may be scrapped and new ones built for joint ownership with two Maritime Credit organisations.
KOREA	90	10	8 (2½)	Operating subsidies to liner shipping companies who make a significant contribution to earning foreign exchange.		
NETHERLANDS				1.5% for new ships and second-hand ships less than 5 years old.	Book profits from sale of vessel.	Investment tax deductions of 12% [f]. Marine Investment scheme, allowing for a payment of 2.3% of the value of a new vessel in each of the first five years after purchase.
NORWAY	80	8	8 (2)	Subsidies are available in place of the credit scheme for shipowners financing projects themselves.	(i) Investment reserves including book profits resulting from sale loss of an asset. (ii) Reserves for consolidation limited to 10% of net income.	(i) State credit guarantees available to Norwegian shipowners. (ii) Seafarers are paid 50% returning home expenses and are subject to a special income tax.
SPAIN	85	8	12 (2)	5.5% plus additional subsidy up to 9.5% according to type of ship. Operating subsidies for shipping companies operating in national interest and for making up losses incurred in the coastal trade.	(a) Book profits. (b) 50% of undistributed profits. Gains from the sale of most tangible fixed company assets reinvested in next two years.	Loans for conversions and major repairs: 60% of cost at 8% interest repayable over 5 years with 1 year's grace period.

[Continued

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MEASURES TAKEN BY OTHER GOVERNMENTS TO SUPPORT THEIR SHIPPING INDUSTRIES (continued)

COUNTRY	HOME CREDIT SCHEME			SUBSIDIES	TAX-FREE RESERVE	OTHER
	% of Cost	Interest Rate %	Repay-ment Period Grace-Period In ( )			
FR GERMANY	80	8	12 [b]	12½% for new ships [c] 20% for conversions.	80% of book profits from sale of vessel.	Foreign Income Relief. If 80% or more of profits arise exclusively from operations overseas, then the rate of taxation is halved for the first 80% of profits. Roll-over Relief. Accelerated depreciation available — allowance up to 40% of the after-subsidy price, spread over the year of acquisition and the following four years.
IRELAND	As agreed in the OECD			Investment grants of up to 25% towards acquisition of new ships and second-hand ships less than five years old.		Corporations profit tax on shipping profits reduced from 50% to 10%.
ITALY				5½% for new ships and second-hand ships less than 10 years old. 6.4% for ships less than 5,000 grt transporting liquid or gas, or less than 3,000 grt for others. Subsidy for shipping companies to launch shipping lines.		

[Continued

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MEASURES TAKEN BY OTHER GOVERNMENTS TO SUPPORT THEIR SHIPPING INDUSTRIES (continued)

COUNTRY	HOME CREDIT SCHEME			SUBSIDIES	TAX-FREE RESERVE	OTHER
	% of Cost	Interest Rate %	Repay-ment Period Grace-Period In ( )			
SWEDEN	90	9.65 (US$)	12 [i]		(a) Reserves for replacement. (b) Allocations to investment funds for economic stabilisation.	
U.S.A.				Construction Differentials Subsidy to enable US Shipyards to reduce prices to world levels. Operating Differentials Subsidy to cover the higher cost of US lines operating in certain trades. [j]	Capital Construction fund.	Guarantees available for 25 years for up to 75% of the cost of a vessel at a low fixed interest rate.

NOTES:
[a] Available for ships built in any EC Shipyard.
[b] Available only from Coastal States of Hamburg, Bremen, Niederschsen and Schleswig-Holstein.
[c] Available for ships built in foreign shipyards but to date only ships built in German Shipyards have received this subsidy.
[d] For containerships and LNG carriers.
[e] For other ships.
[f] In principle available for ships built in foreign shipyards.
[g] Various alternative interest rates and repayment periods are available giving the same overall benefit.
[h] Available under Special Circumstances.
[i] This is in the form of a guarantee.
[j] No new CDS or ODS contract has been entered into by the Reagan Administration.

SOURCE: DEPARTMENT OF TRANSPORT

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ANNEX G

ASSUMPTIONS USED IN COSTING OPTIONS

1. A UK-owned fleet of 640 trading ships over 500 grt.
2. 15-year economic life for all these ships, leading to requirement for 45 new ships p.a.
3. Average cost over the fleet of £30m per ship joining.
4. Average sale price over the fleet of £5m per ship leaving.
5. Vessels sold all received pre-1984 100% tax allowances.
6. Average inflation — 5% p.a.
7. Assumed return on capital — 15% p.a.
8. Average crew cost per UK-registered ship in mid-1987, is US $1,000,000 p.a. (this disregards the costs of multi-crewed ferries) or £625,000 (at £1 = $1.60).
9. Crew cost saving per ship of Far East/Polish crews is US $550,000; or £330,000 p.a.
10. Crew cost saving per ship of applying "Isle of Man" terms is 25% of total UK employment costs; or £155,000 per annum.

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Examination of witnesses

MR K ST JOHNSTON, PRESIDENT (CHAIRMAN, OCL), MR I DENHOLM, Vice-President (Chairman, Denholms), MR P LE CHEMINANT, Director-General, and MR J LUSTED, Deputy Director-General, General Council of British Shipping, called in and examined.

Chairman

1335. Good afternoon, Mr St Johnston, could I welcome you to this the first public meeting of the new Select Committee. Could I also ask you to introduce your colleagues and yourself for the purposes of the official report, please.

(Mr St Johnston) Thank you. We are very pleased to be here — I think! I am President of the General Council of British Shipping this year and Ian Denholm is my Vice-President; he has been here before. He was President in 1974 and is taking a second term. Mr Peter Le Cheminant is Director-General of the General Council of British Shipping, which is effectively a trade association, and Mr Lusted is Deputy Director-General, and we are the team who will do our best to answer your questions.

1336. Thank you. I hope that when we have finished you will still be pleased to have been here because I can assure you there are a vast number of questions which the Committee would like to ask. Is there anything you would like to add at this stage to the two papers which you have already submitted to us?

(Mr St Johnston) It is possible to be mercifully brief because of those documents, which represent obviously quite a lot of work, although they were not solely designed for the purpose of this Committee, but conveniently do set out our strategy. I think you have had a copy of the main document, which was, "The Future of the British Merchant Fleet — An Analysis of its Policy Options." I am not, therefore, going to bang a whole lot of statistics around because they are there on the record and it would be absolutely superfluous to repeat them except to give you the general perspective, which is fairly dramatic and which is that, whereas five years ago we had 1,000 ships of about 29 million tonnes, of which most, namely, 25 million tonnes, were on the UK mainland register, we now have 635 ships of 17 million tonnes but of that 17 million tonnes only 6 are on the UK mainland register, which tells its own story, that, given the situation externally and internally, the industry had to modernise itself in order to remain competitive. In many classes of ship, particularly bulkers and tankers, that meant reducing operating costs by flagging out to cheaper registers, often very reluctantly and at a huge cost of, as we say in the paper, around £200 million in redundancy costs and, of course, even larger costs in terms of human jobs — a great reduction in truly British job opportunities. So the message in our paper is that companies that engage in shipping have done what is necessary to make themselves competitive in the short term. By and large companies are doing quite well; they are profitable not necessarily exclusively from shipping, to which I will allude later this afternoon, but nevertheless they have administered the medicine that has been necessary and have taken it and are all right in the short term. But really what that paper is saying is that that is the short term but it is the long term that we should be thinking about and the key question is, of course, re-investment. We have an ageing fleet, which is not in itself a bad thing. There has been a period of considerable overcapacity and the last thing we want to do is build gratuitous ships in a period of overcapacity but ships do come to the end of their natural life. In my company's segment of the industry over half of our container ships are over 15 years old and in many cases we have re-engined them and they will last longer, but the decision will have to be made in the next five to seven years whether we do re-invest. To give another quick perspective, which again was in the paper, it is clear that whereas before 1984 when fiscal incentives were withdrawn from shipping, in a normal year about 1¼ million g.r.t. of new ships would be ordered in each year, in the last two years, i.e. in the couple of years after 1984, a total of 15,000 g.r.t. of new ships were ordered over a two-year period. So the question we pose in our policy paper is not that the shipping companies are in decline but rather that the "Britishness" of those companies is in jeopardy and, indeed, in re-investment terms whether re-investment will be in ships at all and, if it is in ships, whether those ships will be on the British or some other register. In short, we are not by any means a lame duck industry and a lot of modern British shipping companies are extremely efficient by international standards and are fully competitive in the short term, although many of them have diversified in part into other businesses. Indeed, some are part of wider groupings, not pure shipping companies. The key question — and I make no apology for coming back to this — is whether the priority for capital when the time comes for re-investment will dictate that that scarce commodity of capital will be put back into ships and, if so, whether they will be British ships or foreign ships. This, we say — and I certainly say — is where the strategic element for the country comes in. Do we actually need as a country a merchant fleet that is of a certain size and that is ours? The two reasons for this, which scarcely need saying, are, on the one hand, national security and, on the other, in peacetime terms the ability to control our own trade and to contribute to the balance of payments as well as the employment that it provides, not just to ourselves but to marine-related industries. That is why in our paper we set out what you might call a menu of ways in which the government of the day and Parliament could, if they so wished, help the industry and there is a wide variety of methods if the will or the need is recognised. What we have done in our necessarily rather broad-brush way is to indicate the sort of sums of money that could, in the perspective of what happens in other of our neighbouring European countries, be the case in terms of sustaining a fleet of a certain size for a certain annual cost. We talk about the perspective and the sum of money to keep the fleet at its present size of 635 ships, which was purely arbitrary, would be a couple of hundred million pounds a year, which is about what the subvention is annually from the Department of Transport to

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[**Chairman** *Contd*]
London Regional Transport. As I say, I do not intend to repeat *in extenso* what is in the report. That is the essence of it, as briefly as I can put it, but I am quite sure that the most profitable part of the proceedings will be for us to try and answer the range of questions which you may have for us, sir.

1337 .Could I thank you for your very brief additional statement. Many of the points you made will be covered by our subsequent questions. Could I start by quoting from the GCBS's original evidence, in which you said: "The fundamental changes that have either lowered the world demand for ships of a particular type or the price of shipping services include: (a) changes in trade patterns; (b) technological advances; (c) a gross over-supply of ships affecting almost all sectors of the industry." More recently it was observed that some "signs of perhaps a fragile recovery" were taking place in certain sectors. Does the GCBS consider that this "fragile recovery" is continuing and strengthening?

(Mr St Johnston) Yes, without any doubt, thank goodness. As a Trade Association we cover a very wide spectrum of segments of our industry and it is necessary therefore to qualify somewhat that assertive "yes". In the world of tankers there is still a surplus; a lot of ships have been tied up for years and a lot of them are beginning to go to the breakers. There is evidence in the medium-sized tankers that demand is beginning to pick up hesistantly again. I might ask my Vice President to add to that in a moment. That same is true in the bulk carrier sector — again, the medium and handysized bulk carriers. In my own field of container ships we had an appalling bout of over-supply in the early eighties which caused some spectacular bankruptcies — thank God not many amongst the British operators who I think were fairly provident in anticipating this event, and the worst of that seems to be over. In general terms I think that what could be said to be most salutory about the appalling carnage of the early eighties has been a greater awareness on the part of banks, let alone the shipping companies themselves, of the unwisdom of just lending endless money to fuel an over-supply situation. I think that is the best answer I can give to that frightfully important environmental question, but I would ask Mr Denholm if he would like to add anything on the bulk and container side.

(Mr Denholm) Not a great deal, President. On the bulk side, which is the one I am particularly involved in, the recovery has strengthened and is at the moment quite strong. The rate of return on the ships is still far from adequate, but if I could give an example in my own company, we made a profit on a P & L account basis in August 1987 for the first time since 1980, and that has continued. The ships are now trading and showing a P & L account profit. The rate of return is far below what is needed to justify the investment in them, but it is true there is a feeling of optimism that there has not been for years.

Mr Dicks

1338. Can I ask Mr St Johnston, you did say just now banks are alive to the mistake of investing when there is over-supply of ships. If that is the case, why should the Government be investing in a way that might directly or indirectly lead to a continuation of that over-supply?

(Mr St Johnston) Please do not misunderstand what I am saying. There is a very big difference between reinvestment in ships for which there is proven business and a speculative investment in ships just because it seems like this week's good idea. The problem of the early eighties was that shipping was fashionable amongst international bankers. I will not give you my celebrated lecture on that subject at all, but if you take, for example, a cargo liner shipping company like my own, we will have X ships engaged in a certain trade in order to carry what we think we are going to be able to get of the general cargo trade moving. Ideally when one of those ships gets towards the end of its natural life we will be seeking to replace that. By replacing it we are not adding to over-supply; the old one goes to a decent burial and the new ship comes in, providing we are brave enough to take the investment ourselves. That is quite different from the situation which resulted in this chronic over-supply where everybody seemed to think that the humorous thing to do was to invest in ships, be they ship-owners or be they bankers. In answering your Chairman's first question I was addressing what you might call the irresponsible over-supply situation rather than the people who are taking investment decisions to regenerate their existing businesses. There is actually a very large distinction and that is why the two things rest on separate plans.

Mr Bidwell

1339. Does that affect the size of the ship? Replacements might not necessarily be of the same tonnage.

(Mr St Johnston) When reading out the original GCBS evidence you make the point, sir, that of course technology is changing, and by and large the economic ship unit tends to be the largest ship unit that you can profitably employ on that activity. They will never necessarily be absolute replicas of the previous vessel, although in certain segments of the industry there is no point in building a leviathan if it is only going to be half-full. So there is always a trade-off as to size versus the business to be gained. By and large numbers of ships are, therefore, a little misleading because 20 years ago you would have five or six cargo ships — conventional ships — and now five or six of those ships would be represented by one much more efficient huge container ship. So head count is not the answer because technology is indeed moving.

Mr Callaghan

1340. As I understand it, sir, you did mention the fact that the lives of some of the older ships were increased by putting new engines in.

(Mr St Johnson) Yes.

1341. Can you give the Committee an idea of how many ships have had new engines, and could you tell the Committee where those new engines come from? You also mention the fact that you will be ordering new ships, but I was not quite sure as to how

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[**Mr Callaghan** *Contd*]
you were thinking as to where those ships were to be ordered. Again, could you give the Committee some indication of where you think you will be putting those orders?

(Mr St Johnston) Yes. Forgive me if I particularise because I am not as knowledgeable about the tanker and bulker end of the industry perhaps as some. Re-engining is only worthwhile in a highly sophisticated, expensive ship. It would rarely be worth putting it into a tanker or bulker. In the container industry very few people, except the British, took the risk of spending £7 to £10 million to save fuel (which is what the British container companies did in the late seventies and early eighties) thinking that thereby they would save enough on their fuel bills to justify the extra capital investment. It was actually a very clever decision (which, incidentally, I had nothing to do with because I was away from the industry at the time) because not only did it make the savings in fuel to justify the capital investment but, in the process, it prolonged the lives of the ships because, if you think about it, the part of ships that wear out are the moving parts rather than the hull. Therefore the engineers started to realise after they had done it that they would probably get six, seven or eight extra years out of those ships. The cost of it was quite considerable and in nearly every case — *nearly* every case — Far Eastern yards were the most competitive in terms of the time that they would take to do it as distinct from just the pure cost of the engine that was going to be put in. On the second part of your question, sir — if ships are being built at the moment where they are being built — very few ships are being built at the moment, but those people who are looking at new tonnage are bound to look worldwide, on the basis that it is an international industry where you compete internationally and we want to know where the best buy is. As usual there are three elements in it: there is the quality and timeliness of the shipyard; there is the price at which they will sell you a ship and, of course, there is the financing terms that are available for the purchase of that ship, linked to the currency in which those ships are available to be built. It is, therefore, a much more complex decision as to what will make shipowner A decide to build in Britain or in Germany or in Korea or Japan. I would say from my own experience — because you are obviously seeking a bit of flavour here — certainly for the complicated ships the Far East is the most competitive place in all those elements that I have just mentioned. That is not to say that British yards are, as a result of that, uncompetitive, fullstop. It may well mean that they have chosen not to compete in that particular class of ship which is highly complicated and not necessarily in keeping with the guidelines that they have set themselves. If you think back 20 years to the first container ships that were built, all of them were built in Germany, which at the time had the technological lead, except for one or two that were built here, in some cases for the wrong reasons. Latterly the Japanese took over the German lead and right now my reading of the position — and it is a highly personal remark — is that the Japanese in their extraordinarily relentless fashion are overcoming the strength of their currency better than the Germans and that is reflected in the prices they are prepared to quote for complicated ships. I do not know whether that reflects through into what you might call the more straightforward ships, such as a straightforward, medium-size bulk carrier.

(Mr Denholm) Very few medium-sized bulk carriers are being ordered just now but of those that are, a number are being ordered in Korea and a number in the People's Republic of China and the remarks the President makes about the need to build the ship where it can be delivered at the cheapest price and the best finance apply equally to simple ships as to complicated ones but because they are simple they are likely to be able to be built competitively by less sophisticated nations.

Mr Bevan

1342. Mr St Johnston, I would very much like to go further into this to try and elicit from you reasons why we might not be winning, even in view of your signs of a fragile recovery. In your press release of 17 December 1987, you go into the question of the ageing fleet and say that investment opportunities may progressively look more attractive and that the overall size of the fleet will progressively dwindle, and you have gone into the technical reasons for that. You also say that British companies are in good shape as companies and need a fair commercial environment. You emphasise in that the essentiality to the nation of the British fleet and I want to question you on this because I feel that your answers might well take account of an international argument which runs as I will enumerate and which will positively ensure that the British do not take part in this recovery unless we are very careful. The argument goes like this: that the international shipping business is a highly competitive and highly capital-intensive business; there has been a heavy oversupply of tonnage in many sectors of the fleet, with very low freight rates emerging; owners have even had to struggle to recover net operating costs; traditional financing institutions have, as you have said, tried to reduce their exposure; the fleets, therefore, are becoming progressively older and inefficient and major fleet replacements in terms of new ships will be required. In parallel with this, the world economy is emerging from this long period of recession which it has been going through and the industrialised economies that specialise in the manufacture of the shipping are, therefore, healthier. Is it accepted, therefore, that the rate of growth of world or foreign trade is going to increase substantially? We — or rather those in the shipbuilding industry — may have suffered an order famine in the last few year because of the advent of short-term contracts and the operation of inefficient older vessels. Few contracts have been snapped up and those that have, have been at a loss-making level, but the market is changing and changing appreciably and I would like you to comment on that. Is it that the market is seeing an ageing world fleet with a positive need for new ships very quickly and, therefore, will prices in the new field internationally start to increase dramatically? Finally on these points, the many end users of sea transportation are accu-

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[Mr Bevan *Contd*]
stomed to taking their pick of the shipowners' best offers. As the tonnage surplus reduces they can see that the freight rates will move against them and this would be part of a recovery in rates. Some are preparing for this eventually by negotiating long contracts for hire — would that be right? — and others are debating whether to own the vessels or lease the vessels themselves, and if they took this course they would naturally buy in yards abroad at the moment?

(Mr St Johnston) Wow! You have asked me a lot of questions and I will do my best not to forget any but please pull me up if I do. Overhanging the whole of this is something that none of us can dictate and that is whether the United States slips into recession or not and, if so, how deeply. It is an uncomfortable fact that in world trade terms, which I think was central to the raft of questions you asked me, all economies respond to the health or lack of health of the United States economy. It flows through very quickly to all the Asian economies because of the nature of the things that the Asians make. It flows through a little less quickly into Europe because of the nature of the things that we make here. Within six to twelve months a major turn either way in the American economy affects world trade. It is not a very palatable fact, it is true.

The second thing, of course, that affects shipping because of the historical quirk that really everything to do with shipping tends to be quoted in dollars is that the health of the dollar affects the health of all sorts of aspects of shipping which are dollar-denominated, and my personal bet at the moment (if that is of the remotest interest) is that we must see certain recessionary characteristics in the United States which may be a dampener upon world trade on the most important routes over the next 12 to 18 months. However, we think that there should be growth in world trade; there nearly always is. It has to be a very serious turn of events for there to be no growth, but one is talking about 3 or 4 per cent only. Just assume, for the purpose of now trying to answer your other question, that that were to be the case, then I think that several things would happen in the purely shipping sector. Shipowners themselves around the world, having had a real battering over the last several years, are very much in the mood to be a little bit more sensible than in recent times and, therefore, I would expect the fragile recovery to continue but it would remain fragile for these external reasons of an unforeseen dip in the health of the world trade movements.

That ought to be accompanied by a hardening of freight rates; whatever the growth of trade that you are talking about ought to result in that. It also ought to result in a boost to the confidence of shipowners to reinvest but probably not to do so speculatively (referring back to the answer to the last question). I think banks will be cautious. All banks are sometimes terribly fashion-conscious and indeed foolish in the way that shipowners are in believing in a false dawn, but I cannot tell whether there will be another fashion for further investment in shipping. I believe not and I certainly hope not. Against that background there must be opportunities for shipyards to benefit from the increased optimism of shipowners at the renewal of orders, particularly as the shipbuilding industries of most Western countries have been through a rapid period of Draconian rationalisation, notably Japan and most European countries, through force of necessity, however politically and socially unacceptable that process may have been. Notable exceptions to them are South Korea and Taiwan, who have continued to build unabated whether they have orders or not, and that is a world problem. I think that prices are hardening in shipyards. My company is looking around for a ship at the moment and without doubt people are less sacrificial in what they will offer. Therefore I would have thought there is likely to be some profit available in shipbuilding contracts, providing the yard is efficient and irrespective of whether it gets any Government assistance or not. Whether this situation will go so far as to cause people to switch from being charterers to owners is, really, a matter of their individual confidence and financial strength and I do not think one can make a prediction on that. As to the other question, I think that there will always be people who will prefer to go for long contracts at a lower rate of affreightment rather than building for the spot market. As I say, I am not in the tanker business, but certainly the people who have strengthened and made money over the years are the ones who got the balance between long-term contracts and a proportion of spot, and the people, by and large, who have come a cropper are the people who have played a bull market unwisely and only had a small proportion of fixed. For quite a few years to come people will be going fairly long.

(Mr Denholm) I think to answer your question, because shipowners will be cautious about building ships, shippers who want ships will have to offer long-term contracts.

(Mr St Jonston) It is the other side of the coin, yes.

(Mr Denholm) That means that the shipper will have some say in where these ships are built, and as Japan I think is the biggest importer of bulk commodities in that field I would expect there to be some bias towards ships being built in Japan.

1343. Thank you for those most excellent answers. one final question: I know you want to address the other issue where they might well be built and not leased. I think you are still looking at it.

(Mr St Johnston) You mean leased or chartered? Do you mean financially leased?

1344. Where they would be built at the moment.

(Mr St Johnston) I did try to answer that question in the context of the type of ship that I am predominately involved in. You must, as I say, I think, realise that there are certain countries who would specialise, shall we say, in bulk carriers because, as the Vice President said, they fit their sort of building capabilities and requirements and so forth. I fear that at the moment the seesaw tips very heavily indeed in the direction of Asia.

Mr Bevan: Thank you very much.

Mrs Dunwoody

1345. I have been trying very hard to follow your

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[**Mrs Dunwoody** *Contd*]
arguments. I wonder if I could perhaps ask you to qualify some things. Firstly, it seems to me you are saying "by a combination of methods we have gone through a difficult period and no matter what the sectors are (and you have differentiated very carefully between the different sectors) we have managed to make ourselves profitable. It is a fragile recovery but we have done that by a combination of factors". Some of them, I assume, are flagging-out and some of them, you have made clear, are because companies are themselves not only involved in shipping but are, in effect, cross-subsidising across the company, if not across the product. I wonder if you could put to me, because I am obviously not very clear about it, what arguments would I use to a Conservative Government that would convince them of the need to maintain a British fleet. Let me put it to you like this: you appear to be saying that in the long-term the only way that you will rebuild a fleet of the size that is viable — and I am not sure what that is because you do not seem to have given us an idea of what you would regard as suitable tonnage. Indeed, in some of your own evidence you have said (and I have forgotten the quote) in effect that your business judgment would be such that there is a zero level which you would put forward. What is the size that you would regard as viable? What persuasion would you use — if those ships are being built outside Britain and are, therefore, not contributing to jobs here but are being built simply on the basis of good business investment — as to why the Government should put up any subsidy towards it? Thirdly, if there is an increase in the amount of flagging-out in British dependent territories, although not within Britain (and some of the reasons for that seem to be in your evidence, because at one point you complain about the British Government's insistence on safety measures) what arguments am I to use to the Government to put forward the need to invest in a British fleet? How will we define British fleet, given those circumstances? What size is it? Why should the taxpayer's money be used for it? Where, if you are using your normal commercial judgment, do you intend that fleet to be built? If it is to be done on that basis, then will you please explain to me what the benefit is to Britain of maintaining a fleet which, in the final analysis, may be owned by companies who are themselves multi-national companies and therefore (although they may be British companies within the meaning of company law) they will themselves have a degree of internal organisation which will mean that a lot of their policy decisions will be taken almost automatically in relation to other countries as well? I hope that is not an unfair series of questions.

(*Mr St Johnston*) It is a jolly difficult one. I will do my best to answer it. If I can knock off a couple of the points along the way and then come back to why should a Government or a national want to do it. I think I would like, therefore, to start by the linkage to British construction. We, as an international business, have always said we must be allowed to build where it is most competitive to build because, at the end of the day, we compete with people who are also in that position. Any British owner would prefer to build — in a perfect world, with the British flag in his hand — in Britain if the ship could be procured at the right price, the right time and the right quality. If, on the other hand, you cannot, it is a self-defeating equasion: you get some money from the Government if you build in Britain, but if the ship that you buy is not competitive there is no point in getting the money from the Government in the first place. We therefore do believe that there is a clear division. On financial terms the Government is bound to be interested in the future of its shipbuilding industry just as it may be in the shipping industry, but to link the two together inextricably can turn out to be a self-defeating result. The ideal size of fleet is an impossible question to answer because there are two dimensions. One is the peacetime dimensions of the trading fleet that it is desirable to sustain so that you are not at the mercy of your trading competitors and so that you can make a decent contribution to the balance of payments which, even though it is only a couple of billion pounds, is still a couple of billion pounds. That suggests what the present Prime Minister called a merchant fleet of a substantial size. Call it the size that it is now, which is much smaller then it used to be but it is quite healthy and it is around 600 ships. Once you get into the field of the strategic defence argument then that is not a question which we are in a position to answer. That is a question for the Ministry of Defence or the NATO commanders or whatever it is. However, there again it is not just a headcount; it is a count of the specific types of ships that are needed for those sorts of circumstances and whether they are available to Britain and, indeed, to NATO allies at large or whether there is a shortage. So the all-important defence strategic argument is a different one numerically and qualitatively from the peacetime one of generating trade and money for the country. In wartime, as I say, it is what the Navy and NATO may need to service themselves and to keep the country fed. Via that you also get to the point you made about the dependencies registers. The point about dependencies like, not only the Isle of Man but Bermuda or Hong Kong under British ownership is that the ships of those registers are retrievable in the event of emergency. Depending on how they are manned, some of their crews are also retrievable in an emergency, that is to say, in an emergency there are two assets you need: one is the ships and the other is the crews to man them. The moment you get beyond the dependencies to Liberia, Monrovia or Panama there may be no British content whatever in the manning of those ships and because the ships are under a totally different flag they may be more difficult to retrieve to the flag in the event of necessity. We therefore feel that as a halfway house flagging-out to the Isle of Man or, indeed, to a dependent registry is better than flagging right out. And this has nothing to do with safety standards; it is to do with the ability to man according to how you wish to. It is, as I say, a genuine halfway house. I personally believe it would be far better to create the environment in which that street — which is actually a one-way street because once you have gone offshore it is very hard to take the step back — was not an attractive one to go down. That is why we say there is a case for considering whether there would

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[**Mrs Dunwoody** *Contd*]

not be ways of reducing the overhead cost of retaining British seamen because that is really the difference in many cases on the manning cost side. It is not so much the amount a bosun is paid; it is the additional on-cost of social security and so forth which makes it quite an expensive thing for certain classes of ship to retain, hence the flagging-out. This therefore comes back to your central question, Mrs Dunwoody, about what you could say to the government. What we say in our paper is that we as companies, whether we are dedicated, pure shipping companies or whether we are part of wider groupings — and I will come to your multinational point in a second, if I may — are all right in the short term by virtue of the various methods and diversifications we have done. Re-investment is the crucial thing. For the country as opposed to the companies we believe quite strongly, and I certainly believe very clearly myself, that there is an equally good peacetime argument. We are an island nation; we are a trading nation and we would, I think, place ourselves at the mercy of our trade competitors very dangerously if we effectively did not have a decent sized merchant fleet of our own to set standards of service as well as price. Then, of course, there is the balance of payments argument of our industry and the marine-related industries which surround a healthy British merchant marine. In wartime terms then I think the trouble has been in the past that it has been easy, and probably correct, to say, "Listen. Do not worry too much, merchant shipowners. We know what we want for our own Naval purposes and anyway there will be ships there amongst our NATO allies to make good any deficiencies that may emerge." We believe — and this is what we also hear in Brussels in the EEC — that people are beginning to realise that this may no longer be the case and that there may actually be a NATO shortage of certain very important classes of ship for the three well-known functions of aid to the military, rapid resupply of Europe and civil resupply of the local populations. We are, therefore, extremely relieved that a NATO study, inspired, I think, by our Government here, is now being commissioned to consider the demand that NATO would have in these three sectors. That will be prospective as well as retrospective because it is what is going to be here in five years' time that the planners really need to be thinking of, not what today's snapshot says. We can point to certain classes of ship where we are certain that any government in any NATO country, not just ourselves, ought to be having concerns but we recognise that that is their prerogative to judge and we are merely saying, "Do be careful that the size and the pool of available ships is not short to the point where you discover too late that there are not enough ships and, of course, by definition also that there are not enough crews to man them."

Mr Conway

1346. Could I ask about that particular aspect because the Secretary of State for Transport, writing in our own House magazine which was published on 29 January, said: "It is sometimes suggested, that as a result of the decline in numbers of the UK fleet we could no longer mount the Falklands operation. This is not true. Although the choice of ships is more limited now than in 1982, we believe we could still provide the necessary merchant navy support for an operation of similar scale and duration to the Falklands campaign. We have enough ships to support any likely operation outside the NATO area. There are sufficient vessels on the UK and dependent territory registers to meet the planned needs of the armed forces in tension and in war." As I understand it, Mr Chairman, that planned need relates specifically to our NATO demand in so far as the Ministry of Defence is concerned, so do our witnesses basically think the Secretary of State is wrong or perhaps he is not putting a specific timescale to the commitment?

(*Mr St Johnston*) I personally was not talking about another Falklands because I think the chances of that are remote enough to be discarded, but concentrating instead on what you might call a major tension between the superpowers. I do not have access to the same sources of knowledge as the Minister, nor would you expect me to. Right now, sitting here, it is encouraging that he is still writing that on the NATO point. However, if you participate in NATO planning, which some of us as individuals do, you realise they are looking really quite a long time ahead because it is their job to do so.

What we are saying politely but forcibly is "Please do not leave it too late because it is very hard to retrieve a situation if there is a chronic shortage of ship type X." Therefore, if you are talking about strategy, by definition you are talking in planning terms. As I say, if the Minister is saying that there are enough ships, then good show; our concern is lest, so to speak, inadvertently we allow a situation to develop (and this does not just apply to Britain but to France, Germany and other leading NATO countries) where we have no access to important types of ships when we need them. I cannot remember whether you did ask the question but it was inherent in either yours or Mr Gilroy Bevan's question, you could see a situation where the proper British fleet — UK owned, UK flagged and manned by British officers and ratings — dwindles progressively by the mid-nineties to 100 or so ships, because there will genuinely be companies for whom it is totally and overridingly required to retain the Britishness of their crews and, indeed, cargo if they possibly can. Long may that remain. Just assume that that remark were to prove to be the event, and we were sitting here in 1995 considering what implications there were in those circumstances for NATO. We are suggesting we might have a very much more worrying discussion than we are having today, by which time it is too late because the ships have gone into other ownership and have not been replaced and the shipping companies are building supermarkets instead. May I ask Mr Le Cheminant if he would like to add something there?

(Mr Le Cheminant) I do not think so, President; you have said it all. The important thing is that I think NATO is now beginning to wake up, at least to the possibility that they ought to be worried. While we may not be able to wait for the end of the study for action, because these things take a long time, at

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[**Mr Conway** *Contd*]
least the question is now being addressed.

(Mr St Johnston) I think it is relevant, Chairman, to add to that that whilst the EEC has no brief for NATO, we do a periodical visit to Brussels to talk to all the various directorates and we have just done one. It is quite clear that the EEC Commission and the European Parliament are giving a great deal of thought to the other half of the equation, which is the peacetime half of the equation, the means to retain an EEC cargo fleet of a certain size in order to preserve the trading strength of the EEC bloc versus the other blocs. We are a microcosm of that situation, in our opinion.

Mr Conway: A sort of floating cap.

Mrs Dunwoody

1347. I hope I am not misrepresenting what you say, but you seem to be saying that, firstly, we should consider the defence involvement, and that is the way that even the EEC is now beginning to look at it. That may be a very good case for subsidy at EEC level, which of course would go to all the other European shipping interests in exactly the same way, but that is not what we are talking about here. It is certainly not what concerns me. If you will forgive me just taking a second bite: I can see a point in having a policy of scope which is subsidised by the taxpayer which creates jobs in British shipyards, which goes in for very high quality, high-tech ships which, in their turn, are crewed by British crews and owned by British owners. I can see the logic in that. If the definition which you put forward of "national interest" is the same as mine then I can see some logic in it. My problem arises with some of the points that you yourself have made. Firstly, about your proposals on cost, because you appear to be saying (unless I am wrong) that before 1984 when you had tax concessions you were able to do certain things which you are not able to do now. Are you suggesting that we should go backwards to exactly that same kind of scheme? If so, was it the most effective way of doing it or not? What preference should we give to it at this point? I will bring you back, if I may, once more, to the whole question of flagging-out. How could I justify to a Conservative Government (because, after all, you are not having to persuade me; my arguments would be different ones) that says each industry must look to its own financing and must look to its own viability; if there is a rise in the number of ships that are being flagged-out which do not carry British seamen, to which the rules that we want to see applied to our ships do not apply, except in the most minimal ways, how do I persuade this present Government to go back to a system where your long-term taxation situation is looked at as a means of subsidising the future building of ships? Because so far your arguments seem to have related to, firstly, the Britishness, which you define in a different way from me; secondly, to the fact that NATO has now woken up to this and the EEC are concerned about it, and, thirdly, that although there is a recovery it is a fragile economic recovery. I would also like to ask you why you think the British suffer particularly under cabotage when, if these changes are made, other European firms would still be presumably in the same situation?

(Mr St Johnston) I follow the family of questions that you have asked. First of all, we have never said anything about the subsidising of shipbuilding. That is a separate issue. There is a subsidy for shipbuilding in various parts of the world. I think that the key question is jobbing back, we are not asking for a subsidy for building; what we are saying is the incentive to our investment, which has a fiscal one prior to 1984, seems to have worked pretty well from all the evidence and all the knowledge that we have.

1348. In terms of numbers?

(Mr St Johnston) Yes, and tonnage. For perfectly well understood reasons there was a change in the policy towards corporation tax. Everybody understands — whether they agree with it or not — the thrust of that. To have made an exception in the case of the shipping industry in relation to investment allowances and free appreciation and so forth would have been very difficult to justify without creating a queue of other people saying "We would like that". Therefore we understand why that privilege, that incentive, was withdrawn.

We now look at the statistics since, which do make us believe that it has turned out to be a positive disincentive to re-invest, particularly when taken in relation to some of our European neighbours like the Germans and the Dutch, who have continued building at an infinitely greater rate than we have. The statistics on that are in the blue book. However, I do not believe pragmatically that it would be sensible to pray the Government to job backwards and, to use your words, re-institute investment allowances on the ground that it would be fiscally very difficult for them to be justified. Instead, in our paper, indeed in our submissions to the Chancellor in relation to the coming budget, we have argued that there could be a very valuable incentive indeed in introducing something which is not fiscally troublesome and for which there are precedents in other industries' circumstances, namely, a system of rollover relief for balancing charges, by which I mean that if you want to sell a ship and you sell it above the book value you pay tax on the excess value, and we say if, having sold that ship, you were to re-invest within three years or something like that, you would claw back the tax that you had paid at the time of the sale. That would be a positive inducement to re-investors. It would increase the equity you put in the ship, reduce the debt you had to take on and improve the return on capital, etc., and it would only, therefore, be available to those who, having sold, did re-invest within a reasonable time. In practical terms in the shipping business there are a large number of companies — not, incidentally, including my own — who survive by the skilful buying and selling of ships as well as the trading of the ships and may be inhibited from selling at a particular time because of the tax and the uncertainty of whether to re-buy, which would be said to be a positive disincentive, but giving a reasonable period in which to re-buy could act as a major incentive to re-investment. Therefore, we are not jobbing backwards because frankly we think it is unrealistic to do so. We are jobbing into a new

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[Mrs Dunwoody *Contd*]

direction. There would be a cost to the Inland Revenue at a certain stage probably but it would be quite a material step towards reducing this sort of gap that we see in the fiscal sense between the regime which we have and the regime which most of our European neighbours have. It is rather a long-winded way of answering your question but is that clear enough?

Mrs Dunwoody: Quite clear, thank you.

Mr Bidwell

1349. There are a couple of questions that fall within the bracket of Government action on which we would like to have your view. At the beginning of this inquiry the then Secretary of State for Transport, Mr John Moore, announced the Government's intention to provide assistance with repatriation and training costs and set up a Merchant Navy Reserve. These proposals are included in the Merchant Shipping Bill currently before Parliament. Despite what it sees as the limitations of these proposals, do you welcome them and what positive effect are they likely to have on the industry?

(Mr St Johnston) I need hardly say that the proposals are very much welcomed. They do not, of course, solve the whole problem that we are talking about here strategically today but I think it would be quite wrong not to expose before this Committee the principal reason why we welcome them as much as we do. There is a great deal of talk (and quite rightly so) and coverage in the press about the reduction in the size of the merchant marine linked to flagging-out, which, of course, is jobs, and there is a great danger that if we are not careful it will become harder and harder to attract the right sort of young people, either to become officers or, indeed, to go to sea at all in any capacity. We have to win the hearts and minds of careers masters and families, and right now the industry is experiencing an almost unprecedented loss to shoreside work. There is always that because it is a curious life being at sea and a lot of people elect to come ashore for perfectly good family or other reasons, but the danger is that what has always been a trickle becomes a bit of a flood. The number of companies in the process of streamlining themselves in order to meet the competition I have described endlessly this afternoon have curtailed or stopped their own cadet schemes. That is not a universal statement but a number of such schemes have stopped. I think a lot of companies, having emerged from the worst of that, may very well be reconsidering their policy. Therefore, putting this new training scheme alongside what the companies themselves will be doing I think is very positive. We do not have the details yet. I think that collectively as a country we have to be careful to avoid the trap of training a whole lot of aspiring youngsters for whom at the end of the day there might not be enough jobs because if you are not careful that is a self-defeating activity. So yes, we do welcome very much the so-called Moore package and we are waiting keenly to hear the details of that.

1350. My second question concerns safety. Among the miscellaneous measures which you suggest the Government could use to assist UK shipping is one concerning international safety standards. While emphasising your commitment to the safe operation of ships, you argue that "the British Government continues to insist on putting its own gloss on international regulations, placing British shipowners at a competitive disadvantage in order to comply with them." Could you explain what you mean by that a little more fully?

(Mr St Johnston) Yes. I am sure you will forgive my hesitation because safety looms fairly large on my own horizon at the moment, being a Director of P & O, as a result of the Herald Of Free Enterprise. But safety standards are absolute, that is obvious, and it is the procedures for humans to obey that are just as important as mechanical devices to render things absolutely failsafe. That, too, is perfectly obvious. The IMO is the international body which sets international safety standards and that body gets a considerable input from our Government and our shipowners, as it jolly well should. This results in a number of international conventions which all shipowners, irrespective of their flag, are bound to obey. This is at the heart of the so-called "flags of convenience" argument as put out by UNCTAD and so forth. If a flag of convenience means a short-cut to cutting corners in safety standards, that is obviously a bad thing, and that is what Port State Control is all about.

1351. Are corners cut?

(Mr St Johnston) In some of the odd registers such as, though not necessarily, the Cayman Islands, they obviously are. There are cases where people go to a register because they believe they will have the ability to cut corners. If that is so, nobody in Britain, whether they are owners or governments, supports that because it is a passport to perdition. Nevertheless, if I am — which I am not — a Panama shipowner, provided I abide and work by the IMO regulations, the international worldwide regulations, that is fine. I cannot remember where that quotation that you gave came from, but if there is a commentary to be made on our rules and regulations (and here I am generalising, I am not referring specifically to the understandable aftermath of the "Herald of Free Enterprise" thing); if we as a country demand standards and inspection procedures that are still more demanding and, therefore, costly than IMO, you can argue we are placing ourselves at a competitive disadvantage to some of our perfectly responsible and safety-conscious competitors. That is the point.

Mr Conway

1352. I wonder if I could bring Mr St Johnston back to some of the points that Mrs Dunwoody was making a little earlier. You are working terribly hard because obviously you have made your representations in advance of the budget and we are speaking to the Treasury soon as a Committee so if I could just press you more on your views on taxation and incentives so far as your industry is concerned. You do propose a number of Government measures in your earlier suggestions. You stated "We still believe that a return to a more favourable capital taxation regime would be the simplest route for

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[Mr Conway *Contd*]
effective support". That was paragraph 15 in Appendix 1. Is it still your desire to have the Chancellor put you back to a pre-1984 fiscal regime before that quite stiff budget?

(Mr St Johnston) I am afraid I cannot have made myself clear enough in answer to Mrs Dunwoody's question. We believe that a fiscal regime that provides somehow an incentive to successful shipowners to reinvest is "a good thing". It manifestly was before 1984; the lack of it seems to have resulted in a derth of orders post-1984. There are other reasons, of course. We therefore say we understand why the Government of the day does not like free depreciation because it runs slack across the thrust of the corporation tax reforms of 1984. Therefore, we select another fiscal incentive which ought not to be so fiscally unacceptable, or provocative, in the form of roll-over relief, for which there are other precedents. It is not a novel concept and we believe ought, therefore, to be more digestible to the Treasury because, again, it would only advantage the successful re-investors; it would not be a subsidy for you, even if you were about to go down the plughole.

Mr Bevan

1353. On that question, Mr Chairman, if I may, roll-over being the profit between sale price and historical down-written value, you place great importance on it, as you said to Mrs Dunwoody. However, in your own statistics that freedom exists if it is reinvested in a new ship. In your own statistics you say it only amounts to gains of £12 million on every 100 ships.

(Mr St Johnston) Yes.

1354. How can that, therefore, be an important fiscal incentive?

(Mr St Johnston) There are 600 ships and that could, therefore, be £72 million. Which is a lot of money.

1355. So we are reading it wrong? £12 million per 100 ships?

(Mr St Johnston) We have 635 ships. We grossly over-simplify because we have to do this top to bottom approach, and if that was misleading I apologise. The previous situation is you have got to roll it over within a fiscal year. That can be very, very difficult in real life terms. We say extend the period to — I do not know — three or four years, or something like that, and then it could be a major contribution to this so-called gap that we have identified to the tune of £50, £60, £70 million in a year. That is a lot of money at comparatively little pain, because it is only administered to those who are showing the will to go on.*

Mr Conway

1356. Obviously there has been a lot of discussion about this and, in fact, statements referred to in the other House, but the free depreciation of the 100 per cent first year allowance, and carried back against the profits of the previous three years, was not really successful in stopping the decline of the fleet between 1975 and 1984 when that budget ended. In fact, Lord Brabazon in the House of Lords debate on 15 July 1987 said: "front loaded depreciation produced poor results for the United Kingdom industry generally and may not have served shipping that well, for the fleet's decline began well before the 1984 fiscal reforms". So why does the GCSB think a 50 per cent initial depreciation allowance is likely to be more successful in attracting investment into shipping when compared with all other industries? Is not an investment actually going to be determined by the state of the market for which a ship is being designed?

(Mr St Johnston) May I ask Mr Le Cheminant to answer that question?

(Mr Le Cheminant) There are two separate threads to the statistics. You had a massive rundown in the market for ships because of oil coming from the North Sea, or Mexico or Alaska and container ships got long-term, long-distance business and so on. All of those things were happening and the fleet would have shrunk anyway. It may not have shrunk as far as it did but it would have shrunk because of these changes. While that was going on the old tax allowance system gave a substantial incentive to people to invest in new ships, and while that decline went on, people still actually ordered something like 12 million tonnes. In other words the fleet we had at the end of that period was a newer and better fleet than it would have been without that incentive.

(Mr St Johnston) There was modernisation of fleets, which meant five or six ships being rolled into one new one, and that was all going on in the late-seventies as well.

Mr Conway

1357. Obviously there have been the capital allowance changes that were made, particularly in the budget and again in subsequent budgets, which obviously do not please industry generally, let alone your own industry specifically. But, of course, there was the balancing effect of the corporation tax rates which have now made you — because they are the lowest in the industrial world — extraordinarily competitive with our major competing nations. How do your members view that? It is difficult for the taxpaying customer to give you both.

* *Note by witness:* We would like to clarify what GCBS had in mind when we costed some of the support measures that we suggested in our paper. It was clear from some of the exchanges on 2 February that the impact of measures such as roll-over relief for balancing charges, expressed as — in this case — £12m per 100 ships, was not clear. It appeared that members of the Committee felt that £12m spread over 100 ships was a derisory amount of support. In fact the yield per ship would be substantial. All the costings in our paper were done on the assumpton that ships would be replaced every 15 years. Thus a fleet of 100 ships would require 6⅔ replacements each year. The amounts shown are the *annual* estimated yield of each measure, and roll-over relief would provide about £1.8m per replacement — a useful measure indeed.

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[**Mr Conway** *Contd*]

(Mr Le Cheminant) If I may, Chairman, obviously everybody welcomes a reduction in corporation tax, and if somebody could abolish it in this budget that would be marvellous, but I do not suppose that will happen. That is only one element in the equation. You have to consider that the shipping industry, unlike just about any other industry in this country, is fully exposed to international competition; it operates internationally without the sorts of protections which are actually available to almost all the rest of British industry. The whole of manufacturing industry has a 10 per cent EEC external tariff; the farming industry is heavily subsidised, as we all know, through the CAP. The exposure of shipping to the direct competition of everybody from every part of the world is almost unique in our industrial situation. That is why one has to think a bit beyond tax. If the Government wants to help, one has to think beyond simply it would be nice to reduce taxation.

(Mr St Johnston) I have remembered a question Mrs Dunwoody asked me about cabotage.

Mrs Dunwoody

1358. I was going to come to that. May I give you one of your own quotes before I do? You did say: "It is intolerable that British ships are excluded from the coastal trades of five of its Community partners, whilst any ship can trade around our coasts regardless of whether it benefits from domestic protection or unfair Government subsidy". That is an important point. I would also like you to address yourself to the question of UK licensing of foreign vessels as well.

(Mr St Johnston) First of all, the first EEC law on shipping, as you know, was hatched in the last three years, when the GCBS and all sorts of international shipowning bodies participated with the Commission. By and large, the thrust of those regulations was to give a framework within which shipping should operate, i.e. the basic framework, rather like our Merchant Shipping Bill, was broadly satisfactory. However, one of the elements in the package that was there for negotiation was, indeed, cabotage — deeply engrained, passionately emotive for those who have it and quite a problem for those who do not. Under the British presidency John Moore actually did the most amazing balancing act to get most of what we wanted through. I think everybody, speaking nationally, ought to be rather pleased. He lost on getting cabotage in and it is very interesting that in Brussels everybody said that he had no chance. It was nothing to do with his lack of persuasiveness or anything else that he did not get it. There were just too many angular spikes on it for it to have been included in the package. That is history. It is not dead; it is technically on the table, but something of a political nature has to come along to get that carried forward into the EEC political arena again and that ought to be the second phase of EEC regulations, which are the so-called positive measures to help harmonise and co-ordinate EEC shipping. It is still on the drawingboard. This gives the British a problem because a number of our short-sea owners are severely disadvanted by exactly what you read out, and as a trade association it is really quite difficult for us not to have a great deal of sympathy with their predicament, even though as a country we are wedded to free trade. As an industry, we want to open trades up, not close them down — the reverse of protectionism. However, politically I can well imagine that in EEC terms it is important for Britain, who said quite a lot before the negotiations about the importance of this issue to Britain, to be seen to have some sort of levers or weapons and I guess this is what leads to consideration of whether some similar sort of regime that exists for other classes of ship could be adopted as an interim and temporary measure in order to show that we actually do mind and do mean business; that is to say, a practical response to a real-life situation, even though it is philosophically contrary to what we normally preach.

1359. How would that tie in with your view of the EEC's shipping policy, because although you told us you believed that you were now on the first phase, what is your reaction to that? Further, how do you see that developing because all these things must be very much a part of how we view European developments, surely?

(Mr St Johnston) Yes. The things that were included in the EEC package about ensuring freedom to trade and the competition rules which the shipowners must obey and so forth are, broadly speaking, acceptable and because they were effectively doing something there was no point being silly about it. However, as I said, those were setting the framework. We would very much, as an industry, have liked to see cabotage included within that, for all the reasons I stated earlier. It did not get in, which is troublesome, because there are a number of EEC members who will be very content if in the year 2050 it is still gathering dust on the shelf, for good chauvinistic reasons. It remains in our interest to keep that issue alive so that we can, as I say, attach it to the next phase of the EEC regulations. Those regulations, because they are not just the fabric of the shipping rules but are some constructive policies as yet unborn for the harmonisation and sustenance of the fleet, are rather exciting and it is a pity that that has to be added to them. That realistically is not going to happen for quite a while because the next phase of proposals are not even in draft form. They are still revising them in DG VII in the Commission, in Clinton Davies's section, and it is actually quite difficult to draft and I am not entirely surprised that they have not seen the light of day yet. There is clearly going to be quite a gap before anybody is getting excited about stage two, the positive measures, and it is, therefore, a problem for us as an industry and as a country to keep the issue alive in the interim. It is only that, as I understand it, which has led our Government to think whether there is any lever that they could and should consider for that purpose but, as I say, it is absolutely counter to our general philosophy.

Mr Callaghan

1360. Mr St Johnston, I would like to bring you back to the question of the Inland Revenue again. It has been reported that the Inland Revenue is

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[**Mr Callaghan** *Contd*]
seeking to bring UK-based seafarers on offshore agreements inside the mainland tax network. If the Inland Revenue does insist on PAYE from seafarers employed through the Isle of Man, what effect do you think this would have on the Isle of Man register?

(Mr St Johnston) That is a difficult one to answer. May I ask Mr Le Cheminant if he has an update on that, the reason being it has been a changing picture. We did not know until recently where we might stand.

1361. 15 January?

(Mr St Johnston) That is correct.

(Mr Le Cheminant) The important thing about it is that liability for tax depends on tax residence. Whether tax is collected by one means or another is a technical thing which one can dispute, and there are plenty of talks going on at the moment.

It is not the tax element which leads people to go to the Isle of Man. That, in a sense, is a matter between an individual seafarer and his own particular tax man, where he happens to live. Of course, many people working on ships that are flagged out qualify under the present rules for the 100 per cent remission on tax anyway. The importance of the Isle of Man rests much more in the sort of employment deals you can make with British seafarers, many of them, which affect the totality of the employment costs. Many of these chaps are earning at least as much as they earned when they were on mainland registers, but they are doing so with terms of leave, stand-by costs and all that sort of thing — whether through an agency or whether, in some cases, still employed directly by a company — which are themselves an enormous relief to the total cost of employing people. In that respect tax is a secondary issue. It is an important issue, obviously, for individuals, and it is an imporant issue for companies in what they have to do. All of them try very hard to do what the law requires them to do. But the importance of the Isle of Man is not just tax, it is many other things.

(Mr St Johnston) Mr Denholm has ships under that register.

(Mr Denholm) I think it is fair to say that seafarers prefer to be paid a gross wage and make their own tax arrangements, and they get the advantage of the time-value of the money which will have eventually to be paid in tax. Many of them organise their lives so that when they can take their leave they take it in Spain and their wives join them there. They have freedom which they would not otherwise have. I agree with Mr Le Cheminant that the main attractions in these registers are not purely tax. Nevertheless, to bring the Isle of Man within the PAYE regime would, I think, lead owners or managers to move their centre of activity to some other place, to Hong Kong or to the Bahamas, or Liberia or Panama.

1362. Do you not think the Inland Revenue is conscious of that? If so, why are they going to introduce it?

(Mr Denholm) We do not know at this stage whether they are or not.

(Mr St Johnston) This, actually in the process, makes the point that I was endeavouring to make earlier, sir, that it is an uncomfortable fact that once you set off down the flagging-out route it is basically a one-way street and it would be this or some other thing which tends to push an owner further. For example, if he is in a highly competitive segment of the business where the tax regime counts as to whether you are competitive, the fact that you are, for example, in the Isle of Man and continue to employ a good number of British officers is probably what you desire to do — and you may employ British seafarers as well. If in spite of doing that you are still finding it hard to compete the temptation will be to move to a register where requirements to have British officers at all, or any, are very, very limited can become too tempting to resist. That is the danger of it. I cannot tell you how vividly one of our members described to me the discussion which he happened to have in his own board room as to whether to put the first of their fleet as near to the U.K. as the Isle of Man. They have decided to do it, but they were under no illusion that it could become the slippery slope. Equally, regrettably in employment terms, although satisfactory terms are agreed with the British officers and/or ratings when the ship makes that first move, it can often be a very short-term accommodation because of the sort of considerations that I have outlined, this is why part of our financial strategy concerns measures for retaining a reasonably sized corps of trained seafarers for whom one can retrieve for active employment at sea if need be.

Mrs Dunwoody

1363. Since 80 per cent of the ships entering British ports are said to be foreign-owned, why are light dues such an important part of your argument and why do you seriously think that a change would affect the competitiveness of British ships?

(Mr St Johnston) It is the competitiveness of British ports not of British ships because, as you say, every competitor who chooses to come to Britain incurs these light dues. The danger is that more and more people will decide that they would prefer not to incur those light dues and instead will discharge at Rotterdam and trans-ship in little feeder ships and whizz across the North Sea, including the British shipowners at the end of that progression. Because of course British shipowners have a bigger share, by and large, of the British market and they are, therefore, keenest to retain direct calls at British ports. The fact is that there is quite a large sum of money telling, shall we say a foreign container shipowner, when faced with decisions whether to come into British ports at all, not to do so, on the light dues issue alone. Of course, there are other elements in the equation that leads to that decision. The fact that there is a very high volume of business through, for example, Rotterdam, and the fact that the municipality of places like Rotterdam do give extremely long-term finance for development of port infrastructure facilities is a factor — and price also (handling costs and port costs). But we believe that it is desirable for us as a trading nation to retain direct calls wherever we can, because by that means our exporters and importers get the best service

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[**Mrs Dunwoody** *Contd*]
at the best price. If we price ourselves out through light dues, or whatever reasons, and if as a result Britain becomes an offshore island of the continent, I cannot believe that would be a good thing for us in trading terms. So it is not just a disincentive and a problem for us, it is a problem for everybody who wants to see a healthy flow of ocean-going ships coming to this country. That has been the basis of our efforts to persuade the Government to do things more along the lines of the continent, which provides lights from general taxation rather than a specific levy on shipowners.

(Mr Le Cheminant) Might I, perhaps, add one figure just to illustrate it? Big ocean-going ships coming to the UK face light dues, obviously varying due to the size of the ship and so on, something like £14,000 to £15,000 every time they come into one of our ports. They go to any of our neighbouring ports on the continent and they pay zilch. That is a lot of money, especially when one thinks of the number of ships that come in in the course of a year, and so on. It is a very strong disincentive for people to come directly here rather than go to the continent and send our share of the cargo across on ferries.

1364. What percentage of the overheads would that represent, Mr Le Cheminant? Is that going to be the largest element of their costs?

(Mr Le Cheminant) Yes, it is the largest single element.

1365. The equation surely must take in the costs of double shipping, transferring into small ships and bringing it back? That must also be part of the equation?

(Mr Le Cheminant) It must be something between a quarter and a half of port dues on average, I would have thought, 30-something per cent.

(Mr St Johnston) If you would like a more precise answer to that question would it help if we were to drop a note to the Clerk on that?*

1366. It would be helpful because we must know exactly what we are talking about.

(Mr St Johnston) We might as well get it right. We are rapidly doing mental arithmetic. I would add, if I am permitted, that Mr Le Cheminant is a very polite man. He was actually referring to ships of my company when quoting those figures, because I recognised them very clearly.

1367. Can I ask one other thing about one of the points you raised and that is the whole vexed question of the Channel Tunnel and the ferries.

(Mr St Johnston) There are two elements to this. The first — and I think I can speak for the main ferry operators — is that they are assuming there will indeed be a tunnel and whether it is 1993 or whenever is not material But the tunnel is coming and, therefore, for the near-sea ferries, which are the ones most directly affected, there will have to be a major realignment of how ferries operate if they are to provide a competitive alternative to the tunnel. I am not particularly knowledgeable in exact terms as to what exactly those are going to be, even though I am, as I say, a Director of P & O, but one must imagine they will have to have regard to whether there may be some form of rationalisation, which is permitted in other forms of shipping but is not permitted currently in respect of ferries. The reason it is not permitted is because they are a monopoly; in future with the tunnel they will be anything but a monopoly. I personally expect that they will realistically be permitted to rationalise and, if so, that they will, on the one hand, be attempting to rationalise their services and, on the other hand, inevitably increasing productivity, wherever it is possible to negotiate that, and there is a lot in the newspapers about that at the moment. That will be a process that goes on during the intervening years so that by the time the tunnel appears there will be a brand-new type of competitive ferry in the near-sea trades that will attract a reasonable proportion of the overall market, otherwise they would have to shut up shop and I have certainly heard nothing to suggest that they have that in mind at all if they can possibly avoid it. There is a second aspect of it, which is the EEC aspect, and it is the perfection of the internal market in 1992, by which time, if the EEC juggernaut continues to roll in the direction in which it is currently rolling, there will be VAT imposed on all intra-Community transport, and here we are talking about passengers. There will also be VAT on a whole range of costs of passenger shipping, including ferries — but that at least will be offsettable against the VAT on revenue — and, of course, there may be an end to duty-free. Duty-free in these short-sea ferries is a very major component of the overall revenue that these ships earn. In excess of 20 per cent. of gross revenue is earned through duty-free. It is an astonishing statistic. There is a lot of mileage in an EEC situation like that between now and 1992 but we have to realise as an industry that, of course, this is a thing which matters particularly, though not exclusively, to Britain because we have a far greater involvement in this industry.

Mr Bidwell

1368. But no Transport Minister must ignore the possibility that the tunnel is coming and there may be a blockage or accident on the feeder line and all the rest of it and a lot of people would be marooned if there were a wholesale rundown of the ferry industry. There must be a wide element of advance planning for these sorts of contingencies, including having a reserve ferry fleet, if necessary.

(Mr St Johnston) I cannot answer that question but I understand the point you are making.

Mr Bidwell: I am speaking as a former railwayman.

Mr Conway: They said that about horses when they invented the car!

Mrs Dunwoody

1369. You do actually say that action will be needed if there is not to be unfair competition. All I am saying to you is, what do you have in mind, because the first leg of your argument is that when one comes to the rationalisation process, because of

*See p.29

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[**Mrs Dunwoody** *Contd*]
the way we are proceeding we will probably, by the time it is built, have reached the situation where we are pared down to a highly efficient level? What are you asking for over and above that in order to ensure free competition?

(Mr St Johnston) I do not think anybody is asking for anything except the ability to ensure joint operating or consortia arrangements, which are currently proscribed.

1370. So that is the only basis of the argument on which you ask for action?

(Mr Le Cheminant) Yes, to remove the constraint.

(Mr St Johnston) It is the removal of a constraint, not financial assistance or anything like that. The other point about VAT and duty-free is a totally self-contained argument. Although one can spare a moment for thinking what ought to come into force from 1 January 1993, it would hit the ferry companies at precisely the same moment as the tunnel was emerging from the ground.

1371. There are German ships which are in similar positions and which are arguing with you very enthusiastically. You are not entirely alone in that.

(Mr St Johnston) And airports and so forth.

1372. And it is of great interest to the tourist trade.

(Mr St Johnston) All I am saying is that is going to be a lively political topic in the next four or five years, for sure.

Mr Conway: It also has implications for the Minister's proposals in the Bill about the Merchant Navy Reserve because 50 per cent. of our military reinforcements to NATO are initiated in the UK and obviously they are substantial in so far as they are by ferry, which may not exist.

Chairman

1373. Are there any final points, Mr St Johnston, which either you or your colleagues would like to make to the Committee which you feel they either have not covered at all or not fully covered?

(Mr St Johnston) No, but for fear of leaving a particular feeling amongst any of your Committee, sir, I would like to reiterate something. Our industry actually is in pretty good shape now by all the fairly severe and rigorous methods that have been used to get there. We can manage very well as things go, at the moment. However, we do believe that it would be a genuine mistake just to let things go according to how the wind bloweth, for strategic reasons. The last thing that we would, therefore, like to leave you with is the feeling we are either a lame duck or a sunset industry. We are there, and the question is whether we do reinvest in ships and, if so, whether they are British or non-British. Please accept that from us as being a very important qualification to the fact that we have put up whole lot of proposals which do involve money.

Chairman: I can assure you I am positive the entire Committee will be delighted to hear those closing remarks you have made. May I also say we have had a very long and probing series of questions and, therefore, on behalf of the Committee may I thank your colleagues and yourself for what has been a most interesting and informative session and one which I am sure will be very helpful to the Committee in its deliberations. Thank you very much.

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Supplementary Memorandum submitted by the GCBS
LIGHT DUES AND TRANS-SHIPMENT

1. The amount of light dues payable in respect of a ship entering UK ports depends on:

(i) its size and (at present) the amount of cargo, such as containers, carried on deck;

(ii) the number of voyages it makes each year. In the case of a foreign-going ship, dues are payable after seven voyages; in the case of a home trade ship, it is 14 voyages;

(iii) a home trade ship pays at half the rate of a foreign-going ship.

2. The cost of light dues alone could thus be very much cheaper if containers were carried to the UK in a small home trade ship rather than a large foreign-going ship. A 20,000 net registered ton (nrt) ship, calling six times per year — about the largest number of voyages that can be made by ships engaged in many deep sea trades — would pay some £100,000 p.a. If it unloaded 1,000 containers per voyage, that would be a cost of nearly £17 per container. A 1,000 nrt feeder ship carrying 150 containers would need to make 40 voyages per annum to bring in the same number of containers. However, it would pay under £4,000 p.a. in light dues, or under 70 pence per container.

3. Light dues are obviously not the only cost to be taken into account, although they form more than half the marine costs of bringing a ship into a UK port. Against trans-shipment by feeder service are the costs of chartering and operating the feeder ship and of handling the containers twice. There may also be a marketing penalty to be paid through the relative unattractiveness of a feedered as compared with a direct service. On the positive side of the equation are potentially very large savings arising from avoiding delays to the deep-sea container ship. In many trades the UK containers will form a relatively small proportion of the total cargo carried to Europe. Diversion to a British port could detain the ship in European waters for two days longer than would be the case if just one call was made, say at Rotterdam or Antwerp, and the UK cargo trans-shipped. In extreme cases it might even be possible to offer a service with one less deep-sea ship. The circumstances will vary from trade to trade but it can be said that the cost of light dues is an important influence on all shipping lines' decisions concerning trans-shipment.

4. It is clear also that more shipping lines are finding the case for trans-shipment to be compelling, for an increasing amount of UK cargo is being trans-shipped. According to a study published in 1986 by the Department of Transport and the British Ports Association, in 1984 15% of *all* deep-sea imports and 8% of all deep-sea exports were trans-shipped. These figures included:

16% of deep-sea non-fuel imports;
21% of deep-sea non-fuel exports;
24% of exports to the Gulf;
39% of deep-sea animal fodder and foodstuff imports;
42% of all imports from the USA;
60% of coal imports (but possibly distorted by the miners' strike).

The number of containers trans-shipped had increased by 50% between 1976 and 1984 and UK cargo as a whole by over 100%. GCBS believes that there has been no reversal in that trend since 1984.

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HOUSE OF COMMONS SESSION 1987-88

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TRANSPORT
COMMITTEE

DECLINE IN THE UK-REGISTERED MERCHANT FLEET

MINUTES OF EVIDENCE

Tuesday 9 February 1988

Department of Transport and Ministry of Defence

Mr G R Sunderland, Mr J D Henes, Mr C T B Smith,
Mr R L L Facer, Captain B Telfer

Ordered by The House of Commons *to be printed*
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TUESDAY 9 FEBRUARY 1988

Members present:

Mr David Marshall, in the Chair

Mr David Gilroy Bevan	Mr Terry Dicks
Mr Sydney Bidwell	Mrs Gwyneth Dunwoody
Mr Jim Callaghan	Mr David Mudd
Mr Derek Conway	Mr Neville Trotter

Further Memorandum submitted by the Department of Transport

REQUIREMENTS FOR "FLAGGING IN" SHIPS TO THE SHIPPING REGISTERS OF THE UNITED KINGDOM, CROWN DEPENDENCIES AND DEPENDENT TERRITORIES

General

1. The Transport Select Committee has asked for a note on the process of "flagging in" ships to the British register, and the rules which regulate it. This note outlines the requirements, and the administrative procedures, for registering merchant ships, and touches on certain related matters.

2. It is by no means unusual for a ship to change its State of registration many times during the course of its life. This may be because the ship has been sold by one owner to another: or it may be because the owner has decided to change the registry of the ship (most obviously because he believes that the ship can be operated more economically under a different register).

3. The "British register" embraces the registers held at ports of registry in the United Kingdom, the registers of the Crown Dependencies (the Isle of Man, Guernsey and Jersey) and the Dependent Territory shipping registers (of which the most significant are Bermuda, the Cayman Islands, Gibraltar, and Hong Kong).

Requirements

4. The requirements for registering a ship in the UK, Crown Dependencies or Dependent Territories are laid down in Part I of the Merchant Shipping Act 1894. In brief, a ship which is wholly owned by British subjects, or by "bodies corporate established under and subject to the laws of some part of Her Majesty's dominions, and having their principal place of business in those dominions", is required to be registered. Thus a company established and having its principal place of business in the UK, or in the Crown Dependencies or in the Dependent Territories, or in a Commonwealth country, or the Republic of Ireland, is qualified — indeed, required — to place a ship which it owns on one of the British registers. A foreign company is not qualified to do so: but it can establish a subsidiary in the UK, a Crown Dependency or a Dependent Territory which would be entitled to place a ship on one of the British registers. A significant number of ships on the British registers are owned by subsidiaries of foreign companies.

5. If a ship meets these eligibility requirements, it will (subject to the necessary administrative processes) be registered. There is no discretion under the 1894 Act to refuse registration to eligible ships, though some Dependent Territories have recently taken such powers under local legislation.

Procedure for Full Registration

6. An applicant for registration in a UK port must give notice of the proposed name of the ship to the Registrar-General of Shipping and Seamen, Department of Transport, at least 14 days before the date on which it is proposed to effect registry. For registration in a Dependent Territory or Crown Dependency, the local Registrar seeks "name approval" from the Registrar-General. (No notice period is laid down in these cases). If the Registrar-General is satisfied that the name proposed is not already in use (or is not unacceptably similar to a name already in use) he gives "name approval". (Name approval for ships of less than 100 gross tons is delegated to local Registrars in ports outside the UK, Channel Islands, Isle of Man or Gibraltar).

7. Registration in the United Kingdom is carried out by Registrars who are officials of HM Customs and Excise. (The number of ports at which registration business can be conducted stood at 86 in November 1987, but HM Customs plans to concentrate the work at 15 regional offices). To register a ship, the owner must make written application to the Registrar responsible for the port in question, and arrange for him to be provided with:

- evidence of ownership;
- a declaration of ownership (plus proof of incorporation and appointment of an authorised officer for a body corporate);

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- a certificate of survey establishing the dimensions and tonnage of the ship from a classification society surveyor approved by the Department of Transport;
- the current fee of £215 (£150 for a ship under 1,500 grt).

8. The Customs then issues an official number and "carving note": the owner carves the official number and the ship's registered tonnage in the main beam or other permanent structure of the ship, and the ship's name and port of registry are marked on the ship. Various particulars of the ship are entered in the register and a certificate of registry is issued.

9. Similar procedures operate for registration by Registrars in the Dependent Territories and Crown Dependencies.

PROVISIONAL REGISTRATION

10. There is provision under the Merchant Shipping Act 1894 for a ship which becomes the property of persons qualified to own a British ship in a port of a foreign country to be issued with a provisional certificate of registration. The provisional certificate is issued by a British Consular officer and is valid for six months or until the ship's arrival at a port where there is a British Registrar (whichever happens first). The ownership requirements for provisional registration are the same as for issue of a full certificate, and the Consul will require evidence that those requirements are satisfied. In cases of difficulty he will liaise as necessary with the Department of Transport or with the Registrar of the Crown Dependency or Dependent Territory concerned.

OTHER REQUIREMENTS

11. There are various safety and manning requirements with which British registered ships must comply but which are not a condition for entering the ship on the register. For example:

- a cargo ship registered in the UK requires a Safety Equipment Certificate, a Safety Radio-Telegraphy or Radio Telephony Certificate, an International Oil Pollution Prevention Certificate, and (in the case of a chemical tanker or gas carrier) an International Certificate of Fitness. These normally require an inspection by a marine surveyor of the Department of Transport who will issue the certificates when he is satisfied that the ship complies with the relevant requirements. The ship will also require a Safety Construction Certificate and an International Loadline Certificate: these would normally be re-issued by a classification society recognised by the Department;
- all officers on UK registered ships must hold UK certificates of competency or comparable certificates issued by certain Commonwealth countries (and the Irish Republic) with whom the UK has arrangements for reciprocal recognition. In addition, the master, chief officer (mate) and chief engineer must be British citizens or citizens of the Irish Republic or Commonwealth countries.

These requirements are the subject of separate legislation and not, in law, part of the registration process: they reflect the provisions of the international Conventions to which the United Kingdom subscribes. Although it might be thought that international Conventions provide a simple transition from one register to another this is not necessarily the case. The Conventions provide the broad framework of requirements but as in many instances an Administration is required to supplement these requirements by provisions of its own inevitably differences between Administrations occur. When the requirements of the United Kingdom differ from those of previous Administrations changes in arrangements or equipment may be necessary. The Department of Transport have established with the industry the necessary measures to minimise any problems which might arise and thus to reduce the costs involved.

12. The Crown Dependencies' and Dependent Territories' requirements on such matters vary from territory to territory but, as in the UK, are dealt with in separate legislation and are not a condition for registration.

MERCHANT SHIPPING BILL

13. The Merchant Shipping Bill now before Parliament would amend the requirements for registration in detail but would leave the general nature of the arrangements as described. The main changes provided for in the Bill are that:

- the *requirement* in present law for a ship owned by qualified individuals or companies to be registered will be replaced by an *entitlement* to register;
- *eligibilty* to place a ship on the UK register will be redefined. Those qualified to be owners of British ships will be British citizens: certain other categories of individual: and bodies corporate incorporated in the United Kingdom or in a Dependent Territory or Crown Dependency, and having their principal place of business there. Commonwealth citizens and companies will no longer be eligible to register ships in the United Kingdom. It will remain the case that a Commonwealth (or foreign) company or citizen may establish a company in the United Kingdom or a Crown Dependency or Dependent Territory which would be entitled to register ships in the United Kingdom;
- it will no longer be necessary for a ship to be *wholly* owned by qualified persons for it to be eligble to be registered: it will be sufficient for 33 out of the 64 shares into which a ship may be divided to be owned by qualified persons;

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- where a ship is owned by a qualified individual who is not resident in the United Kingdom, or by a company incorporated in a Dependent Territory or a Crown Dependency which is qualified to place a ship on the UK register but does not have its principal place of business in the United Kingdom, then the ship will only be entitled to register if a *"representative person"* on whom documents may be served, is appointed in relation to the ship: in certain cases the Secretary of State's consent will also be required;
- the Secretary of State will have *power to direct* that a ship should not be registered where he is not satisfied that the ship is entitled to be registered, or where, having regard to the condition of the ship and to the safety, health and welfare of persons employed on board the ship, it would be inappropriate for it to be registered. The Secretary of State will have similar powers to direct that a ship's registration should be terminated;
- some changes will be made in the system of *provisional registration,* so that provisional certificates can be issued in Commonwealth as well as in foreign countries, and the validity of provisional certificates limited to three months;
- separate registration arrangements, with stringent new requirements as to the beneficial ownership, will apply in respect of *fishing vessels.*

14. The Bill would apply these changes to the registration of ships in the UK. The Bill's provisions may, however, be extended by Order to the Crown Dependencies and Dependent Territories. In addition, the Bill will make provision for Orders in Council to define *categories of register* for the Crown Dependencies and Dependent Territories, and to assign each dependency or territory to an appropriate category, depending on its needs and on its ability to administer and enforce the relevant International Safety Conventions. Territories in the highest category will be authorised to register all types of ships: territories in other categories will be limited as to the types of ship they can register (for example, some territories might be limited to registering ships under 150 tons, and fishing vessels).

Examination of Witnesses

MR G R SUNDERLAND, Under Secretary, Shipping Policy and Emergency Planning: Mr J D HENES, Assistant Secretary, Shipping Policy and Emergency Planning, Mr C T B SMITH, Assistant Secretary, Economics (Transport), Department of Transport, called in and further examined MR R L L FACER, Deputy Under Secretary, Personnel and Logistics; and CAPTAIN B TELFER, Deputy Director Naval Operations and Trade, Ministry of Defence, called in and examined.

Evidence heard in private

Chairman

1374. Good afternoon, Mr Sunderland and gentlemen. Could I say first of all that today's proceedings will be kept in confidence until reported to the House, as is the custom. Could I welcome you to the Committee and ask you for the purposes of the record to introduce the officials present, please.

(Mr Sunderland) Thank you, Chairman. I am Russell Sunderland, Director of the Shipping Policy and Emergency Planning at the Department of Transport. On my right is Mr Henes, who is head of the division responsible for general shipping policy and defence planning and on his right is Mr Smith, who gives us economic advice on shipping matters. On my left from the Ministry of Defence is Mr Facer, who is Deputy Under Secretary Personnel and Logistics, and on his left is Captain Telfer, Deputy Director of Naval Operations and Trade.

1375. Thank you. I should warn you that we have a pretty formidable and lengthy list of questions to ask you, but before we start is there anything either you or Mr Facer would like to say to the Committee?

(Mr Sunderland) No. I think we have been up-dating our evidence to the Committee from about eighteen months ago. We have really given you the picture of the fleet as it is today and we understand that you will have seen the evidence which we have given to the Defence Committee. We have not actually up-dated that but we are prepared to answer questions which would enable you to get right up to date on that, if you wish.

1376. Thank you. Could I start off by asking you if you could please explain how responsibility for the supply and use of merchant shipping for defence purposes is split between your two departments.

(Mr Sunderland) The Department of Transport is responsible for ensuring, as far as possible, the availability of shipping to meet the demands of both the armed forces and for the civil supply of the United Kingdom. In other words, very clearly, our Department has the responsibility for ensuring that supply, for whatever purpose, and it is for the Ministry of Defence to state to us their requirements for merchant shipping for support of the armed forces and we will then monitor the availability of that shipping, keeping in touch with them. We keep a regular watch on the availability of this shipping, and as and when deficiencies appear to us likely to arise, we will consult with them about the steps which should be taken to meet those deficiencies.

1377. In a memorandum to this Committee dated 25th February 1987, which was printed with our interim report, the Department of Transport argued that any case for assistance to the shipping industry must be strategic; it has no compelling economic basis. Would you care to amplify this, please?

(Mr Sunderland) Well, Chairman, we did, I think, amplify it at some length in that memorandum, and I do not know how far you would want us to spell out even further our inhibitions about accepting the argument which the General Council of British Shipping usually advances, that is to say, unless we

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[Mr Chairman *Contd*]
ensure that there is a substantial fleet under the British flag available at all times then we are at risk of exposing ourselves to some sort of monopoly in shipping by foreign operators. That argument we do find a bit difficult to accept and we have put all the emphasis, as you will have seen, on the strategic use of merchant shipping, the strategic role of the fleet, and I wonder, indeed, since we have accepted that there is a need, a continuing need, for a substantial British merchant marine to meet our defence and civil re-supply purposes, whether it is necessary to argue the same from the economic standpoint, but we are certainly prepared to go into that if you wish.

Mr Mudd

1378. I would not want to take Mr Sunderland too deeply down the hypothetical path that I paint, but under American laws, as I understand it, were Blue Arrow to be an American contender for the Americas Cup, it would be possible for her to be registered as a United States Coastguard Auxiliary, thereby picking up substantial American Government construction costs or construction subsidies. Is there in fact not some halfway ground whereby the British Government might well look at every ship constructed either by or for a British owner as being eligible for strategic use by the British Government and thereby qualifying for some form of construction subsidy?

(Mr Sunderland) I think the construction subsidy referred to here relates to construction in US yards. I would be very surprised if the GCBS would want to see themselves tied in any way to construction in British yards. This is, I think, a very different subject from the one I was talking about just now, about maintaining a merchant marine, wherever constructed, for either economic purposes or defence purposes. If we are talking about maintaining a ship-building capacity in order to make sure that we can supply vessels ourselves in time of war, that, I think, really is a very different subject.

Mr Bevan

1379. If you want it to be under the British flag, Mr Sunderland, why is it that the British army is sent on its annual manoeuvres at the moment carried by a Danish fleet?

(Mr Sunderland) Well, I do not know whether one of my colleagues would like to answer that. This is a familiar question to us and Ministers have on more than one occasion already in the House given an answer to that, namely, that British vessels have not been available in large quantities at time of exercises. They have been fully occupied on commercial purposes and have not wanted to bid for the business. If war broke out, we would not give them the opportunity of carrying on their commercial business. We would simply requisition them, but for exercise purposes we do not think it is necessary to disrupt commercial operations and if the Danes can come up with vessels which are not fully employed for commercial purposes, that seems to us a not unreasonable way of utilising spare assets. Perhaps Mr Facer would like to add something to that.

(Mr Facer) Thank you. I think that the only additional point I would like to make is that, of course, the Ministry of Defence pays for any ships taken for exercise puposes and therefore we are anxious to get good value for money, both in meeting our requirements and meeting them at a reasonable price.

1380. I will take this up again in asking you three further questions based on your evidence to the Defence Committee in December 1984. The Minister of State at that time gave three prime reasons for the use of the merchant fleet in terms of defence. The first was for transatlantic reinforcement of Europe; second, reinforcement of Europe from the United Kingdom, first taking our own UK reinforcements and then US equipment stockpile; and finally for direct support of the Royal Navy, and I would, incidentally, ask how on earth our merchant shipping can be equipped to do that if you are never letting it rehearse in terms of the annual manoeuvres and the utilisation of foreign fleets to do that? But those three requirements were added to by David Mitchell, the Transport Minister, by a fourth requirement, what he called the economic shipping requirement for the civil supply of the UK and Europe in time of tension or war. Would you still sustain first of all the first three of those arguments which were made by the Defence Secretary and, secondly, the fourth argument. Do you think they should be added to in any strategic assessment?

(Mr Sunderland) Those four categories are indeed the four essential requirements that we are looking at all the time. I do not think there is a fifth one.

Mr Conway

1381. Can I come in on this specific point about the use of ships, the first bit of Mr Bevan's question about the use of foreign flagged ships to carry troops on exercises principally to Germany? The difference between the exercises Crusader and Lionheart, which have been our two major peacetime exercises of any major scale involving troops from this country, is that in Crusader there were more ships used, but by the time Lionheart took place, air transport was used considerably more, so I understand the evidence absolutely clearly. This was simply because of economic availability as opposed to the costs involved of shipping out larger quantities, particularly of infantry troops, by air rather than by boat, which has been the case formerly.

(Mr Facer) Yes, I think that is correct. Each exercise is slightly different, testing different procedures, and I think in both Crusader and Lionheart we did test the procedures for transportation by several means. The requirement, of course, is to transport reinforcements from the UK to the Continent and for that we do plan to use, in tension and war, ships from the British UK register.

1382. It may be difficult for our witnesses to answer this, Mr Chairman (and I am sure you or they will put me right if so), but as more than 50 per cent of the reinforcement for BAOR is obviously UK-based as a result of these two different types of logistic exercises — the second one favouring air transport and the first favouring sea — has that led to a Governmental decision on which preferred method

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[**Mr Conway** *Contd*]

of transport it is going to use? If I may, that will link on to the question I would like to ask about economic shipping.

(Mr Facer) Mr Chairman, the reinforcement plans from the UK to both the central region and the flanks of NATO use a combination of air transport and sea transport. Inevitably our plans will involve considerable use of sea transport. There is a great deal of freight which has to be moved in support of the Forces and most of that will go by sea.

1383 Finally, Mr Chairman — then I will give way. The fact that we were not using our own ships the second time round — principally because they were not available and, therefore, a Danish line was used — is obviously an economic indication. If the requisition of ships takes place (and I am not sure if it does or not and you can tell me otherwise) following the signing of Queen's Order 2, the United Kingdom or its allies would not be at a state of war at that stage, just at a state of increased hostility, if you like. The Defence Committe did not make a detailed examination of this but it did point out that as the size of the merchant fleet declines the proportion of the fleet taken up for defence purposes will rise at a faster rate and that this may have a serious effect on the amount of economic shipping available. Subsequently, the statement on the defence estimates for 1986 commented that because the United Kingdom merchant fleet is of great importance for defence needs the scale of its decline has caused some concern. Obviously as the merchant fleet declines in economic terms if it is requisitioned at the Queen's Order 2 stage what economic effect is that going to have on our nation in between the period when hostility is increasing but the country is not actually at a state of legal conflict, if you like?

(Mr Sunderland) I do not think there is any doubt that there would be an impact on the normal liner services in particular into this country, if transatlantic reinforcements were to take place, because we are committed to contributing all suitable vessels for that extremely important operation. So there would, of course, be disruption of liner services. But then when you look at what comes in on our liner services, they are, to a fairly high degree, inessential goods. Our essential goods come in, one could argue, on bulk transporters, which would not be used for transatlantic reinforcement.

Mr Callaghan

1384. Perhaps I could reinforce what Mr Conway was saying. As I understood it last week the Chairman of the witnesses who spoke to us seemed to think that there had been an arrest in the decline of the merchant fleet. He thought that we had a number of about 750 which he thought was just about right and was particularly in line with the fact that some of the ships were to be refitted with new engines and there may even have been a possibility of some new ships being ordered. Yet here — and I think Mr Conway mentioned it — the statement on the defence estimates of 1986 commented "because the United Kingdom's merchant fleet is of great importance to defence needs, the scale of its decline has caused some concern". Yet I rather gathered from the Chairman last week that he was not as concerned as that statement says. What is the situation today? How worried are you about the adequacy of the UK-owned fleet for defence purposes?

(Mr Sunderland) I think that to begin with one has to be clear about which particular fleet one is talking about. I am not so sure that I immediately recognise the figure of 750. The number of vessels registered in the United Kingdom of over 500 gross registered tonnes, which is the cut-off limit that we normally talk about — reasonably-sized vessels — is something now around 410 but, as I am sure the Committee will be well aware, for defence purposes we do not confine ourselves to the United Kingdom register. Vessels registered in the Crown Dependencies and the Isle of Man are every bit as good as UK registered vessels for defence purposes. Indeed so are many vessels registered in the dependent territories. There are altogether something over 1,000 vessels registered under the British flag. In addition to that there are more vessels which are owned here but registered in foreign countries and we have arrangements — or are making arrangements — with those countries to be able to get those vessels back in time of war. So that the potential fleet is certainly into four figures.

1385. What you are saying then is that the figures we were given last week do not tell the whole story and, from the figures that you have just given us, there is no cause for alarm?

(Mr Sunderland) I would not say that, because I was going on to say that one has to look at the manning of these vessels. Vessels registered in the UK and the Isle of Man, as I say, are no problem. Many of the vessels registered in dependent territories, equally, because of our nationality requirements, will have British officers on board. Not all of them will do so. * * * With vessels registered in foreign countries, such as Liberia and Panama, although we may have arrangements with the country to get them back in time of need we cannot guarantee that they will have the right sort of crews on board to ensure they will be delivered promptly when we need them. That is why we are taking some steps to try and establish a reserve of officers who could be used to man those vessels. So it is not entirely a clear-cut picture: it is one about which we do have some anxiety but that anxiety mainly arises about particular types of vessel, not about the overall tonnage level at the moment.

Mr Bevan

1386. Could we still stick to that overall tonnage level? I recognise the difficulties you mentioned in manning and retrieval but, nevertheless, there are indications, I would submit to you, that there is substantial trouble, and there is also, I would say, some disagreement about the amount of ships available and the tonnage available. If one looks at the 1984 figures from the Department of Transport you have got ships totalling well over 800 — something like 850 ships. If one takes the evidence which was given in May 1984, you gave evidence,

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[**Mr Bevan** *Contd*]
indeed, then that the fleet availability was over 800 ships. The General Council of British Shipping forecast a fall to about half that number. This is the exact comment. "I must tell you" (said the Chairman of the Committee) "I find the figures very alarming". The Minister of State for the Armed Forces replied: "If you suggested that the total size of the merchant marine would go down by half from the present situation there is no doubt there would be considerable difficulties particularly in relation to certain specialised vessels." As the UK mainland register has now fallen to 314 vessels and the wider UK-owned trading fleet to 666 vessels by September 1987 (that is in our evidence from the Department) are there now not considerable difficulties? For instance, the 666 vessels figure includes 162 ships non-directly owned but with a UK parent — exactly those you would not be able to retrieve in all probability in such a situation. Does this not, therefore, now cause you to say, quite the reverse from the last questioner's question, that there is considerable danger at the moment in the number of vessels alone?

(*Mr Sunderland*) Could I, first, take up the point of the availability of only — I think it was — 311 vessels. That, I take it, is the figure for vessels on the UK register and owned directly by UK — —

1387. 314.

(*Mr Sunderland*) I do not think there is any question that that is to be regarded in any sense as our core fleet. Our resources go much more widely than that.

1388. In what way?

(*Mr Sunderland*) Well, we have the Isle of Man register for a start. Then we have the Bermuda register and the Gibraltar register.

1389. It is a long way from Bermuda.

(*Mr Sunderland*) But, I should point out, all these vessels are trading worldwide.

1390. Exactly.

(*Mr Sunderland*) Many United Kingdom registered vessels never touch these shores, but they are a resource.

1391. You are totally confident, then, that you have absolute control over the three registers you have mentioned in the three dependencies you have mentioned and are able to recall ships through those registers at will when geographically available?

(*Mr Sunderland*) We have certainly as much ability to recall vessels on the Bermuda register as we do on the UK register.

1392. And the Isle of Man?

(*Mr Sunderland*) And the Isle of Man, certainly.

1393. Which is the third one?

(*Mr Sunderland*) I mentioned also Gibraltar, but then there are the Cayman Islands. The Cayman Islands, because of their rather peculiar requirements, do have a certain number of vessels sailing without UK officers, and those we cannot be as certain of getting back.

Chairman: A number of Members are desperate to come in on this point.

Mr Trotter

1394. It seems to me we have to look at this more from a NATO point of view than just ourselves, and similar reductions are going on in the other western navies. I do not know whether figures have been published here but in the States there has been mention of a need for 600 merchant ships available immediately for military use and a further 1,200 back-up to that to keep Europe supplied afterwards. What planning is there to look at the overall NATO scene, not just the merchant navy in Britain? The Americans are taking advantage of the cheap cost of second-hand ships at the moment to buy up modern vessels and lay them up for an emergency or a war; have we thought of doing that?

(Mr Sunderland) I would have to ask Mr Henes to explain just what is going on in NATO, where, you are quite right, this is now increasingly a matter of Alliance concern, and we do not regard it as just a national matter, because transatlantic reinforcement in particular is a NATO affair, and we all have to share that burden.

(Mr Henes) For a long time it has been NATO's plan to pool its merchant shipping in war, and therefore the balance of supply and demand for merchant shipping in a later war has to be looked at in NATO terms. NATO is about to undertake for the first time a full study of the balance of supply and demand for merchant shipping in war. That is the first point. The second point is a rather narrower one, and relates to the particular requirement for moving US reinforcements to Europe in a time of tension. That is a separate and very important exercise, and one on which the United States has taken the lead. They define the requirement; they can say the extent to which they meet that requirement from their own merchant resources, and therefore the extent to which they rely on the merchant navies of other members of the Alliance to complete that requirement, and they are in the lead on that and that is under review as well.

1395. Presumably not only the total demand but also the supply figures are being looked at.

(Mr Henes) In the second one, both of those are being looked at. The United States are reviewing their requirement and they are also reviewing the total supply position from the United States merchant navy and from the merchant fleets of the other members of the Alliance.

1396. What are the time scales likely to be?

(Mr Henes) The first one will have a long time scale. Some results may perhaps become available this year, but I think substantial and full results not until next year or 1990. As far as the US position is concerned, I should emphasize it is not the first time they have looked at it; this is a rolling plan; they have a review in hand. I would expect that to become available at least in terms of the analysis of requirements much sooner, within a few months. The implications for the supply of that and how the

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[**Mr Trotter** *Contd*]
decline of ours and other NATO fleets, a point which has already been alluded to, matches up with the statement of requirement, will be looked at during the course of this year.

1397. What about the purchase by Britain perhaps of cheap, good, second-hand ships to lay up for an emergency in the way the Americans are doing?
(Mr Henes) All I want to say on that, sir, is that it is a possibility.

1398. Who could find the money for that; which of the two ends of the table? Is that one of the problems?
(Mr Sunderland) I do not think it is the problem at the moment. The issue of whether or not to buy ships for moth-balling has been looked at in NATO during the last few months. We could not find much enthusiasm amongst the European members, I think partly because of the problems of manning such a fleet and getting it mobile quickly. The Americans themselves do experience considerable difficulty in getting these ships on water, up and running, at short notice. Also, as a matter of fact, second-hand prices are rocketing at the moment, and if we chose to do it perhaps it might be seen that we had "missed the boat". I do not want to mislead you into thinking it is something that Ministers are thinking about very actively at the moment. We do not see the situation as being that desperate.

Mr Bidwell

1399. This Committee went to the Isle of Man, and that will figure in our ultimate conclusions. Perhaps this question is really directable to Mr Facer, because I wondered if the Defence Ministry has in any way encouraged the ships — not to register in Hong Kong but to register in the Isle of Man. It seems to me on what Mr Sunderland said it has a better geographical situation and it would be better that you should have ships registered in the Isle of Man, as well as giving it a shot in the arm economically, as far as I can tell. Would that have figured in any discussions you may or may not have had? Have you had a hand in that or has it just "growed like Topsy"?
(Mr Facer) No, Mr Bidwell, we have not. Perhaps I ought to explain the direct support of our defence requirements, which fall into two categories: the support of the Royal Navy and the reinforcement and re-supply of mainland Europe from the UK. We *** and therefore the question of measures to encourage ship owners to register in one place rather than another for us has not arisen.
(Mr Sunderland) Chairman, could I add a point in reply to Mr Bidwell? I think it may be of help. As I am sure the Committee knows, the Merchant Shipping Bill which is going through Parliament now does contain provision for the Department to assist owners with the cost of transporting their crews to and from their vessels in the deep seas, because this is one of the big expenses that they face in keeping British crews on board, and that assistance will be available only to owners of vessels registered in the United Kingdom and the Crown Dependencies — effectively the Isle of Man. So that is one small measure of preference, if you like, which we are offering to the domestic registers.

1400. It could be regarded as an encouragement.
(Mr Sunderland) An encouragement, yes.

Mr Callaghan

1401. Following on from the remarks that you were making about the number of vessels thoughout the world that are available to the UK in times of emergency, it would appear from what you said that our problem is getting the right types of crews aboard them in the time of emergency, the right type of officers to enable us to control more ships, yet I believe the number of UK seafarers decreased between 1973 and September 1987 by some 70 per cent, and the most worrying aspect is the virtual disappearance of cadets and trainees; cadet numbers have fallen by some 93 per cent since 1975 to a total of less than 500. With these figures, have we got the manpower in such an emergency in the nature of war to be able to send the necessary trained officers and seamen to man those ships?
(Mr Sunderland) Mr Callaghan, Chairman, we are getting concerned about the lack of young people coming forward to be trained as officers. We think that we have the numbers now but will we have the numbers in a few years' time, when existing officers have retired and there are not the replacements coming through? This last year 180 entered cadet training. We do not think that is enough.

1402. That is both deck and engine?
(Mr Sunderland) Both deck and engine, about 189. We want to increase that. That is why Ministers have proposed in the Merchant Shipping Bill that they should be empowered to give assistance to training. We would like to substantially increase the numbers this year of people coming forward for training. I think this is partly a question of giving financial assistance to companies to encourage them to take people on and it is partly, also, a question of altering the climate and the view of the prospects for a career in the merchant services. We are hopeful that with these, admittedly modest, measures of assistance in merchant shipping we can begin to create a rather better mood amongst teachers, parents and careers officers and encourage people to look rather more carefully at a career in the merchant service.

Mr Mudd

1403. I wonder if I might ask, in effect, two questions, one military and one civilian, in the same breath? While it is understandable my colleagues look at the problems of the logistics that one assumes that a certain ship that is not under British flag will still be available to the Western powers, irrespective of where it may be when the balloon went up, and the argument might well be it happens to be many moons away on the wrong side of the globe, I wonder if any assessment exists (and I am not asking for figures just an acceptance or rejection) of the number of Estonian, Yugoslavian, Polish and Finnish vessels that might well be in Western waters that would add to the resources of the West in the

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[Mr Mudd *Contd*]

event of hostilities? Moving now to the Ministry of Defence level, it is true that the Ministry of Defence has the back-up resources that it currently needs. If one looks at vessels like OAKLEAF and bigger class it seems that more and more eggs are being put in bigger and better baskets with a bigger capacity and bigger range and, ultimately, a bigger loss in the event of them going down. So could we have a word or two on the Royal Fleet Auxillary's role as a back-up unit in the event of hostilities breaking out simultaneously.

(Mr Facer) On your first question, sir, about assessment of Soviet bloc shipping, we have made an assessment of this. Clearly it does depend very much on the circumstances in a period of tension and it is very hard to judge what those will be. Therefore our conclusion is that ***

On your second question about eggs in baskets, clearly a large ship that is sunk in war — as we saw with *Atlantic Conveyor* — represents a significant loss to defence capability. In any wartime situation merchant ships clearly will be vulnerable to attrition but they will, of course, be protected by the Fleet. They will be part of the Royal Navy's groups which contain both warships and merchant ships and are protected by the Royal Navy anti-submarine and anti-air defences. We believe that those defences are good and we shall do our best, if the time comes, to protect these valuable assets that we have in support of the Royal Navy.

Mrs Dunwoody

1404. I would like to bring you back to requisitioning. It seems to me we were rather skipping lightly over some aspects of this. To start off with, your assumption seems to be that you can simply go through the various dependencies, add up the numbers of ships and say they ought to be available for requisitioning. Firstly, can I ask you, since most of this fleet is getting older all the time, since there is very little investment in new ships, are you at all sanguine about the actual capability of vessels to carry out the job that you envisage? If we do not build new ships and ships are getting consistently older, how can you even be sure that the ones you can lay your hands on will not fall apart? Secondly, may I ask you to come back to this old question of manning. If we do not have sufficient British crews available — and I think there are considerable doubts as to whether you will have a number of officers available — it is quite obvious a lot of these ships will be crewed up by any other nationality who happens to come to hand, many of whom seem to be Eastern nations of one sort or another even mainland Chinese. Can you tell me how you envisage dealing with the problem? NUMAST has given evidence on this. They said: "It would be naive and complacent to assert that UK tonnage would always be available to the UK in time of need. The whole flag of convenience system is designed to dodge legal, safety, strategic and moral responsiblities. Therefore it is very unwise to imagine the defence needs of the nation can depend on such a system". Surely the things are inter-linked. How will you deal with that — old ships, foreign crews, not enough officers? You are quite sanguine we would be in no real difficulty?

(Mr Sunderland) Could I deal with those points one at a time, please, Mrs Dunwoody? First of all the age of the vessels. The British registered fleet is just about of average age, taking the world fleet as a whole. It is not exceptionally old. I know the owners talk about "the ageing British fleet" and it is true there has not been much new investment recently, and that is a matter of concern to us. But one has got to get this in perspective: relative to the Greek fleet or the Cyprus fleet, for instance, it is a relatively modern one. I do not think British owners are noted for operating rust buckets, in any way.

Chairman

1405. The average age is 10½ years.

(Mr Sunderland) That is about average for the world as a whole, yes. So far as crews are concerned it is indeed the case that some vessels operated under the British flag, mainly dependent territories, are manned by crews whom we would probably find unsuitable in time of war. Some Poles, some Yugoslavs and communist Chinese. We do not, I admit, have accurate information at this moment on the numbers of such crews; they come and go and it is very difficult to keep track of them, but the shipowners are beginning to help us in this because they can see the need for better information. I think, to answer your question, we have never assumed every vessel on the dependent territory registers would be available to us; we have always maintained that a substantial proportion of them would be available and that is what we are banking on. To the extent that it was necessary, because a particular vessel was ready to hand and needed, we might ask the owner to change the crew. Neutral crews would usually be obtainable at very short notice in most ports in the world. So far as safety is concerned, I am aware of the claims that NUMAST have made about the standards on the flag of convenience registers and it is certainly the case that many vessels operated on the so-called open registers or flags of convenience are, indeed, operated less safely than those on the British registers, but those which are owned by British owners have a very good reputation; they are not on these registers in order to evade safety relgulations. If you take, just as one example, BP, who put a substantial number of its vessels out a couple of years ago to the Bahamas, Gibraltar, I think, and Bermuda. We have no evidence at all that this involved any lowering of safety standards. Just as reinforcement here, I would draw the Committee's attention to the provisions of the Merchant Shipping Bill — further provisions on registration — which tighten the control which we will have over the safety standards of the dependent territory registers.

1406. Do you know if BP kept the same crews or if when they changed the flag the nationality of the crews was changed?

(Mr. Sunderland) There was some change of crews, but in general they were prepared to re-employ those crews who left their employment when they came off the British register. I could not tell the Committee just what proportion were re-employed.

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[Mr Trotter *Contd*]

Mr Trotter

1407. I was hearing the other day from an owner of a tanker that had been flagged into a dependent territory and the crew would not sail up the Gulf. Fortunately they managed to do a deal with the oil company concerned that they did not send that ship to the Gulf. That is alarming. Would you not say there was a problem with that in a wider crisis?

(Mr. Sunderland) What we have heard on the whole from the owners is that most of the crews have been prepared to sail into the Gulf, and the few seafarers that have left the vessels have tended to be Europeans; the third-world mariners have been readier to enter the Gulf than have our own. I am not sure what lessons we should draw from that.

Mr Mudd

1408. I must admit I am intrigued, having seen the CV of the members of the team, to find the presence of Captain Telfer, who is described as Deputy Director, Naval Operations and Trade, and on this particular point, where one is finding the flagging-in to the Red Ensign of ships designed to be at risk, particularly in the Persian Gulf and in certain areas, the effect of which is suddenly the Red Ensign is becoming an attraction to certain nations, but at the same time an embarrassment to costings of the Ministry of Defence to have to provide an umbrella that might not normally be regarded as a legitimate umbrella for it to have to carry.

(Captain Telfer) The situation in the Gulf presently is unaffected by the increase in number of ships re-flagging in any shape or form. The present concept of the Armilla Patrol of having one duty ship, one at immediate stand-by and one set down for maintenance is perfectly adequate for the job that they have to do today. Therefore, there is no additional cost involved. Armilla is there whether there were one ship or five, or whatever the number is for any one transit through the Straits of Hormuz. As you are aware, we are not accompanying ships all the way to their port of destination; it is only through the Silkworm danger zone and the Boghammer and the Iranian patrol craft warship area and that is where we are providing that protection regardless, at the present anyway, of the number being re-flagged, and it is not affecting our *modus operandi* or, indeed, the cost.

1409. Might I ask then at what percentage of the capacity you have now reached would an increase in cost become inevitable?

(Captain Telfer) An increase in cost is difficult to quantify.

1410. May I ask the point at which an increase in cost would become necessary?

(Captain Telfer) We look at the options; first of all, if the numbers increased to a point where they were greater than five merchant ships for any one transit in or out of the Gulf, it might become necessary to employ two ships instead of one at any one time, but those ships are there, so it is just a question of changing the concept. We may in further saturation consider not allowing the third ship to go quite so far away for its maintenance period. So they are all immediate options open to us, again without affecting the cost.

Mr Mudd: Thank you.

Mr Dicks

1411. Last year the Secretary of State for Defence, commenting on the role of the merchant shipping in future emergencies, said, "If the decline goes on at the rate it has been there may not be enough . . . British merchant navy officers in a few years time". Do you agree with that, bearing in mind some of the comments of Mr Bevan earlier about logistics if you were faced with a Falklands type situation in 1990 and given the rate of decline of British merchant shipping? How would you and could you cope in the same way that you did in 1982?

(Mr Sunderland) Before I ask Mr Facer to deal with the specific point about the Falklands, could I say that we do not necessarily accept that the rate of decline of tonnage which we have seen during the last few years is going to continue? Indeed, if you look at the last six months or so, the British Islands Register (by that I mean the United Kingom and the Isle of Man) has been pretty well static. The long decline appears to have been arrested. How long it will continue is very difficult to forecast, because it depends on assumptions about the state of the market. Shipowners will sell a ship if they think the market is not going to turn up and they will buy a ship if they think there is going to be a market. It is extraordinary difficult to forecast a decline.

1412. I think we are talking about the decline in the merchant navy officers. You can keep the ships going, but if you have foreign officers and crew, they would not be ready to be used in an emergency like the Falklands for obvious reasons.

(Mr Sunderland) As I have said, we are doing something about the growing shortage of young officers, but we do accept there is a problem there, but I think, quite apart from assistance to training, if the industry because of an improvement in markets is persuaded to start re-investing in shipping, then obviously they will start increasing the training and we shall have more officers on our ships, but I think Mr Facer would like to say something about the prospect of repeating the Falklands operation.

(Mr Facer) I was going to say something first of all about the seafarers point, officers, which Mr Dicks mentioned, because the Ministry of Defence does need to be assured that there will be enough trained officers available, and for that reason we are funding the Merchant Navy Reserve, which is being or will be established if Parliament passes the Merchant Shipping Bill, so we do have a direct interest, and indeed are contributing. On your second point, about a repeat of the Falklands operation, I think I must say to start with that the question as it relates to the Falklands is now an academic one.

1413. I just used that as an example.

(Mr Facer) We have a garrison there; we have a major new airfield, and therefore the question of doing an operation like Operation Corporate to defend the Falklands is no longer necessary. We

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[Mr Dicks *Contd*]

would do a different operation with air reinforcement.***

1414. I meant a similar situation.

(Mr Facer) Again, of course, we have to look at what might be likely. If one looks around the world, if you had to choose somewhere in 1982 that was the furthest away from the United Kingdom and from any United Kingdom base and had no airfield and no capacity for air reinforcement and was still a dependent territory, which faced a threat, you light really only on the South Atlantic. I know there are one or two very small dependent territories in the Pacific which are very remote, but they do not face the same — in fact, they do not face any threat at all, so it is actually very difficult to envisage that we would need to mount anything like the operation of 1982. However, if we had to, then we still have enough ships to support an operation of that kind or any that is at all possible. One cannot plan for the completely, totally unlikely scenario, but for any sort of British operation out of the NATO area which we think is in the realms of possibility, the answer is yes, we do still have enough merchant shipping to support the Royal Navy in that.

1415. And English or British Officers?

(Mr Facer) Yes.

Mr Trotter

1416. And tankers to act as emergency RFAs?

(Mr Facer) The tanker situation is something we are watching very carefully, although numbers at present would be enough. Again, the requirement will vary according to circumstances, but I would not wish to be complacent about the tanker situation; it is something we would wish to monitor very closely.

1417. Because the particular size I think we used most in the Falklands is one of those rapidly disappearing, is it not, 20,000 tons?

(Mr Facer) That is certainly the case.

(Mr Sunderland) Yes, Chairman, Mr Trotter is, of course, right and this is a problem which NATO as a whole is facing. This particular type of vessel is becoming in increasingly short supply throughout the Alliance, but we are watching it very carefully. The situation at present is satisfactory although it does involve reliance on vessels which Shell, for instance, have put on the Isle of Man and Bermuda registers, but they do have British crews on board. Therefore, for the time being, we can rely on them.

Mrs Dunwoody

1418. You will forgive my saying so but there seems to be an awful lot of watching going on. We are watching carefully the fact that we do not seem to have any investment in new vessels and we are watching fairly closely the fact that we will not have enough officers. Can I ask you, firstly, if you could give us some details of how your Merchant Navy Reserve is going to be organised, because a £200 incentive does not seem to me to be, in this day and age, exactly the world's greatest encouragement. I can remember my grandmother was always on about the King's Shilling which she would not allow him to accept, and I reckon on that basis £200 is not much of an incentive. I would like to know how you are going to organise it and on what basis. Secondly — if we do not have enough reserve officers — NUMAST have again said that half its current membership now sails on foreign-flag registered vessels and would not therefore be available for defence purposes. What are you going to do under those circumstances? Thirdly I would like to ask you another question which is unrelated to that but it is very much related to the situation in the Gulf. I am delighted to know that the Navy uses the old working-class formula of "one on, one off and one in the wash", but could I ask you whether there has been any change in your engagement orders? Do you now automatically do some kind of escort duty on vessels other than those which are a full British responsibility? What would be the true cost, if in fact you found yourselves in a situation with increased work, of actually defending vessels which are only very nominally connected with the British taxpayer?

(Mr Sunderland) Could I try to deal with Mrs Dunwoody's first two points? So far as the Merchant Navy Reserve is concerned, I hope that Ministers, in the course of the debates on the Merchant Shipping Bill, will be able to say a little more about this, but from what they have said so far I think the picture is clear that they want to start with a pretty simple reserve and see how it goes. We accept that it is difficult to predict the numbers who will be attracted by a modest bounty of that kind and a minimal obligation. I have heard it suggested it would be more attractive if there was, in fact, a requirement to spend two or three weeks in training — that that would actually give the Reserve some real appeal, and I can see that argument. For the moment the plan is simply to maintain a register of qualified seafarers who have been at sea within the recent past, say up to five years, who are in good health, and it will be necessary to have periodic up-dates of that information. If the response to this is inadequate then we shall have to think again about whether we improve the incentives for people to join. But Ministers have decided that, they would prefer to approach this, as it were, by small steps. NUMAST have pointed out that a large number of their members are employed on foreign vessels and would not be available for defence purposes. We are not counting on those people. We know that they are so employed and we are not, for the moment, planning to enlist them in the Reserve. They are, however, a resource which would be, I suggest, partially available in time of war, simply out of patriotism, but I must stress that our calculations about the availability of vessels with British officers on board in no way attempt to take into account that particular body of officers.

(Captain Telfer) Can I take the final question? First of all, with respect to the rules of engagement, we have not changed the rules of engagement of Armilla in any way to allow them to interdict with ships that are not entitled to our protection. I think the best way to answer the question is to take you through the process, briefly. First of all, the ships are made known through the General Council to the Department of Transport who validate their entitle-

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[**Mrs Dunwoody** *Contd*]
ment. A list is then compiled which is sent to us in Naval Operations which is then transferred to the ships out there via the Operations Commander in Northwood, so the Commander of the Force knows exactly which ships are entitled. There is another category of ships which are those which we know to contain British seafarers, and to those we would expect the officer in charge at the time of the operation to be able to respond, through humanitarian reasons, to any call for assistance if that ship was to be struck. That is the process, that is the position that we are in and we are currently not able to allow those ships to interdict in non-entitled shipping. It is a very clear picture. We have absolutely no problems with that.

1419. How would you know whether there were Britons on board? Would they identify themselves?
(Captain Telfer) It is up to the companies to make it known. We cannot guess, obviously. Therefore it is up to the companies to make it known to the General Council or to the Department of Transport directly.

1420. That is a slightly grey area, is it?
(Captain Telfer) Yes

Mr Bevan

1421. Maybe I can be allowed to move a little further forward. I think that it has been argued that although, for instance, the Isle of Man register (to get back to this particular point of retrieval and manning) means that the UK crews will be retained (this has been argued on several occasions), however, there is absolutely nothing I suggest, in the Isle of Man manning regulations on the employment of ratings and officers being British, and that they can come from a variety of places. Included in there are Hong Kong, Malaysia, South Africa and Pakistan, and I suspect that to be the situation as well with the Bermuda registers. From Lloyds List on 24th October last year we find that at least two ships were fully manned with non-UK seafarers. If you are watching the situation, as you said — and I am not suggesting you are watching it like Nelson did with his telescope to his blind eye — it might well be that the little steps that the Ministers have ordered are not quite quick enough to catch up with the changing situation. For instance, Michael Sclar, giving evidence to the Sea Trade Conference in Geneva in mid-November 1986 said "The trend from traditional maritime nation registers has placed enormous pressure on the cost side of bulk shipping and, thus, has amplified the already severe rate of impact resulting from over-tonnaging." He added — and this is the important bit from this point of view — "that the manning cost of a Hong Kong or China registered bulk carrier was about 360,000 United States Dollars a year, less than half the cost of a British registered vessel." If I am right, then the self-same situation will obtain not only to Bermuda but possibly to Hong Kong and to others and the non-British manning will be going ahead. What is the implication?
(Mr Sunderland) Mr Bevan, the situation so far as nationality is concerned is precisely the same in the Isle of Man as it is in the United Kingdom. There is no requirement under the law for the ratings on a United Kingdom registered vessel to be of British nationality. The key officers must be of British or Commonwealth nationality and so they must be in the case of the Isle of Man register. There is no difference between the two. I am not sure which register the the two vessels were on which are reported to have had no British personnel on board.

1422. Isle of Man.
(Mr Sunderland) If that is the case, then they were in breach of the regulations.

1423. And Lloyds List of 24th October 1987 reported the case.
(Mr Sunderland) We would be happy to attempt to look into that case and let you have a note if we have anything on it, but just as regulations of all kinds are from time to time breached, I think it is true to say that the British shipowners are in fact normally extremely punctilious about observing the regulations, and indeed, if they are caught there are penalties.*

1424. We will pass the evidence on to you.
(Mr Sunderland) Thank you.

1425. Could I finally ask what the implications would be, as I did?
(Mr Sunderland) The implications of a substantial breach of the rules would be, so far as the dependent territories are concerned, that they would lose the status which we are proposing to give to them under the Merchant Shipping Bill; in other words, they would lose the power to register vessels. That, of course, would be a very serious matter and would not be taken without consultation with the dependent territory concerned, but at the moment we do have nationality requirements and to the best of our knowledge, these are observed.

Mr Bidwell

1426. In the case of training of future seamen and attracting young people to go to sea, would we be looking particularly at sea port areas and the local authorities who cater for those areas? That has a lot to do with the orientation or the slant of education itself. It is geographically located in history. I understand a lot of this reflects itself in the Liverpool area, and that there is in fact a local authority overseeing that situation, but would it result in more generous central government grants in future under the new look and the new concern? Would it happen that way? Of course, Liverpool can do with it at any time.
(Mr Sunderland) Again, I fear I have to ask the Committee to bear with us and wait for details of the scheme which are being worked out now and which will probably, I think, be announced before the Merchant Shipping Bill is through the Commons. We want to be able to strike while the iron is hot and launch this scheme immediately.

1427. So we could reasonably put questions to Ministers now along those lines?

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[**Mr Bidwell** *Contd*]

(Mr Sunderland) Certainly it is an interesting point that there is scope for concentrating recruiting in the traditional areas, where employment for the sea has fallen off of late. This is something which we shall want to be looking at along with such people as the Marine Society, who do a very valuable job in this area, as soon as we have got the Bill through Parliament and we are ready to disburse the funds, but I am sure we shall be ready to accept ideas from any quarter about how we can best encourage people to look more positively at the idea of a career at sea.

Mrs Dunwoody

1428. Do you accept the argument of the Council that in effect the fiscal changes had a direct deleterious effect on their investment in shipping, and if so, do you foresee this is going to be a continuing problem? You actually said it appeared there had been an arrest in the decline; that is the sort of phrase that Ministers always use when they really mean to say that it has all gone absolutely disastrously wrong but at the moment it seems to be slightly less bad than it was. Do you accept their evidence that the fiscal changes were the thing that contributed to the speed of the decline — not alone, but to the massive fall?

(Mr Sunderland) I think one has to be very careful before attributing the decline that we are so familiar with — that is, the overall tonnage decrease — to the fiscal changes of 1984. The vessels which left the British register as part of that process left because for the most part their operating costs were too high. They were not making any profits in the state of the shipping market, and I think it is inconceivable that in the case of the great majority of those vessels, which were to a large extent large tankers and large bulk carriers, that the owners concerned would have wanted to have replaced them even with generous investment allowances. They got rid of those vessels at a time when other people were not buying new vessels, except one or two with suicidal tendencies in the Far East. However, I did say earlier that we were concerned about the lack of new investment, and we can see that since 1984 investment has tailed away virtually to nothing. I think it is reasonable to suppose that in some sectors of the industry, where profits can still be made and the prospects for those profits are improving now, then had it not been for the fiscal changes of 1984 we might have been seeing more investment, yes. I wonder if Mr Smith would care to add anything?

(Mr Smith) No. I think that reinforces the point that the situation is very different between different parts of the fleet. It has been on the bulk side, the deep sea bulk side that we have had the most major changes. The effect of the fiscal change, we should recognise, is in fact to benefit rather than the reverse any potential investment that promises to be very profitable, so the danger in the future would tend to be on sectors of the fleet that really could not make much of a go at it, but therefore might be influenced had there been that sort of fiscal change. The pattern is very different as between different sectors.

Mr Trotter

1429. I think I saw the other day that somebody was re-flagging tankers from the Bahamas to Bermuda in order that they got the advantage of our escort in the Gulf. Either they had re-flagged them or announced that any future re-flaggings there were going to be would be to Bermuda rather than the Bahamas. That is off-set by the fact that the ships are going to be available to us in an emergency if they are flagged in Bermuda whereas they would not be so readily available in the Bahamas. It occurred to me, of course, that ships are so international that they could quickly get them out of Bermuda again before we could get our hands on them. Is this not one of our problems? If you wanted them in a crisis and they did not want you to have them, they would just go and register them back in the Bahamas.

(Mr Sunderland) There is truth in that, but equally, I suppose, you could say that if in a state of tension, if war were brewing, then the protection that might be available for those ships under the British flag might be of some interest to the owner as well. There are many considerations and I think it is very difficult to predict what would happen.

1430. I think you have said in evidence, and perhaps today, that you were looking into the question of the extent to which we can pursue British-owned — and I use that word loosely — ships that were registered outside Britain and the dependent territories. That has been a fairly obvious problem for some time. Are you getting any nearer solving it? Because presumably it is a question (a) of UK law and (b) whether other countries will co-operate.

(Mr Henes) You are right, it is partly a question of UK law and it is difficult to say anything about that at this stage. It would be for the Government of the day to decide whether to introduce any fiscal legislation. At present we have the prerogative which allows us to requisition British registered ships, but that could be extended by Statute.

1431. There is no Statutory law now?

(Mr Henes) There is no Statutory law now but there could be. That would only be half of it, there would then be the question of the legal arrangements in the State of registry. To be more particular, take a ship that is beneficially owned by a UK company. A subsidiary company of that company is a Liberian company who owns a ship registered in Liberia. I have spoken about UK law — what about Liberia? Liberia is one of the four states we are having dealings with to ensure that there would not be difficulties.

1432. Is Panama another one?

(Mr Henes) Panama is another one.

1433. On the crewing, I think you said, Mr Sunderland, that Shell tankers were retaining British crews when they were flagged out. Has that been done because they are patriotic or because it has been made worth their while?

(Mr Sunderland) I think it is largely because Shell find it is most satisfactory to continue to use highly trained and highly reliable British crews.

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[**Mr Bidwell** *Contd*]

1434. They are not big crews, are they? There are not a lot of people on the ship.

(Mr Sunderland) They are reasonably large, but in proportion to the overall costs of the operation Shell certainly find it worthwhile to pay a little bit over the odds and get a reliable operation.

Mr Trotter

1435. BP, by contrast, are not having wholly British crews, are they?

(Mr Sunderland) Indeed. I should be careful here before I appear to generalise about Shell. It depends on the vessel; the more sophisticated the vessel is the more important any oil company will regard the reliability of the crew.

Chairman

1436. Could I come. Mr Sunderland, to the short-sea sector and say that the 1987 statement on the Defence Estimates shows only four large stern trawlers available for minesweeping. The need, therefore, must be met largely by offshore support vessels which could also perform other defence tasks. The representatives of this sector of the industry, BOSVA, in evidence to our Committee said "The situation of the British OSV is now desperate". They attributed this situation to unfair competition from Norway, Germany and American owners in the North Sea sector. They then went on to argue "If shipping is to be considered as a strategic industry (and given the UK's geographical position and the extent of our offshore resources it can hardly be otherwise), then it needs Government protection." Is this an argument to which the Government should respond favourably?

(Mr Sunderland) I will take issue with the statement of BOSVA that the situation is desperate. Perhaps, to be fair to them, if they were to be giving evidence today they would not use that word. Their position in the UK North Sea Sector has been strengthened enormously over the last two years in terms of the proportion of the business which they get. Furthermore, rates over the last 6 to 9 months have hardened appreciably. There is now only a very small handful of vessels laid up and although they could still do with better rates the situation does appear to be improving all the time. So I think that the overall prospects for this particular sector are certainly a good deal brighter than they were, perhaps, when BOSVA gave evidence.

1437. I think it is twelve months — February — when they gave evidence to the Committee. You are saying that "desperate" is no longer true, although you did refer to two years. The position has improved somewhat?

(Mr Sunderland) Yes, I think the Committee should be told that the reason why the situation has improved is not only because business has picked up and rates have picked up but also because the Offshore Supplies Office, under its full and fair opportunity policy has been ensuring that British registered vessels get a fair crack of the whip in the UK sector. The result, as I say, is that they now have a very substantial share of the business. I do not have today's figures in front of me but I suppose it is now in the region of 70 per cent of the business.

1438. As shipping is a highly-mobile form of capital whose ownership can change quickly or even be concealed (as various pollution prosecutions have illustrated only too well) does not the move from home-flag to other flags create unique difficulties for requisitioning?

(Mr Henes) The moves to Dependent Territories are not changes of flag. I do not think it poses terrible problems. One should still be able, when dealing with the owner company, to requisition ships in much the same way as though they were on the UK register. As far as ships that are flagged-out — on Liberian or Panamanian registers — it is the point I was covering in my earlier answer to Mr Trotter; we do have to get the legal position clear, and we have made considerable progress on that. I think if we are clear there then there should not be problems of procedure.

1439. But there could be? You are not absolutely certain there will not be.

(Mr Henes) We have never requisitioned such a ship and, indeed, we are going to be discussing with UK beneficial owners of ships on foreign registers the position of their ships if we wanted to requisition them in a crisis. I think when we have had those discussions then we will be clear about whether there are problems and in a stronger position, I suspect, to say there would not be problems, but we have not had the discussions yet because we want to get the position with the foreign registry sector we are dealing with absolutely clear. Although we have made good progress on that we have not yet finalised the agreements.

Mrs Dunwoody

1440. Could you conceive of the situation where you found yourself without sufficient tonnage in, say five or ten years' time, where in the interests of national security you would feel that it was essential to begin to encourage the building and the creation of a newer and more efficient merchant fleet? Or are you prepared to interpret the balance of national interest against the balance of an open market, a line of division between the security and commercial shipping interest? Is that the same for all the sectors, or are you quite convinced that you do have sufficient strategic planning ability to be able to say "under our existing system we think that we can cope with the problems that could arise"?

(Mr Sunderland) I think the answer to that is — if I may say so — it is a good question for Ministers. If I can give a prelude to what Ministers might say in reply, we have gone on record very clearly as identifying the strategic role of the merchant fleet as being one of overriding importance, and that we cannot allow the fleet in its various component parts to contract to a point where we cannot meet certain essential requirements. You asked whether the system is adequate to ensure that, for the foreseeable future, we will have these vessels. I suppose it depends what you mean by "the system". I am

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[**Mrs Dunwoody** *Contd*]
confident that we now have the mechanisms for rapidly identifying shortages and imminent shortages, and there are a variety of ways in which we could deal with these shortages should they arise. I do not think the system (if, by that, one means the systems in the Bill and the general fiscal environment and the general situation in which British shipping finds itself) — I do not think it is necessarily true to say that the system will take care of the future of the British fleet. I think it also requires the Government to monitor carefully what is happening in each individual sector and be prepared to take specific action, should the need arise.

Chairman

1441. Could I ask two questions about our NATO partners? The first is that fears have been expressed about the massive reduction and lack of investment in some of the merchant fleets. Norway's for example, has declined considerably, where the average age of the vessels of the US Reserve Merchant Fleet is 22 but in reality the ages range from 14 to 48, and at 48 I doubt how useful some of these vessels would be. Do you share these fears? The second question is related to the previous question which I asked in relation to manning, because the Norwegian Government did set up a ship working party, which reported that the biggest problem identified by the working party considering the defence aspect was Norway's long-term ability to secure effective and loyal manning of flagged-out vessels being requisitioned. Is this a problem, not only for Norway but for all NATO flagged-out tonnage? We have already dealt with the UK situation; how about our other NATO partners?

(Mr Sunderland) Yes, Chairman, it is a problem that has been identified by NATO as a whole, somewhat belatedly, I think. We in the United Kingdom and our friends in the United States have recognised it for some time and I think it is really only during the last eighteen months or so that the other members of NATO have come to realise that there is a problem facing us all here. So far as the particular situation in Norway is concerned, they have, of course, just created a second register, the Norwegian International Registers, which, if you like, takes the place of our Dependent Territory Registers, but they have gone further than we have been prepared to go setting up a register that has no nationality requirements attached to it at all except that the Master of the vessel should be a Norwegian, and even there the Government has said that they are prepared to waive that requirement or to look sympathetically at requests for waivers. I think the reason why the Norwegians have had to go down this particular road is that, placed where they are, they have very little trade of their own. They are a high cost country and they do not really see very much of a future for their own shipping other than by utilising to the maximum the opportunities of third world crews. As you say, the working party has identified that vessels on this register, referred to as "flagged-out" but I think it very probably meant those on the International Norwegian Register, may not necessarily be quite so easy to get hold of, and they are now turning their attention to that problem and seeing what they can do about it. We welcome the way in which the Norwegians have recognised their responsibilities. Other countries in NATO, as I say, are beginning to worry about the availability of vessels for defence purposes, and I think that is all to the good.

Mr Dicks

1442. I have a couple of questions. In a sense they are inter-linked. The GCBS has suggested a Merchant Navy Strategic Reserve Contract, entered into in respect of each UK-owned ship kept on a UK or designated register. It would have to be set at an average of about £150,000 per annum per ship for full UK crews. How do you see that? How do you compare it with the alternative proposed by the GCBS, which is crew-related allowance payable in respect of each British seafarer employed by UK owners, irrespective of flag? Can you compare or contrast them?

(Mr Sunderland) The GCBS have come forward with a whole menu of options, as they have put it, for ways in which the Government could assist the merchant fleet, either with investment or with crew cost or both, and we are looking at these proposals with the GCBS now. I have to say that, although we do not dispute the general orders of magnitude of the figures, certainly the differentials in crew costs are well-known. The figures are, nevertheless, rather alarming if Ministers were to begin thinking in terms of supporting the merchant fleet in this way, and so far, as the Merchant Shipping Bill makes clear, they have chosen to target their assistance very much more sharply and many would say more modestly, of course, towards training, crew relief and the Merchant Navy Reserve. Whether any other ideas which the GCBS have put forward will in the end prove acceptable to Ministers or be seen to be necessary, I think only time will tell.

1443. Is the question really that you cannot have it both ways? Either you pay to have a Strategic Reserve and a merchant fleet, which is going to cost the Government money; or you do not pay and you have to pick up whatever you can when you can depending on the availability of British merchant fleet officers and the nature and nationality of crews involved? The Government cannot have it both ways, can it, really?

(Mr Sunderland) Chairman, that may prove to be right in the event, but I think there is a step in the logic which we have over looked here. Is it really going to be necessary for the Government to meet the full cost of the difference between a third world crew and a British crew? I do not see that is necessarily the case. As I mentioned with Shell, there is a real value from having a British crew on board a ship. There is reliability; there is experience; it is well-known that British crews are more adaptable.

1444. Can I interrupt, with great respect? If there is freedom to choose your crew because of market forces and they decide what is best for them given the cost, it ill becomes the Government to say, "You

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[**Mr Dicks** *Contd*]
have made a bad judgment" because we can benefit from a different kind of judgment as an offshoot. I think it is a bit naughty to suggest that as a way out of it because it is going to help the Government have what it wants and not pay the full cost of it.

(Mr Sunderland) I was about to suggest things may not be so black as the GCBS paint in this document; otherwise, one is I think perhaps entitled to ask, why does anybody stay on the British register when they have the freedom to flag out? We have not seen much new investment in new vessels recently, and that is worrying. The fact is that we still have a substantial merchant marine under the British flag using British crews, and from my discussions with British owners I am quite clear in my mind that they do attach a value to those British crews and are prepared to pay a premium in many cases for employing them. So it is not just a question of what is the cost of a third world crew and will the Government kindly make up the difference; I think there is a real value there that we have to take into account as well.

Chairman

1445. Thank you. I have couple of final questions, Mr Sunderland. With the advent of the Channel Tunnel, how worried are you about the supply of ferries once the Tunnel becomes operational?

(Mr Sunderland) I would like to ask Mr Smith, who has made a particular study of the impact of the Channel Tunnel on Shipping, to answer that one.

(Mr Smith) The analysis was done fairly carefully at the time when the decision was made to go ahead with the Channel Tunnel, and compared with the size of the ferry fleet, and we were thinking particularly of the cross-Channel ferry fleet and therefore thinking of that arc of services that goes from the Wash round to Portsmouth. Taking those and the present level of them, the estimates which were made would indicate two rather different figures as between the number of ferries and the carrying capacity of the ferries. What we know, of course, is that ferry size is increasing all the time. We have seen these new ferries, jumbo ferries, coming on to some of the routes. So our estimates indicate — and these are, Chairman in the White Paper which was produced at the time, so they are readily available — that the UK fleet on those services, which are currently of the order of 31 vessels, we thought would go down to 22 vessels as a result of the opening of the Tunnel. So you have a considerable reduction in the number of ferries, but at the same time the ferries are going to be larger. Particularly with defence implications in mind, it is better to look at carrying capacity of the ferries, and what we know — what we are reasonably sure of, I should say — is that the Tunnel will be less effective in attracting many of the lorries which are less time-conscious in crossing the Channel, and therefore will erode, as it were, the carrying capacity in terms of vehicles less. So the figures which were made at the time indicate that there would be only a very slight reduction compared with the present level in 1993, when the Tunnel opens. The figures which are shown are 10,900 passenger car units. (Sorry about the terms, but a car is a car, whilst a coach or lorry is regarded as six passenger units. We just have a standard measure). At the present time the capacity on those routes is of the order of 10,900 and we have estimated it might well go down to 10,000 and then, by the year 2003, we estimated, since the business is going to be growing both for the tunnel and for the ferries, the capacity would be up to 50 per cent above the present level. So those are the estimates which were made at the time and I see no reason why a fresh analysis would take a different view if it were repeated today.

Mr Bidwell

1446. I have been a Member of this Committee for a very long time; we have had more than one study of the tunnel. We have even been to Paris to talk to the Civil Servants there, who are much more forthcoming than our Civil Servants seem to be to us (but we will let that pass). There is a lot of conjecture and a lot of imponderables. The question of obstruction in the tunnel if it comes on to usage and so on; the lengths of journey by train — as to whether it is better to go over the water or continue by rail — and the picture of a whole-scale eclipse of the ferry trade is a false picture, is it not? The balance you seem to be giving us (this is in the evidence you have given us) is it will be, in spite of the Tunnel coming on, an unknown quantity for some considerable time in relation to its reliability and so on. Therefore — would you confirm — there will not be an enormous change in the usage of the ferries to the degree that many people fear?

(Mr Smith) Yes, that is generally true. We would accept, having done the estimates, that there are many uncertainties in these figures and one does not know exactly what pricing policies may be followed, and one does not know precisely the extent to which the Tunnel will draw from the long and more regional routes. The concern that has been expressed in some quarters, that it will lead to a wholesale collapse of the ferry capacity, is, I think on reasonable estimates, unfounded.

Chairman

1447. My final question, Mr Sunderland, is again on the question of financial assistance. The House of Lords Committee in its report on European Maritime Transport Policy said "The defence role of shipping in time of emergency requires, in the Committee's view, that the Government should give serious consideration to appropriate assistance to the shipping industry to support that role. For example, the assistance might be provided from the Ministry of Defence Vote". In view of the fact that the recent Merchant Shipping Bill emanates from the Department of Transport, is there any prospect at all that the Ministry of Defence will take their Lordships' advice and provide assistance to the industry? Added to that one is a sort of rider that if you felt, on strategic grounds, that the shipping industry did need additional support, what form would it take and how would you direct it to particular types of vessel or particular sectors?

(Mr Sunderland) Could I ask Mr Facer to speak to the point about the Ministry of Defence?

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[**Chairman** *Contd*]

(Mr Facer) Mr Chairman, the Ministry of Defence is providing, as I said earlier, some assistance by way of a contribution to the industry, and that is the cost of the Merchant Navy Reserve, which is being found from defence votes. I do not think it would be an appropriate use of the defence budget to provide general assistance to the merchant shipping industry. That would be for other parts of the Government. However, if, of course, we get to the point where defence requirements can not be met by the ships that are available, then we shall have to consider options, some of which we might feel deserved sufficient priority for funding against the many other demands on the defence budget.

(Mr Sunderland) Chairman, if I could just add to that. I do not think Ministers at this point in time would want to rule out any solution to this problem, should it arise. We are at the moment, I think, at a sort of watershed in the fortunes of the shipping industry. We seem to be poised on . . . I do not think you can be poised on a plateau, but I hope the Committee sees what I mean! We do not really know whether the upturn in the shipping industry, which seems to be coming through in many markets is of itself going to provide the necessary stimulus to investment to ensure that there is no further overall decline in those sectors of the fleet that are important for defence purposes. There are some measures of assistance coming through with the Merchant Shipping Bill and we will have to see also what effect those have. Should there be a need for other ways of dealing with the problem, then I hope we have been able to convince you that we are alert to the need to respond rapidly. By our negotiations with other countries, our legislative provisions as well as the things which we are doing in the Bill, I think we are already doing quite a lot to seal off the possibility that we could be seriously embarrassed with an outbreak of war or, indeed, a deterioration in the international situation.

1448. Thank you, Mr Sunderland. Are there any final points which any of your colleagues or yourself would like to make to the Committee?

(Mr Sunderland) I do not think so. Thank you very much, gentlemen.

Chairman: Then it only remains for me, on behalf of the Committee, to thank you very much for the very frank and forthcoming way in which you have answered our questions in a very lengthy and interesting session which will be very helpful to us in preparing our report.

Mrs Dunwoody: I take it your Department is an equal opportunities department!

Supplementary Note by the Department of Transport

Mr Sunderland undertook to follow up a reference made by Mr Gilroy Bevan to an article in Lloyd's List of 24 October 1987 in which it was suggested that two Isle of Man-registered ships were in breach of the officer nationality requirements (QQ 1421 to 1423).

He has now had an opportunity of looking at the article in question, which indicates that two Isle of Man-registered ships are manned by Indian Masters and officers. In fact, as Mr Sunderland told the Committee, the requirement in the Isle of Man, as in UK, is that the *key* officers should be British or Commonwealth citizens. To be precise, the Master, Chief Officer and Chief Engineer must be British, Irish or Commonwealth citizens. There are no nationality requirements for junior officers, but both senior and junior officers must hold certificates of competency issued by this Department or by those countries — Ireland and some Commonwealth countries, including Australia, Canada and India — whose certificates we recognise as equivalent to our own. On the face of it, therefore, the officer arrangements for those vessels fall within the rules.

If there were to be any question of a breach of the rules, we would of course want to pursue it with the territory concerned, and they with the owners of the vessel. The question of changing the category of vessels which the territory would be permitted to register under the Merchant Shipping Bill now before Parliament would be very much a move of last resort, and would reflect our view of the territory's overall ability to administer and enforce the international maritime safety conventions.

Despite this example, it remains the case that many Isle of Man vessels have UK officers and/or ratings, and that transfer to the Isle of Man register has enabled shipowners to retain UK crews at lower overall cost.

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HOUSE OF COMMONS SESSION 1987-88

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DECLINE IN THE UK-REGISTERED MERCHANT FLEET

MINUTES OF EVIDENCE

Tuesday 16 February 1988

Commission of the European Communities

Mr Stanley Clinton Davis, Ms Belinda Pyke and Mr Balt Heldring

Ordered by The House of Commons *to be printed 16 February 1988*

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TUESDAY 16 FEBRUARY 1988

Members present:

Mr David Marshall, in the Chair,

Mr David Gilroy Bevan	Mrs Gwyneth Dunwoody
Mr Sydney Bidwell	Mr Peter Fry
Mr Jim Callaghan	Mr David Mudd
Mr Terry Dicks	Mr Neville Trotter

MR STANLEY CLINTON DAVIS, EC Commissioner, MS BELINDA PYKE, Member of Mr Davis' *Cabinet* and MR BALT HELDRING, Principal Administrator in the Shipping Division of the Directorate General for Transport; called in and examined.

Chairman

1449. Good afternoon, Mr Davis. We do have a number of questions for you but before we start is there anything you would like to add or say as an opening statement?

(Mr Davis) If I might, Mr Marshall, and perhaps take up ten minutes or so of your time, I would like to say at the very outset setting aside for the moment strategic arguments which, strictly speaking, are not within the province of the Commission but I might well allude to them later, I do firmly believe that the European Community needs a merchant fleet, and by the term "fleet" I mean the ships and the men and women who sail in them and help to operate them. I go one stage further: I believe that we need a modern, well-equipped merchant fleet, and we need skilled and well-trained seafarers. The sharp competition that characterises the industry means that the Community fleet can only be viable if it achieves high levels of productivity and in turn this means that our ships have got to contain the latest technology and our seafarers must be able to work that technology to the utmost. Now, all the restructuring that is taking place within the Community economy is not changing these basic truths. We live by our trade in manufactured goods. The Community imports raw materials, transforms them and exports the products. Some of these exports are carried on lorries or by rail or by air, but by far the largest part, something like 90%, is carried by ship and to my mind this fact tells us one thing above all: that the Community has got to retain control of an independent means of transport for its trade. I do believe that dependence on others can and is likely to be extremely dangerous. That goal can only be achieved by the maintenance of a Community fleet. Let us just examine briefly what is happening. The Community's share of the world fleet in 1980 was 29%. By 1987 it had been reduced to 17%. In absolute terms the fleet is now barely half its 1980 level of 170 million tonnes. This decline has been starkly reflected in unemployment among Community seafarers: financial difficulties, even bankruptcies, among Community ship owners, greatly reduced demand for Community shipbuilders and ship repairers, and disrupted services to shippers. The decline in the UK fleet with which you are of course primarily concerned represents a major component in the drop in the Community fleet. I note that the interim report of this Committee in May of last year showed that the United Kingdom share of the world fleet had actually decreased from nearly 10% in 1975 to under 3% in 1986. By 1987 this had become barely 2%. A substantial part of the decline in the Community fleet is therefore represented by the UK loss and the response of the UK to this loss must be of particular significance. In its 1985 communication on maritime transport, three factors were regarded by the Commission as responsible for the decline of the Community's fleets. One was a loss of comparative advantage; another, the world recession and excess shipping capacity, and the third the growth of protectionist policies and practices of other countries. It was this protectionist threat which it was considered could be countered most effectively by Community action. Under the UK presidency, the Ministerial Council agreed in December 1986 four regulations based on the Commission's proposals. The first of these, number 4055/86, applies the principle of freedom to provide services to maritime transport between Member States and between Member States and third countries. It removes over a transitional period existing restrictions for Community ship owners, whether by unilateral measures or through bilateral cargo sharing agreements, and it prohibits cargo sharing arrangements in future agreements with third countries unless under specified exceptional circumstances which might exist in the liner sector. However, an element which the Commission considered to be extremely important, namely that part of the proposal which would have totally opened up cabotage within the Community, was left aside and it still remains to be dealt with. It is the Commission's view that until this is agreed we cannot have a proper common shipping policy. The second regulation, number 4056/86, lays down detailed competition rules dealing with Articles 85 and 86 of the Rome Treaty for international maritime transport services for or to one or more Community ports. It aims to ensure that competition is not unduly distorted through restrictive practices while attempting to avoid excessive regulation of the market. There is a group exemption of conference agreements from the general prohibition of restrictive agreements under the Treaty. This exemption is granted subject to certain conditions and obligations, and on the assumption that they operate in open trades. Should there be action, for example by a third country to

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[Chairman *Contd*]

prevent the operation of non conference lines in a given trade, this fundamental requirement is not meant and the exemption would be withdrawn. Competition has to be conducted on a fair basis by all parties, whether they be conferences or independent lines. The third regulation, number 4057/86, deals with unfair pricing practices and provides for the imposition of redressive duty on foreign ship owners to restore a situation of fair competition on a commercial basis. This is aimed at those cases where foreign ship owners enjoy non commercial advantages granted by a third state and persistently charge freight rates too low to be sustainable by companies operating on a commercial basis. In this respect the Commission has stated that it would regard failure to observe ILO or IMO standards as a non commercial advantage. The final regulation, 4058/86, concerns co-ordinated action by the Community to safeguard free access to cargoes in ocean trades. The adoption of these regulations demonstrated the determination of the Community to ensure free and non discriminatory access to cargoes for Community ship owners, and to secure fair competition on a commercial basis. It is hoped that the regulations will discourage restrictive measures by third countries. Where they do exist, or arise in the future, the Community will seek first of all to achieve an effective solution through negotiation, but if this course does not succeed, the regulations offer the means of taking counter measures. The first of these regulations entered into force on 1st January, and the rest on the 1st July, that is to say the 1st July of last year. A number of complaints based on the regulations are currently being examined by the Commission. Co-ordinated counter measures have been sought by Denmark in respect of the practices of West African countries operating through central bureaux. These practices have been raised previously by the Commission with the countries concerned and we have not obtained any useful response. Although discussions are now proceeding within the LOME framework, the regulation on co-ordinated counter measures exists in the background as an incentive to serious discussion of the problem. In addition, conference lines and European outsiders engaged in the Europe/Australia trades have complained about unfair pricing practices by Hyundai, a South Korean company. New measures for cargo reservation by the Portuguese Government have been the subject of a complaint by the Portuguese shippers under the regulation on freedom to provide services. The Commission has shown that it is already committed to the effective application of the regulations and looks to the Council of Ministers to provide the necessary support to implement these measures, but I have to say that I have been very disappointed by the lack of vigour displayed by Member States in applying these regulations. The Commission was particularly disappointed by the way that the Member States dealt with the case last year of a shipping agreement between Italy and Algeria. In our view this agreement which contained a freight sharing clause contravened the regulation on the freedom to provide services. In effect, this case provided the very first test as to how seriously the Member States viewed enforcement of the whole package — a package which had only by then recently been agreed. In the event the Member States took what I can only describe as a complacent, if not craven, attitude and were prepared unanimously (including those who had been most vociferous in supporting the package) to endorse the agreement negotiated by Italy and Algeria, and on my advice, the Commission took a stronger line and indeed we have now referred the matter to the European Court of Justice. We believe that the Council's decision was incompatible with the regulation and the spirit of the package and it is for those reasons we have asked the Court to cancel the decision. I cannot say very much more about these matters, because they are of course *sub judice* but the fact is that simply agreeing to a set of regulations is plainly inadequate in itself. The measures, if the industry is going to be helped at all, have got to be enforced strictly, and the Commission, regardless of the views of the Member States, intends to assume its legal duties seriously as far as this is concerned. Mr Marshall, unfair third country practices only explain partially the difficulties confronting the Community fleet. There is also the loss of comparative advantage to other fleets. As excess world shipping capacity grows with reduced volumes of cargo, some ship owners have improved their efficiency and specialised in certain sectors of the market. Others have been tempted to cut costs by switching vessels to registers offering a variety of incentives, including some of a very undesirable nature. Supposed benefits have included low registration fees, scant or non-existent ship surveys, little or no taxation, secrecy about company ownership, low wages, no social payments for crews, and the chance to impose poorer working conditions, sometimes through longer working hours and reduced manning. Ratification, let alone effective implementation of international conventions such as SOLAS, MARPOL, or ILO147 are regarded as low priorities for the promoters of too many registers. I am of course Environment as well as Transport Commissioner and I find this a very disturbing phenomenon. The proliferation of registers has also had curious results — French vessels register in the Kerguelen Islands, UK ships in the Isle of Man, Denmark looks to the model of the Norwegian International Ship Register, German ship owners exploit bareboat charters in Panama, Cyprus and elsewhere. I think it is very unfortunate that the Community spirit has not yet proved sufficiently strong to bring Member States together to seek a common response. Instead we have a motley collection developing of second registers with different conditions, supplemented by varied national packages of support for the industry. We have a confused situation and again the Commission insists that the Community has to seek a soundly-based approach which builds on our strength rather than exaggerating our weaknesses. One of the contributory causes for the dire situation we are in is unilateral national action, so for a start this Commission is seeking information from Member States, both on conditions relating to second registers and on aid to shipping as distinct from shipbuilding. Member States are reacting in different ways, and with

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[**Chairman** *Contd*]
different levels of concern to the downward trend in their merchant fleets, but I continue to believe that a united approach by the community would provide the most impact in dealing with this problem. Like many challenges facing the Community, the establishment of a common approach from the various national backgrounds and interests is not going to be easy, but I would like to mention some possibilities which are being examined within the Commission with a view to establishing the second stage of the Community's shipping policy because I have always pointed out that the shipping memorandum or package which has been largely agreed was only a first phase. Some of these ideas were discussed at the symposium on the Community fleet which was held in Antwerp last May and will be discussed further with Member State representatives in the near future. In 1986 I floated the idea that Member States and Community shipping interests should give serious consideration to the establishment of a European flag. I am still of the view that some form of a Community ship register associated with positive measures of assistance offers the best way forward. Of course, I recognise there are legal difficulties in proceeding to a single independent Community ship register. Maritime law invests control and jurisdiction on the State of registration of a vessel. In addition, the capacity to inspect ships, conduct accident inquiries and enforce mortgage and similar charges on vessels raises significant legal and administrative questions. However, it is surely possible to envisage a Community ship register on which a vessel on a Member State register could, subject to fulfilment of agreed conditions, obtain a parallel registration on a Community ship register. Such conditions would include compliance with IMO and ILO conventions and could extend also to acceptance of certain manning requirements. The Community register need not be a dual registry as for legal purposes the vessel could remain on the Member State registry. I believe that the attraction of such a register for Community shipowners could be a link to favourable fiscal treatment or financial assistance. Obviously we would need to take into account the views of national finance ministers in that regard. Nonetheless, favourable fiscal treatment or financial assistance are the forms of help which we know shipowners are now asking for and can take most easily into their calculations when tempted to flag out. Support for this approach is also coming from the seafarers. One measure under consideration is that of favourable tax treatment for seafarers and this could help counter the most often cited reason given by shipowners for flagging out — namely the need to cut crew costs. The possibility of favourable tax treatment for shipowners is a further possibility. As in the case of seafarers, complex problems are inevitably raised. Tax regimes vary between Member States. Under some regimes there already exists exceptional treatment for ship owners. The Commission has put in hand a study of the financial impact of various measures on ship owners in the different Member States, and we are expecting a report shortly. Another measure currently being examined by the Commission concerns the question of excess shipping capacity and in particular ways of encouraging scrapping. This can only work, however, if it takes place on a truly international scale for there can be no benefit to the Community fleet if a ship is sold to a competitor fleet. The same question is also linked to the situation, of course, in the shipbuilding industry. It is important to maintain viable Community shipyards able to build a wide range of vessels and to maintain a technically advanced Community fleet but the danger of building ships which only add to the world's surplus must never be forgotten. Subsidised excess capacity in world shipbuilding has been a major source of the problems confronting world shipping. The Community must seek true negotiations most particularly with Japan and South Korea to reduce globally this surplus capacity, but until there is evidence of a genuine willingness to eliminate existing distortions to competition, the Community must be prepared to take any necessary defensive measures. There is one other thing I would like to add and that deals with the question of strategic interests. I believe that dependence upon others and allowing the merchant fleet to be regarded as a sunset industry is a policy of despair as far as strategic interests in defence are concerned. I will not enlarge upon that. It is a view that I have advanced before, and it is a view which I sincerely hold. But as I said before, I suppose I must be careful about allowing Community considerations on behalf of the Commission to intrude into the evidence I am giving. Before closing I would like to mention that the first meeting of the joint committee on maritime transport was held last week. This Committee brings together the social partners in the Community's industry to discuss matters of mutual interest at Community level. I am confident that the Committee will enable improved co-operation on specific issues and in this way make its own contribution to helping the Community fleet. Cooperation I believe by all those involved in the industry and by all the Member States is the only way in which we will find effective and desirable solutions to the problems facing the merchant fleet through the Community.

1450. As you know, our study is into the British fleet, and in view of the fact that the spectacular decline in the UK fleet is at least in part related to the UK joining the EC, do you regard it as a problem for the EC or simply one for the UK Government alone?

(Mr Davis) I have already indicated that I believe that the time has come when, faced by a common difficulty running right through the Community, it is essential that we now look at this matter on a Community basis and because we are facing a dramatic situation as far as the decline of this important industry is concerned I refuse to regard it as a sunset industry. I believe the time has now come for a very radical approach as far as the solutions are concerned.

1451. It has been suggested that the shipping policy of the EEC simply reiterates with some time lags and minor modifications that of the Maritime Committee of the OECD. Is that fair criticism, do you think?

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[Chairman *Contd*]

(Mr Davis) Of course there is some element of duplication, I suppose, but the important thing about all Community law is it is directly enforceable and it is enforceable by reason of the existence of the European Court of Justice in proceedings that might be taken, so consequently there is a considerable distinction between conventions or agreements that are entered into which engage international organisations, and in fact the situation affecting Community Member States. Of course we have to view shipping in a broader perspective than the Community itself. To some extent this is done in the way we have approached these four regulations, but on the other hand there are wider considerations, and therefore the work that goes on in the OECD is of considerable importance too.

1452. The four main points in the EC's first stage shipping policy document were designed to: 1) safeguard access to cargoes for European Community fleets; 2) counter unfair pricing practices of non-EC lines; 3) apply the competition rules of the Treaty of Rome to maritime transport and 4) apply the principle of the freedom to provide services to internal Community shipping. How have these measures, and in particular the unfair pricing regulation, been progressing?

(Mr Davis) Well, I have in the evidence I gave earlier outlined a number of cases which are currently under investigation. It is of course much too early since the first regulation came into effect on the 1st January 1987 and the remaining regulations came into effect in July to be able to make a full assessment of what is happening. What I sought to underline and what I said before was that it is all very well having the regulations but I have got to have the political will and the legal will to make them work. I believe that the Member States at the first hurdle (and this is all 12 governments) colluded in providing all the wrong signals for the rest of the world' shipping because if in fact we had faltered at the first stage (which they were encouraging us to do) of what value were the regulations? Of course this is one of the reasons (not the only one, at least politically), why I thought it approporiate to recommend to my colleagues that the action I have described in relation to the Italian/Algerian agreements should be taken.

Mr Fry

1453. First of all I think we would all like to commend the action that you have taken. One of the problems, though, is that time is not always on your side, or even on the side of British merchant shipping, and I would therefore like to just ask a couple of questions arising out of your interesting statement. Between 1982 and 1987 the French merchant shipping fleet was more than halved, West Germany went down by 40%, Italy by 25%, Portugal by 25%, Spain by about 40% and ours was worse than halved — something like two thirds of the gross tonnage that was registered in 1982 had gone by mid-1987. My first question must be would you not agree that unless something is done fairly quickly, there will not be much of an EEC fleet to maintain, because if that scale of loss is continued, then no matter what is decided in Brussels or in Luxembourg or Strasbourg we will just not have the ships registered? So urgency, may I put it to you, seems to be something that you I am sure are aware of, but unfortunately Member States do not seem to share this view.

(Mr Davis) Yes. I rather endorse that view and the decline is startling. As I tried to indicate, in my view it is exceptionally dangerous because it predicates that we shall be dependent upon others, and when one considers that 90% of Community trade is carried in ships this is a very dire prospect indeed. You are quite right, of course, that time is not on our side. It is particularly regrettable, for example, that the Court proceedings to which I have alluded which I suppose are inevitable will take something like two to three years to resolve. During that time, uncertainty prevails, but of course we have no other recourse where the Member States decline to observe the regulations as we see them. The shipping memorandum upon which the four regulations were based was in fact decided in principle by the Thorn Commission in December 1984.

I felt that they were inadequate in a number of material respects, and although of course Commission policy is not like government policy, when a new government comes into operation it can discard the policies of its predecessors and that is something that is not available to the Commission. It is a continuing process. Nonetheless I did decide to carry out certain amendments with the agreement of my colleagues to the shipping memorandum. That took us until March 1985.

Since then there has been a continual process of negotiation until the package was eventually agreed, and by Community standards it was agreed quite rapidly. I was told within the area which I used to deal with, consumer protection, that it was not unusual for matters to lie on the Council table for ten or twelve years, and so that final package was regarded as being dealt with with remarkable speed. But here we are dealing with an industry in sharp decline and we are working very hard with relatively limited resources available to my services to produce a further package of defensive measures, and hopefully this will be able to be on the Commission table and thence on to the Council table within the course of the next few months.

1454. Could I follow that up by saying that one of the main points in your EC policy was to apply the principle of freedom to provide services to the internal Community shipping and you have already touched on the question of cabotage in your statement. It does seem to me at the moment that the resistance of other EEC members to make concessions in relation to cabotage does mean that this country is in a position where it has to allow others to compete around our shores and I think a period of something like ten years has been suggested before cabotage could be legally removed. I must put it to you that this surely is going to mean that the UK Government is going to be put into the situation where either it has to see its merchant shipping continue to decrease and, indeed, to have to share its cabotage or it will have to decide to take some kind of

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[**Mr Fry** *Contd*]

action, perhaps not so much in itself to ensure the continuance of British ships carrying more of the goods around our shores but to jolt our fellow members of the EEC into taking the kind of decision over cabotage that obviously you want and this country wants, but quite frankly, is just not being achieved.

(Mr Davis) Yes, Mr Fry, I understand the dilemma to which you refer and, of course, it was with great disappointment that the proposal in relation to cabotage which the Commission had itself adopted was subtracted from the agreement which was eventually made by the Member States and I believe it will emit all the wrong signals, so at the moment the situation is that the Council still has before it the proposal relating to cabotage and, indeed, offshore supply services but has shown remarkable reticence about tackling this. If I can put it another way, I think they are honing inactivity into a fine art. Nonetheless our intention is to persist with this. I have been in touch with the UK Government, who are very concerned about this matter, and, of course, you have in this House a Merchant Shipping Bill currently under consideration in which this issue may well figure. It is not for me, of course, to recommend to any member government how it reacts to this situation. All I can do is use my best endeavours to ensure that the issue is prosecuted and prosecuted as rapidly as possible. To that end, although the German Presidency has not indicated that it intends to hold a Shipping Council during its Presidency, I am going to make that recommendation to the German Minister. Two days have been set aside for a Transport Council meeting in June and I think it is appropriate that at least half a day be provided for shipping matters, included in which is the issue of cabotage.

Mrs Dunwoody

1455. Commissioner, I welcome the fact that you obviously regard this as a very urgent and important subject and are putting a lot of personal commitment into it, but you will forgive me if I say it is a little difficult to see what arguments we should use to persuade Britons of the efficacy of the Community's policies in this matter at a time when in some ways we are going for the lowest common denominator, that is to say, we are going to be asked to change the cabotage rules without any very clear indication of the length of time in which those changes will come about and the benefits that will be seen by Britain, which has always operated a very open policy. Secondly, may I ask you if you are to take these very positive moves — and I would like to talk to you in a minute about "scrap and build" — what is the size of DG VII, how many people are actually dealing with this and what kind of urgency do you see amongst the Member States? I ask this not, frankly, because I am seeking to be awkward about this but it is important if we are to produce a report saying this is an urgent problem but also pointing out that we see the need for political action. The Commission itself has made a number of quite clear policy statements — because this is what you are saying to us today — but does not appear to be doing a great deal about it at Council level.

(Mr Davis) Not at Commission level.

1456. At Council level — which then demonstrates that there is some very positive line that the Commisssion is taking which will be so persuasive that the Council will respond instantly. What brilliant ideas are you going to bring forward about "scrap and build" because it is all very well saying you do not want to treat shipbuilding as a sunset industry but if, in fact, there is no positive incentive at Commission level to encourage people to protect their shipbuilding industry, then I have to say I cannot see any reason why that will happen in Europe. We have very clear evidence that the shipping industry itself is going to say effectively, "If you put commercial pressures on us we will buy wherever we can, under what circumstances we can, and will use whatever fiscal measures we can to flag out." Is the Commission actually saying to us the extension of the national interest is the Community interest, and if it is saying that, what positive incentives is it giving both to the national governments to encourage the maintenance of shipbuilding within their own field and to the changing policies that will actually make people like "scrap and build", which the Commission is supposed to have been looking at? When do you come up with some answers?

(Mr Davis) I am grateful for questions which are posed in a somewhat characteristic and provocative way from Mrs Dunwoody.

1457. Would I be provocative?

(Mr Davis) Of course — in the most friendly way, as a very good friend. Let me deal with them not necessarily in the order in which you put them. I did indicate that we operate with a very limited service. We have 120 people operating in DG VII, dealing with all the transport problems of the Community. There are six A officials in the Shipping Sector and out of the six members of the *Cabinet*, though there is a sort of collective *Cabinet* responsibility, I have two members, Belinda Pyke and Claude Chene, who is a French member of the Commission staff, and myself operating in the Transport Sector. I also ought to say this, I think, that for a very long time, particularly in the Shipping Sector, results have been patchy to say the least. This does have an effect on morale in the service and I think that, as a result of the agreements that were reached, morale has improved. We also have a new Director General from Spain, who was fairly recently installed in office, so overall, the situation is certainly improving. However, we also have to concentrate on matters other than shipping. We have had the aviation package, we have road haulage problems and numerous other things. Within these limitations I believe that negotiating the package was an enormous burden of work for my officials and also for myself, and the fact that we did succeed in large measure was an encouraging sign. We are now working on a number of other positive measures but, of course, at the end of the day whatever we may put forward is dependent upon the political will of the Member States, albeit by a majority now, to conclude agreements about. We are hoping that we

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[Mrs Dunwoody *Contd*]

are putting forward ideas which commonsense would indicate are reasonable. I always believe that the test of objectivity is whether other people agree with one's own ideas. As I have indicated, we are going to put forward a number of positive measures. I could enlarge on that later. On "scrap and build", I said that over-capacity remains the greatest obstacle to recovery as far as shipping is concerned, and in addition to exerting downward pressures on profitability and wages what it does particularly is to undermine attempts to maintain high standards. Clearly the best way of reducing over-capacity is to reduce shipbuilding capacity worldwide. We have done that in the EEC already but there is a lack of similar resolve in the Far East. Of course, we have no legal powers to make them change their ways; we can only negotiate. Another way is scrapping. A scrap and build policy was put forward by the Commission in 1979: no agreement was reached. We are now looking again at a scrapping policy. Our officials have been to Japan to look at a scheme that seems to be working there although it is still in its infancy. We have got a consultant whom we have engaged recently to examine possible measures. I am hoping to have results in April, and then of course we will have to consider what proposals, if any, we put first to the Commission and then to the Council. On the question of Community interest, really that is an extension of national interest, and how you postulate that to people who are interested in shipping. One of the great tragedies of our time is that we have taken merchant shipping in this country and in the Community as something for granted. Few people have actually looked at the interests of seafarers. The fact that you do not have seafarers in the sort of abundance that we need to maintain fleets is a matter of grave concern. You cannot conjure them up in a matter of hours or days or weeks or even months if an emergency arises, so all these are factors that somehow or other, not the Commission alone but the Member States (if they have the political will) have got to galvanise people into thinking about. It is a matter of great interest.

Mr Trotter

1458. I was very interested earlier this week, coming down on the train, to read in *Lloyd's List* that the Union des Chambres Syndicales de l'Industrie du Petrole (known as UCSIP), was complaining about the obligation imposed on French refiners to transport two thirds of their crude oil requirement in tankers under the French flag. That would seem to me to be contrary to the EEC rules, and yet it is in the current edition of *Lloyd's List*.

(Mr Davis) It may well be, but we act only on complaints that are made, and if somebody wishes to refer this issue as a complaint, it will be registered officially and then investigated, but I could not, of course, comment on a report (however respectable the source).

1459. But it would seem to indicate that national Government attitudes are going to be very different at times from what we would like them to be, because I am sure we all agree with the aim of what you said in your introductory remarks: this is going to be one of your problems — that national interest may not be seen the same way.

(Mr Davis) And that is in a sense what Mrs Dunwoody was asking about before. I see no future for individual merchant fleets within the Community on any lasting basis. I think unless we are prepared to deal with these matters in a spirit of the Community in the interests of the national fleets and of the countries themselves we shall get nowhere.

1460. Could I be the Devil's advocate and say that we have had before us the shippers' representatives and they alarmed all the Committee by saying that they saw no interest in there being national fleets at all. They did not mind what sort of ships were used to carry our trade. Is there not going to be pressure from that sort of lobby on the national governments?

(Mr Davis) Of course, and I think it is absolutely right that shippers' interests have got to be kept well in mind, and indeed it is right that shippers' councils should be involved in the work that is undertaken now internationally by governments and indeed by the shipping industry. They are involved in arrangements that affect conferences, but having said that of course, they are going to look for the cheapest possible form of transportation of the cargo that they are wishing to transport, but it cannot be necessarily consonant with national or Community interests that that view should prevail. After all, if that were the case, why bother with a British merchant fleet or a German merchant fleet or any of the other Community merchant fleets? It is easy enough I think to be able to apply that to, say, the threat from the Soviet Union which was more persistent some years ago and when I was Minister I was very much involved in that issue, but if you subscribe to that particular doctrine I think it is a policy of total despair, and where does your defence policy then lie when it is so heavily dependent upon merchant shipping? We know that to be the case. The House of Commons Defence Committee has come to that conclusion, as I understand it. I think Ministers are deeply concerned about it. I think Opposition spokesmen are deeply concerned about it and certainly I as a Commissioner with this responsibility am also concerned about this, so from a defence point of view it cannot make sense, but dependence upon others is putting yourself in a position of eventually perhaps being exploited, if not blackmailed, and I do not think that is a very sensible policy.

Mr Bidwell

1461. Part of the question I was going to ask has been answered. We have of course taken before this Committee substantial evidence on the defence question, so we understand the importance of what you had to say about that, but we gathered that there is not any solution except on a Community basis and that there is no joy for our fleet in any kind of independent way or even in a defence way. We have to face this on a Community basis. Can I ask you what you think about our present Shipping Bill? Does it substantially go towards arresting the decline in the British fleet in your opinion, and can this only apply to one State, or others as well, because this is

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[**Mr Bidwell** *Contd*]
something that seems to be commonplace and other States in the Community have been similarly hit. Would you care to comment on that?

(Mr Davis) It is invidious for me to talk about a piece of legislation before the House of Commons as a Commissioner. I am sorry incidentally — I did not intend actually to offer my remarks in too extended a way, but if I have, then I apologise.

1462. It is very helpful to us.

(Mr Davis) There are interesting elements of the Merchant Shipping Bill that do spring to mind — the idea of repatriation costs being borne — but it is not for me to comment on the adequacy of that. There are other elements of the Merchant Shipping Bill which I think are significant, but having said that, it is for this House of Commons to decide, not for me, whether it represents a solution or anything approaching a full solution to the problem of Britain's merchant shipping fleet, with its very sharp decline, as has been noted by Mr Marshall and by myself. I simply do not believe we can go on with partial measures. The decline is much too rapid, and too dangerous. I think it was Aneurin Bevan who once said "You do not have to read the crystal if you can read the book". The record is very clear now.

1463. He said "Why gaze into the crystal ball if you can read the book?"!

(Mr Davis) Thank you. I stand by your correction. Since I have become a Commissioner I suppose I have not had the same opportunity to refresh my memory about these things, but I do believe that all the evidence shows that the situation is now in such a marked state of decline that Member States cannot go it alone.

Mr Bevan

1464. Thank you very much indeed. You outlined in your excellent statement, and you were a very distinguished Member of this House prior to being a Commissioner, so you can see both sides of the fence, a situation of complete hegemonisation rather than harmonisation which you said altruistically you would like the EEC to aim for. Is it possible, when in fact there is no requirement in your EEC policy document, to define either a national shipping line or to ensure that a ship is registered by a Member State in a Member State's register? Would you not agree that cabotage in the way in which it is translated in Europe is a very ancient meaning for a very ancient word for a restrictive practice, in fact? If I may I will probe further on these lines because we have, as you rightly say, to look at the situation from the United Kingdom's point of view. As there is so much anti-UK and pro-nationalistic cabotage existing within Member States and as there are so many bilateral agreements formally in existence which are untouched — indeed, we have been forced to make some informal ones ourselves — it is possible to analyse that only two courses of action are practically open to us. One is to seal off the UK coastline, with powers from Parliament to do what one might describe as becoming a "little England", I suppose. Another, to which you have referred, is to seek a ruling of the Court of Justice, which you said will take two or three years, even in your own case, so Lord knows what in ours. Finally, we could introduce our own retaliatory cabotage rules. If I might finalise this particular series of questions, you referred to the shipping debate and, indeed, I think it was Sir David Price who said in the debate that "the French play to the rule that they never do anything internationally that is not perceived to be in the interests of France", and our own Secretary of State intervened at a later stage and said "the Greeks are worse". So here we have an EEC with absolutely no ability to introduce power. Even "scrap and build", if it were a policy, would have to have incentives and an intervention policy would not obtain. At the moment there is little practical possibility of that, so do you not feel that in this instance maybe, to obtain eventual harmonisation of the type of situation you want, the UK will have to go its own way with its own very definite rules and regulations in the meantime to ensure its own fleet survival, without which there will be no EEC fleet?

(Mr Davis) Mr Bevan, you have very properly put a question which is of major concern to HM Government and, indeed, to this country but I am afraid I cannot help you with the solutions which may be best adopted in the interests of the United Kingdom. I am a Commissioner dealing with the Community as a whole and, of course, all measures that are taken have to come under scrutiny. But I do not hide from you the fact that there is a deep dilemma here and when you say that cabotage is a restrictive practice, it is exactly that. It is a restrictive practice which some Member States deem to be in their national interests. One of the matters which the UK Government will have to consider — and I am bound to say this is an issue which I raised when I was a Minister holding this particular responsibility here — is what implications would arise for overall shipping policy in an international sense if Britain were to apply a restrictive policy in this regard. These are questions of advantage and disadvantage that it is for governments to make a determination about in the absence of a Community policy. Then you say that in the present context intervention does not seem to be something that governments are likely to become involved in in terms of adopting a policy. It depends on the nature of the intervention; it depends on how Community-based intervention would apply. If you take, for example, training of seafarers, that is a form of intervention but quite clearly it is something which, provided the Commission were notified about it, we would for the most part take a benign attitude to because we need to train seafarers. Consequently, you have to look at every measure one by one and view it on its own merits. As to the question of a national shipping line, the Brussels package* called for a definition of a national shipping line but only for United Nations Liner Code purposes, not for any other, so that proposal still remains on the Council table. There is, I am bound to say, little likelihood of discussion on it

*Council Regulation (EEC) no. 954/79 of 15 May 1979 concerning the ratification by Member States of, or their accession to, the United Nations' convention on a code of conduct for Liner conferences.

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[Mr Bevan *Contd*]

as far as I can see. The Commission proposal would allow Member States to add registration as a condition in implementing the directive. The United Kingdom already has, as I understand it, legislation on the question of a national shipping line but did not include this particular reference to the flag in it.

Mr Callaghan

1465. May I first of all welcome Mr Davis as a former colleague but also the statement he has made to the Committee. I would like to follow what Mr Bevan has said. In fact, he has more or less asked the question I wished to ask. If you will bear with me for a moment, I am not digressing but trying to make a comparison. When I first came in here as a new Member for a number of years I tried desperately hard to save the textile industry, which was based in the area from which I come. I was concerned about unfair competition, which you mentioned earlier in your statement, and the dumping of textiles in that area. I felt that we in this country were playing the game by the rules but other countries were not doing exactly that and that we had this unfair competition. I feel it is exactly the same with the UK shipping industry, that we in Britain are playing the game and I put it to you that rather than the UK being a more scrupulous observer of the EEC rules and regulations and suffering the greatest comparative decline in shipping, we should invent a British rule with regard to our shipping industry because I feel if we do not we are going to be where we are in the textile industry. I had 26 mills in my area when I came into the House; there is not one left. I feel the same thing is going to happen unless we start playing by the same rules as the other countries. You did mention that instead of its being a sunset industry you would take countermeasures against things like unfair competition. Could you enlarge on that, please?

(Mr Davis) First of all, when it comes to playing the game I am afraid I cannot become involved in trying to compile a league table of countries which fail to observe various Community laws. I am afraid the record is not always very good and it is not as good as you suggest it to be, Mr Callaghan, if you take, for example, certain environmental matters. On the other hand, it is not only the United Kingom that fails to observe important elements of Community law, it is many of the others, and so it is with the shipping matter. What I was trying to say before, however, was that if the countries want to help themselves, they have enacted laws; let them do their best to observe those laws and not run away at the first difficulty that emerges. That is point No. 1. Secondly, the United Kingdom still has a very important merchant fleet in Community terms, even though its position has diminished quite remarkably and regrettably. I do believe that the United Kingdom, as far as shipping is concerned, would in the main observe the rules. The difficulty is sometimes that Member States do not like to be isolated in a political argument. It is very difficult to sustain that isolation even if you happen perhaps to be right. In terms of dumping — and this is connected with the countermeasures — I referred previously to the Unfair Pricing Practices Regulation. It is not only about State subsidies. It is not only about practices indulged in by some of the Iron Curtain countries and the Soviet Union in particular. It is also about those shipping companies encouraged by their own Government which deploy practices which give the most minimal observation to basic codes that have been agreed on in the ILO and IMO, so we would take counter measures in that regard by precluding in the final analysis those ships from using Community ports. There is also another matter to which perhaps I should have alluded before which has had a very important effect, and is having an important effect in dealing with sub-standard shipping, and that is the question of Port State Control. Where there has been very considerable compliance, somebody may remind me of the figures of inspections but a large number of ships (an increasingly large number of ships) has been inspected, an increasing number are being detained, and this is a very important element in being able to establish control over that form of unfair competition, because that is what it is — a form of dumping, if you like — and I am told that the figure in relation to inspections is now 70% on a yearly basis. What I am very anxious for is that we should not be complacent about it. I am always disinclined, when you are asked "Are you satisfied that such-and-such a position prevails?", to say "Yes". That is a disastrous way of answering a question. No, I am not satisfied with it. There is room for improvement and most particularly in looking at the requirements imposed by the ILO conventions.

Mr Mudd

1466. I would never ask a Commissioner to hypothesise, except this afternoon! With perhaps the arguably shortening odds that Norway might seek to join the Community before too long, is research going on to find out whether or not the arrival of the Norwegian merchant fleet, while on the one hand increasing the Community's percentage of world shipping and being seen to be a good thing, on the other hand would add to the surplus capacity and might not turn out in fact to be yet another kick in the teeth and another ray in that sunset of which we have heard so much already?

(Mr Davis) I am glad that you habitually never ask hypothetical questions and you will not be surprised if I were to say that habitually I refuse to answer them! We do not know what the position of Norway is in this respect at the moment. What I would say is that of course we do not confine our interests to the Community. We do have a very close liaison with EFTA countries. There are meetings of officials in EFTA countries. We meet within the context of the IMO in which the Commission has taken during a period that I have been Commissioner an increasing concern at the Commissioner Secretary General level, and consequently we are involved in the international dialogue in every respect so I am sure that my officials are aware of the current state of the Norwegian fleet, the problems that affect the Norwegian fleet. Should the occasion arise I am sure that that research would be even more detailed.

Mr Trotter

1467. I would like to return to the question of

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[**Mr Trotter** *Contd*]
Port State Control, but before doing so, could I ask the Commissioner about the question of duty free sales on ferries? I am not sure whether this comes under your Directorate or not, and also the question of possibly imposing VAT on fares, because those proposals ferries would both seem to be harmful to the merchant navies of the countries concerned.

(Mr Davis) No, it is not my direct area of concern; it is Lord Cockfield's. Of course, I am aware of the fact that — well, I should say two things. First of all I am a member of the College, and therefore I have collective responsibility for the decisions of the College. I too am aware of the fact that within my own sector of responsibility there is concern on the part of the shipping industry. We have received representations from the General Council of British Shipping, from the trade unions, but I think one has to look at the context in which this discussion is based. It is to deal with the removal of fiscal frontiers in view of the development and completion of the internal market by 1992. Now the proposals to harmonise rates of excise duty and VAT would certainly remove the logic of duty free. I understand perfectly well the representations I know have been made to Lord Cockfield about this: that duty free sales do represent at the moment important sources of revenue to ferries, to the aeroplane industry as well, although I sometimes wonder when things are sold or put out for sale on aeroplanes how anybody can buy them, other than the duty free whisky and cigarettes — if you are interested in those things! But I think we have to ask ourselves whether these actually provide a suitable base for the development, the stability and development, of an industry. Is it not something that is a little artificial? If you take the airlines, for example, one also questions security issues, safety issues, in relation to duty free purchases. That is another matter with which this Committee, I assume, is not particularly concerned.

1468. Perhaps one could argue that it may be an illogical way of helping the owners concerned, but it might be as well to leave it in place until some alternative assistance has been found for them.

(Mr Davis) That is an easy way out. All I am saying is I do not regard it as a very satisfactory base for building prosperity of an industry or trying to revive an industry. Let me just make clear, however, the present state of play. The Commission has not yet brought forward a proposal on the VAT on passenger transport, although there has been an indication in the White Paper on the internal market that this would be put forward by the Commission in due course. Now, I also ought to point out that the Commission's proposals on harmonisation of VAT would place transport in the lower (that is to say the 4%-9%) band width.

1469. Could I now turn to Port State Control, because it has been suggested to us that there is an unevenness in application between different ports, different regions and certainly between countries. We are all in agreement as to the importance of trying to run the badly maintained ships off the sea. Are you happy that this is being properly enforced across the EEC?

(Mr Davis) Some Member States do have a poor record. The situation has certainly improved more recently, but there is an unevenness and therefore that is one of the reasons why one cannot afford to be complacent about what is clearly, in the main proving to be a very good viable system of inspection. We actually attend Port State Control committee meetings, so therefore we have a real direct role in that regard. One of the problems that we are confronting is the ILO conventions. Surveyors have certain skills at technical inspections, that is to say, within the ambit of the IMO regulations or legislation. They do not have the same degree of experience at inspecting for compliance with ILO standards, so clearly we have to make a push in that direction, and I am concerned that the handbook for surveyors, for example, on how to apply the ILO standards has no guidelines on that at all, and that is something which clearly needs to be put right. So what we have done is to initiate discussions with the ILO and Port State Control Committee on this issue: how we can actually produce guidelines that are more appropriate, that are capable of being introduced and enforced here, and how you can have a better way of developing common inspection procedures. Indeed I think I am right in saying the first meeting in fact is to be held next week on this point.

1470. It has been suggested that the US is different from us and Europe in this respect in that they impose modern pollution and safety of life protocols not only in their harbours but also on vessels sailing in their coastal waters. Is that not something we should be thinking of doing in Europe?

(Mr Davis) We do, of course, have surveillance by aeroplane. There has been recent discussion at the North Sea Conference of these issues. The United States situation is quite different. The Coastguard there is probably larger than any individual Naval force in the Community and I think that the situation affecting United States legislation is quite different. Having said that, there is one other point I would make. I am not sure how far we could ever get agreement on the lines you suggested but I do not rule it out. I laud the idea of Port State Control but at the same time it cannot represent a substitute for effective flag state control and this is something we have to build up most particularly in enforcing international standards with the least well developed shipping nations. In 1977 one of the things that the then government proposed to the IMO or, as it was then, IMCO, was a maritime safety corps provided by the more developed shipping nations so that surveyors and inspectors could go to the less developed countries and help to set up the necessary infrastructure for maritime surveillance. I would like to see that embraced more effectively because I think that is the surest insurance.

1471. You feel it is more perhaps a question of lack of resources than intention in many cases?

(Mr Davis) In many cases that is certainly true.

1472. If we can manage to get all the badly run,

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[Mr Trotter *Contd*]

badly maintained ships off the sea, would there not still be left well maintained, well managed, well crewed ships but crewed by people from the Third World who are quite happy with their much lower incomes because they are adequate by the standards of their own countries? How can we compete with that? Does that not bring us back to what you said in your most interesting opening address to us

(Mr Davis) There are two things here. Yes, in part it is that but there is a benefit to be obtained by getting more productivity from what are now capital intensive ships by having well trained crews aboard rather than looking for crews who are less well trained and less well motivated. Of course, I do not believe that the answer lies in flags of convenience or any aspect of policy that resembles flags of convenience, second registers and so on. I believe that it is always a mistake to go for the lowest common denominator. We have to think of a number of other things in this respect. Safety of shipping is very important. If you look, for example, at the *Amoco Cadiz*, which was a very modern vessel but in the event obviously sailed by a crew that was less competent, you can exactly see what the cost is in terms of France in particular but also to some degree the United Kingdom, because it had to spend a lot of money trying to avert the possibility, which fortunately did not arise, of grave pollution damage. Virtually every accident that occurs with a tanker, and indeed other vessels, off the shores costs a great deal of money to put right and a lot of this is due to old vessels, vessels that have served their time or vessels that are quite modern but are crewed inefficiently, and that is the part of the balance sheet that is never seen.

Mrs Dunwoody

1473. I welcome the fact that you have more than once stressed the need to support IMO and other international safety records, but it is true that as an industry shipping is a very dangerous industry and if there is to be a drive towards an internal market it removes a great many of these things. I know you very sensibly do not want to argue on hypothetical situations but if by 1992 there is to be a real drive to do something about a Community shipping policy, presumably one aspect of safety that is going to be very important is that of the seafarers and the conditions in which they operate, not only the rates of pay but the general protection they get, because frankly, I think the interesting thing in this Committee is that we actually have a dichotomy in some of the evidence. On the one hand we are told people are flagging out because of the cost of British seafarers and, on the other hand, we are told that they represent a very tiny percentage of the costs of very high technology ships, so there must obviously be a difference between the different types of shipping and the different markets. Surely the Community, if it is going to have any impact, ought to be pushing safety and very particularly some kind of equity of treatment of crews is one of the areas in which it could have an impact?

(Mr Davis) I am grateful that you have reflected on the issue of safety. I see no reason why the improved competition should necessarily mean the diminution of safety standards. In particular, as far as aviation is concerned, the Commission has made every effort to underline the need to ensure that compliance with high safety standards is essential for crews, for passengers and for the reputation of the national states. So it is with shipping. Consequently, the need for proper training of seafarers is absolutely paramount. The drive towards the internal market need not necessarily impair safety standards. I think what it means is that the advantages that the internal market can give by exploiting the opportunities of a market of 320 million people must have accompanying policies attaching to it which put a premium on safety, which put a premium on trying to obtain consensus in the Community between both sides of industry, if at all possible. This is why we in the Delors Commission have placed so much importance on the social dialogue, that is to say, a discussion between the partners in industry, because generally in the Community there is a desire on the part of both sides to arrive at reasonable Community solutions. You are quite right in stressing this issue. We have a good relationship with the IMO and we are developing a relationship to a greater extent than before with the ILO, so those are two essential pre-conditions. We have a Cost 301 project, which has identified a number of areas for further Community activity in the area of vessel traffic systems. That is important in terms of congested seaways. We are going to introduce a proposal soon to deal with the transport of dangerous goods by sea, arising to some degree from the experience of the *Mont Louis* accident. It will also deal with the labelling and identification of dangerous substances arising from another catastrophe, the *Herald of Free Enterprise*, so we have to try and anticipate problems, but you cannot always do that because Member States are not always prepared to do it. We are wiser with hindsight, of course, but I do believe that we have taken this on board and we will continually take it on board, but catastrophe will obviously tend to accelerate progress, regrettably.

Mr Bidwell

1474. As Mrs Dunwoody has observed, seafaring is a very dangerous occupation. Perhaps we can reflect on the fact that the incidence of fatal accidents on British vessels is 35 times higher than in manufacturing, six times higher than in construction and four times higher than in coalmining. In some other of the EEC fleets the fatality rate is even higher. Concurrent with this is the Community fleets' high percentage of shipping casualties. Despite this, the Commission has not yet addressed the problem of improving safety standards within the member fleets to any effective degree. Why is that?

(Mr Davis) I do not accept that. I have already referred to Port State Control, which is dealing with vessels that might be unseaworthy or substandard. We have not only in that regard proposals put forward, ideas to enhance the benefits of that particular thing, but I have already spoken of the continual demands we make of Member States to ratify more promptly IMO and ILO conventions. I have spoken previously of the question relating to

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[Mr Bidwell *Contd*]

vessel traffic systems and the project there, and the proposal dealing with dangerous substances by sea, but we can only, unfortunately, deal with our proposals at the pace that the Member States are prepared to permit.

1475. There has been discussion in the press and elsewhere of the likelihood of the Commission including, in what has been termed the second stage, a system of taxation of seafarers — I think you touched on it in your initial statement — and perhaps social security in the hope of facilitating the employment of national or Community seafarers in its fleets. Would you care to comment on this, particularly as the United Kingdom has recently abandoned a scheme in which UK seafarers derive tax advantages?

(Mr Davis) Yes. Of course, there are certain advantages of that kind which are applied in some of the Member States. In 1985 in the Shipping Memorandum from which the four regulations emerged, we did say that the Commission would regard a favourable direct tax regime for Community seafarers as "a reasonable way of helping to maintain the employment of EEC nationals on Community ships", and that view was endorsed by the House of Lords Select Committee Report on the Memorandum. We contemplated various forms of such a regime. For example, you could have a daily amount to be deducted from tax, a percentage of relief on overseas earnings, but it is not for me to spell out necessarily all the possible potential in this respect. Our services will be discussing this issue and the possibilities with Member State experts later this month. Certainly it is something we ought to be looking at.

Mr Fry

1476. Could I turn quickly to the question of flagging out. You have described it, I believe, as a disease. On the other hand, the Chairman of the European Parliamentary Transport Committee went so far as to talk about how advantageous flagging out was to the competitive position of Community shipowners. What is interesting about that is that we have taken evidence which does seem to indicate that flagging out does not necessarily mean any diminution on the question of safety, does not necessarily mean that safety is a factor. The House of Lords Committee on European Maritime Transport Policy made an interesting comment: "The Committee can understand that shipowners sometimes see no alternative to flagging out in order to keep in business, but if commercial interests alone prevail, the national interest could suffer in the long run." Can I put it to you that that raises a very interesting point. Is the worry about flagging out really to do with the competitive existence of a maritime fleet, an efficient fleet, to service the EEC or the United Kingdom or any other country, or is it more to do with what might be deemed the national interest, as suggested by the House of Lords Committee, and, as I am directing the question to you, may I say is it more concerned with EEC Community interest?

(Mr Davis) I am sorry, I did not get the person to whom the quotation was attributed at the beginning of your remarks.

1477. According to my note, it is the Chairman of the European Parliamentary Transport Committee in May 1987, quoted in Lloyd's List of 7 May 1987.

(Mr Davis) I have a speech before me which has been provided and what was said in this regard according to this (I hope) true copy is: "The European Parliament would welcome the appropriate incentives to prevent flagging out. We have to stop it before it is too late, but in order to effectively combat this tendency we need to know all the reasons and carefully assess them," so he was not supporting the idea of flagging out.

1478. I was not suggesting he was. I was suggesting what he was saying is that he could see there are advantages to certain Community shipowners in flagging out.

(Mr Davis) I know for a fact he does not like the idea and, of course, I do have a very close relationship with the Chairman of the Transport Committee. First of all, let me say this about flagging out. There are some flag of convenience countries which have a better record than others. Liberia, for example, has had an improving record but at the same time, perhaps because of its increasing insistence upon observing international codes of practice, it has suffered in consequence. One has, therefore, to ask the question, why do some shipowners flag out? Is it to observe higher safety standards and higher standards of crewing or simply to cut costs? I think in too many cases over so many years now it has been a nice easy way of contracting out of what ought to be mandatory responsibilities. It is adopting too often a permissive attitude about standards that ought to apply in any civilised industry. I am not labelling all flags of convenience in that way but it is certainly true of some. Secondly, from a national and Community point of view it is dangerous, not least for strategic reasons. It is, I think, extraordinarily complacent to believe that in time of emergency or potential emergency agreements for repatriation could readily be implemented, but even if they could, could you rely in an emergency upon seafarers from other countries which might have a direct interest in conflict with that of a Community member? There are plenty of Polish seafarers, for example. I am not postulating the possibility of a war with Poland or an emergency but if my recollection serves me right — and this is not a matter of Commission policy — during the 1973 emergency in the Middle East the United States found it very difficult indeed to repatriate vessels where there were agreements in place and so they had very largely — I am not arguing the rights or wrongs — to use aircraft. I do not, therefore, believe that one can view this simply in the context to which you alluded, Mr Fry. I think it is a broader issue but I passionately believe that to flag out in the way that has been happening in recent years is tantamount to saying *adieu* to the shipping industry in the Community and maintaining high standards of seamanship and high standards of safety. I believe that that

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[Mr Fry *Contd*]

would be a policy of utter despair.

1479. Can I follow up your interesting remark that you believe that the solution is a European register. Where would you see the standards set by that register in relation to current UK standards, the standards of what one might call the respectable flagged out, because surely from your other remarks you have laid stress, rightly so, upon maximum safety for seamen? I would put it to you that if the aim of the European register is to maintain the kind of standards and conditions and pay that pertain in the UK fleet at the moment, either that alone will be insufficient to stop a further decline in the fleets of the EEC members or it will require a very hefty subsidy indeed.

(Mr Davis) I think there is profit to be earned from deploying higher standards of seamanship, profits that are not necessarily discerned immediately in balance sheets but in terms that if you run ships more efficiently and that requires a high standard of seamanship, there is a real benefit to be gained from that. from increasing standards of productivity. We are not dealing now in the main with vessels that are labour intensive in the way they had been before. Most modern vessels are substantially capital intensive, so there is room, I believe, for deploying higher standards and better pay without, in fact, endangering the profitability of enterprises that are working in this field. Indeed, if you look at some of the examples that are easily to hand you will find that is so. Of course, it is one of the difficulties that is always in dispute between both sides of industry. What we need in the Community, indeed internationally, is much better research in the industry. Too often we engage in easy mythology which may be displaced by the reality of research. What effective research is being undertaken at the moment, not only into the Community industry — I wish we had more resources available in the Commission to do that very thing — but in the universities? What research is being done which would be able to focus on policies a decade ahead, either of the unions or of the industry? I believe there is a serious lacuna here. I am not saying there is no research. What I am saying is there is inadequate research. You cannot plan ahead unless that research is undertaken much more broadly than it is at the present time.

Chairman

1480. But in relation to your proposal for a European register or a European flag are you perhaps thinking of subsequent protectionist measures? For instance, do you see any progress in the subject of state aids to shipping at present? For example, Dutch and German ships have an 11 per cent. and 15 per cent. advantage over UK-registered ships in the short sea trades. Do you see measures along these lines?

(Mr Davis) I think defensive measures which provide a sort of defensive belt around shipping are something we ought to examine very carefully before we come to introduce them, because undoubtedly it would have a major effect on our international viability. We would be inviting other people to embark upon policies very similar to that. It would have an effect on our cross trades, without any shadow of doubt, although the cross trades have to some degree diminished in significance in recent times. We cannot disregard it. One of the things I would want to see in relation to the aids that you have referred to, Chairman, is greater transparency. We must know what is happening. Many of these aids are currently disguised, so in order to try and probe this issue further, we have written to all Member States trying to obtain information about state aids because state aids can, of course, unbalance a situation and disadvantage certain countries quite unfairly. This is why the Commission has certain policies in that regard. Having said that, to outlaw state aids altogether would not strengthen Community fleets as a whole against the competition from third countries, and that is where the prime competition lies. What we need to do is develop a common approach on what state aids are permissible, what state aids are impermissible, and at the end of the month, as I have indicated before, this is one of the subjects which will be embraced in the discussions between our services and national experts.

Mr Bidwell

1481. It is totally unfair now, is it not, to UK shipping that there should be this disparity that Mr Marshall has referred to? It is transparently unfair as it exists. Would you agree with that?

(Mr Davis) It is because there are obvious inequalities that we must get greater transparency. That is precisely the object of the exercise.

1482. You say they are long-winded in approaching these matters. How can we look to Community solutions in the grand manner you have outlined in your initial statement?

(Mr Davis) I do not think anything I have suggested is so grand. After all, the achievement of the internal market by 1992 you could say is a grand design. The accompanying measures that I have referred to — collective growth strategy, more social dialogue, doubling of the structural funds — all these things that have been discussed at the recent Summit are part, if you like, of a grand design but they are infinitely more difficult than the issues that are postulated for shipping, in my view, and the whole concept — whether one agrees with it or not — of creating a common market and a Community — and I think we ought to stress the Community side as much as the common market side — was a bold design and remarkable progress has been made whatever disadvantages might also accrue. I cannot see that in this relatively narrow field of transport, which is only one sector of transport, the sort of solutions I have been putting forward, which include greater transparency, are so incapable of resolution. I think what is needed is greater political will and greater foresight but also a combination of ideas from, for instance, Defence Ministers, Shipping Ministers, Treasury Ministers, getting together to recognise the basic thing, that is, the importance of the industry.

Mr Fry

1483. In answer to my previous question you did

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[Mr Fry *Contd*]

seem to place great faith in increased productivity. Indeed, we have seen this in many industries. May I put it to you that there are a number of industries where the Third World or a low-cost producer or low-cost country can effectively undercut unless there is sufficient investment in order for the more developed countries such as those in the EEC to take advantage of the kind of improved productivity you are talking about? When one talks to shipowners, as in so many of these industries in Europe, one discovers that they have not been generating the profit in recent years in order to make that kind of investment. A classic example is the footwear industry, where those firms that can invest are able to compete but the industry on the whole is made up of so many units it does not make money to invest. We are getting the same situation in shipping. I must, therefore, put to you that in order to have those advantages in productivity does that not seem to indicate that some kind of more constructive aid is going to have to be given to shipowners so that we can put ourselves in the position where we can compete with low-cost operators?

(Mr Davis) I do not dissent from that. Indeed, one of the reasons that discussions will be going on —

1484. Have you any figure on that?

(Mr Davis) I cannot pre-empt the detailed propositions that will be discussed. I have given you one or two examples. I do not think I can really enlarge on that. I want to see every potential and possibility that is reasonable being discussed. It may be that the ideas we have put forward as a Commission are not sufficiently realistic or are inadequate in some respects, but the national experts have something to feed in as well. But I do not dissent from the essential proposition you advanced. There have to be some incentives to ensure that the shipping industry does survive, incentives for shipowners but also incentives in relation to seafarers. Of course, there is another factor, that in the past few years at least little or no protection was afforded against these unfair practices. We now do have a regulation. Proof of its value will be given in the way it is applied. That is why I was so insistent that from the very first it should be applied rigorously. We also have the other factors such as Port State Control, to which I also alluded, so there are greater protective mechanisms available now than before. But in other industries there have been protective mechanisms deployed to avoid dumping and in that sense, though it is not quite the same in shipping, that is what some of these regulations are all about. You have to take action to prevent people taking advantages of you and that is really what international or Community legislation represents.

Mr Trotter

1485. It seems an unnecessary additional burden and cost to EEC shipowners if when they transfer ships for good reason from one EEC flag to another then they have to go through surveying and, indeed, often modification, at great cost. Is that something on which you think the Commission could help?

(Mr Davis) To take some measure of harmonisation as far as surveying requirements are concerned would be a helpful thing but I think it would be wrong to seek to apply the lowest common denominator in a matter which is so fundamental to safety as that.

1486. You think that is basically best left to the national government?

(Mr Davis) Not necessarily. I think it is a matter which is not at the present time high on the agenda but the important thing is to ensure that we do have high standards of surveying. We have served on Committees together in the past and I know that is something you feel very strongly about and I share your anxiety.

1487. You make very well the commercial argument for maintaining a merchant marine in Western Europe and you also referred briefly to the defence argument, although I appreciate that is not part of your remit. We are told that NATO is now generally worried about the total number of ships available to it and is studying that factor at this moment. Would not the EEC be an obvious body for NATO have to work with rather than with individual national governments, who may each be inclined to say that somebody else must solve the problem?

(Mr Davis) One must not intrude too much in NATO but I note what you say and would not dissent from it obviously. NATO is worried and has cause to worry but, of course, the strategic considerations cannot be divorced from dependence as far as trade is concerned. I do not think I have anything useful to add. I have enlarged upon that.

1488. There really is no link between NATO and the EEC?

(Mr Davis) No, there is not.

Mr Dicks

1489. I do apologise for being late, but one theme which seems to be coming through in everything you say is political will. We have talked about the French rules and you said there is no action we can take against them. Mr Bevan mentioned safety and you said we can only move as fast as the member countries are prepared to, and even on flagging out there is a general view that there is nothing we can do. It seems to me if Britain wanted to do it, the best way out of the problem we are facing with shipping would be to say, "To Hell with the EEC," and do what we think is right, no matter what they say, because if they do try and abide by the rules, if the French and everybody else want to ignore them, they do so. You mentioned trying to prevent dumping, which brought a smile to my face. The EEC is the best organisation always to organise dumping. It certainly defies the logic of GCE 'O' level. It seems to me — and I mean no disrespect to you or the Community — as someone who was pro the EEC and is now becoming anti — that with all the nonsense that is going on, what point is there in the British Government taking an overall European view when so many individual countries, be it Greece, France or whoever, can say, "To Hell with you. We are going to go our own way"? How do I go back and tell people they should be taking a

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[Mr Dicks *Contd*]

Community view if there is no Community political will, just national interest showing itself all the way along the line?

(Mr Davis) I am not here to help or change your point of view about the Community. What I hope to do is to be able to put it in perhaps a different perspective. Britain certainly does not take the view at Government level, at industry level or, indeed, at any other level that I know of that is intimately connected with the maritime industry, that it would be desirable in the interests of the United Kingdom to contract out of Community legislation. I went to considerable pains — the term Mr Bidwell used was "the extended way in which I went into this matter" — to try to show that the negotiation dealing with those four regulations represents an immense benefit to the protection as a first phase of not only the UK fleet but the Community fleet, and the fact that Ministers were able to resolve their differences in the interests of the Community was a great plus. But we are not going to solve every problem easily and every negotiation, whether it is in this field or others, which is concluded with success is, normally speaking, extremely protective. National interests are put forward. Different expertise is called on in order to assist the conclusion of an agreement. I believe that it is now abundantly plain in the absence of Community legislation that Community fleets have declined apace. Our only hope, I believe, is to operate on a Community level. Certainly the opposite is not working, has not worked and will not work. So I ask you to examine the record. What has Britain been able to do to arrest the decline of the British shipping industry without the protection of Community legislation?

1490. This is a rhetorical question but what has the EEC done with regard to the CAP? Has it made any progress at all? I do not expect you to answer that.

(Mr Davis) I am not even going to attempt to do so. It is absolutely out of order!

Chairman

1491. Would it be fair to sum up the situation by asking you whether the Community is now faced with a stark decision between abandoning a pro-competitive policy or abandoning hope of a significant Community merchant fleet?

(Mr Davis) I do not think that we have to abandon a pro-competitive policy in international terms. Indeed, I think if there were fairer competition, most particularly in relation to cabotage within the Community, it would be in the interests of the Community and all seafarers in the shipping industry. I see no correlation, with respect, Mr Marshall, between those two propositions. What I want to see, and I believe is perfectly compatible, is a greater measure of fair competition, high standards of safety and seamanship being applied and a greater resolve on the part of Member States to ensure that a lifeline — and I put it in those terms — in terms of our trade is allowed to remain and be enhanced.

1492. Thank you very much. We have had a very lengthy session. Are there any final points you would like to put to the Committee?

(Mr Davis) Solely to thank you for your probing and to wish you well in your conclusions, which we will in the Commission observe very carefully. I do not know what the timescale for all this is but I hope it will be helpful to us in framing new legislation.

Chairman: Stanley, can I say how nice it was to see you again and I am sure I speak for every single Member of the Committee when I say how helpful your contribution has been to our deliberations this afternoon and how helpful it will be when we prepare our final report, which should be, hopefully, just after Easter. On behalf of the Committee can I thank you and your colleagues for your attendance this afternoon and wish you a safe homeward journey.

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HOUSE OF COMMONS

SESSION 1987-88

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TRANSPORT COMMITTEE

DECLINE IN THE UK-REGISTERED MERCHANT FLEET

MINUTES OF EVIDENCE

Tuesday 23 February 1988

Department of Transport

Lord Brabazon of Tara, Mr R Sunderland and Mr M Ridler

Ordered by The House of Commons *to be printed*
23 February 1988

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TUESDAY 23 FEBRUARY 1988

Members present:

Mr David Marshall, in the Chair,
Mr David Gilroy Bevan
Mr Sydney Bidwell
Mr Jim Callaghan
Mr Derek Conway
Mr Terry Dicks
Mrs Gwyneth Dunwoody
Mr Peter Fry
Mr David Mudd
Mr Neville Trotter

LORD BRABAZON OF TARA, a Member of the House of Lords, attending by leave of that House, Parliamentary Under-Secretary of State, Department of Transport, and MR M RIDLER, Department of Transport, were examined. MR R SUNDERLAND, Under Secretary, Shipping Policy and Emergency Planning, Department of Transport, was further examined.

Chairman

1493. Good afternoon, Lord Brabazon, could I welcome you and your colleagues to this meeting of the Select Committee. Before we start the formal questioning is there any opening statement you would like to make to the Committee?

(Lord Brabazon of Tara) Not really, no. I would just like to say that following your interim report, which came out in May (I think it was), where you recommended us to bring in as soon as possible the measures of assistance to the Merchant Navy, in other words, the crew relief costs and the training costs, we were pleased to be able to do that in the Merchant Shipping Bill which is currently before your House in Committee and also, of course, the measures on registration of dependent territory ships.

1494. The British Shippers Council told the Committee that from a purely business point of view it saw the size beyond which the UK fleet must not be allowed to drop as being zero. Do you accept this assessment?

(Lord Brabazon of Tara) I think it is rather a hypothetical question because, of course, we have to take into account not only the needs of the British fleet for the purposes of trade but, more importantly perhaps from our point of view, the strategic and defence needs.

1495. It may not be such a hypothetical question in a few years' time if action is not taken to do something about the dramatic decline, but we can perhaps come back to that. The Director-General of the GCBS, Mr Le Cheminant, in evidence to this Committee on 2 February said that "the shipping industry, unlike just about any other industry in this country, is exposed to international competition; it operates internationally without the sorts of protections which are actually available to almost all the rest of British industry." Do you think this is fair comment?

(Lord Brabazon of Tara) I am not sure what the reference is to protections available to other UK industries. I would have thought that most UK industries operate in a pretty free market in the world and any barriers to trade which are there at present I would have thought we should be aiming to break down, so I do not know that it is a point I accept so far as shipping is concerned.

1496. The Department's own memorandum of 25 February 1987 argued that "any case for assistance to the shipping industry must be strategic; it has no compelling economic basis." Around the same time Mr Sunderland is reported to have told the International Chamber of Commerce that the UK Government's help with training and crew repatriation costs "marked a departure from a policy of strict non-intervention" and that the motives were "exclusively defence-orientated". Do you think there is now a case for an even greater departure from strict non-interventionism?

(Lord Brabazon of Tara) Not quite yet. I hope the measures we have introduced, to which I have already referred, which are strategically orientated and are aimed obviously at trying to maintain the employment of British seafarers on British ships, will go some way towards keeping people under our flag.

Mr Fry

1497. It has been suggested by some people that no matter what our Government does it would have only marginal significance because the lower-cost countries (if I may put it that way) which attract shipowners will only adjust what they are doing to make allowances for anything the UK or the EEC may do. What is your view on that particular point?

(Lord Brabazon of Tara) One of the main reasons for the decline in the size of the UK registered fleet has, of course, been the difference in crewing costs and I am not sure there is a great deal the Government can do about that. We would not expect our own seafarers to work for the kind of wages which Third World crews are prepared to work for. One must remember that when talking about the decline of the fleet one has to differentiate between the different sectors of the fleet. I am sure you have heard a lot of evidence about how the decline has certainly not been uniform across the whole fleet. One hears these broad figures of the number of ships and tonnage which have been lost. I think one wants to look into it sector by sector more, and in those, what one might call low-value sectors such as bulk and oil tankers, etc., where the rates have not been good recently, although there might be a slight upturn at the moment, where crewing

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[Mr Fry *Contd*]

costs are very important obviously there is a great incentive to flag out or sell up and go to places where crewing costs are much lower. In the higher-value trades such as container vessels, cruise liners, etc., we have really held on quite well to our markets.

Mr Bevan

1498. There are two things I would like to ask, if I may. In the context of the first question, which was not really fully examined, as to the strategic significance of the fleet, I take it from what you say, Minister, that you believe that the size of the UK fleet strategically must certainly be above that of zero?

(Lord Brabazon of Tara) Yes.

1499. I would like you to expand on that and tell us if you feel that the present size of the British merchant fleet is sufficient strategically, if the balance is right strategically, what alternatives you would like to see if it is not, how you would like to see the numbers develop, and additionally, whether you are happy that, for instance, the British Army is carried to its annual manoeuvres on a foreign fleet, the Danish fleet, and how you see the interpolation of the strategic necessities and requirements of the British fleet in terms of both NATO and the EEC capability?

(Lord Brabazon of Tara) That is a large number of questions.

1500. Yes, it is indeed, because I felt that very little had been said about it.

(Lord Brabazon of Tara) How do we define the right size of the fleet? We have to look at it sector by sector. We have to find out what is needed for the various strategic and defence requirements. As you probably know, there are four basic requirements which are defence-oriented. One is direct support for the Royal Navy. There are sufficient ships for that. I think it is all right at the moment; it possibly is close on the number of product tankers, I think I would be right in saying. The second is the transatlantic reinforcement from the States. That is largely a matter for the States and NATO. We would obviously need to be able to produce our share of that requirement and that requires a largely different type of ship from the first one. The third leg is the cross-Channel need to reinforce Continental Europe in time of difficulty. I think we can be confident at the moment that that is satisfactory. The fourth, of course, is the question of civil resupply. On that last point, we have for many years, I think since just after the end of the last war, had the NATO pool to which all NATO countries subscribe their shipping in time of necessity, so that it would be available in time of need. NATO is, we hope, going to look into that very shortly and see if that is currently up to scratch. We very much welcome those studies being done by NATO. In fact, I think we were in the forefront of pushing them along in that direction. So it is a question of fulfilling those four needs and making sure we do have the right balance of ships, not just, as I said earlier, a pure measurement of tonnage. As I say, at the moment we do have enough ships. I mentioned one possible area where there could be a shortfall shortly. On your last question, about the hire by the MOD of Danish-registered ferries, I think they were, for manoeuvres, we would take the view that it is up to the MOD to get the best value for the tax-payer when they hire ships for those sort of purposes. We would expect them, if it were possible, to hire British-registered ships but, quite obviously, if British owners do not want to put their ships up for charter for that kind of operation, if they are in use commercially at the time, one can understand why they might not want to do that. Then I think it is better in many ways that they should be actively employed in trade rather than being taken up for those sort of exercises. Of course, if there was a state of war or a state of near-war, then of course we could requisition our own ships and take them off their regular service so they would be available to us.

1501. Secondly, if I may: it has not been alluded to yet, but the question of cabotage has figured very substantially in the examinations of this Committee, and I would like to know really what you feel is the interpolation in the EEC and the cabotage adopted by various member countries, and indeed outside the EEC and Europe, and how we should indeed align our own, if any, cabotage dispositions. We have indeed taken unofficial action, and in the questioning to the Commissioner at the last meeting, the EEC Commissioner, reference is made to the remarks made in the shipping debate about the ability of the French to make rules to suit themselves, and the Greeks being worse. This all mitigates against the adequate functioning of the British merchant fleet. How do you see the situation and do you think it demands action of us?

(Lord Brabazon of Tara) I think the situation as regards cabotage within the EEC is very unsatisfactory. We were very disappointed indeed during our presidency, when we adopted the other four measures in December 1984, that no progress was made on cabotage. I am encouraged that the German presidency is, I hope, going to take up the issue during their presidency, but I must say that at present the situation is extremely unsatisfactory, in that it is something which must be dealt with by the Community. It goes against the whole purpose of the Community and free trade, and it just is not satisfactory that there should be a barrier remaining to our ships in European cabotage trade, and I very much hope some progress can be made. It must be made in any case by 1992. Mr Sunderland would like to add a point.

(Mr Sunderland) I think it is also worth adding that there is in fact an obligation on the Council of Ministers under the Treaty of Rome to adopt measures for the liberalisation of the shipping cabotage trades, and what is in question is when it will be done. We have had already a judgment of the European Court in the inland transport sector, where the Council has been dragging its feet over the liberalisation of cabotage there, and the Council is considering now what it should do about that. Shipping seems to be following on a little bit behind but I think it would be a mistake to assume that because we did not manage to get a regulation during

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[Mr Bevan *Contd*]
our presidency, that is the end of the matter. We do anticipate early developments in this area.

Mr Callaghan

1502. Lord Brabazon, referring back to the statement that you made that you felt we had a sufficient number of ships within the fleet but that if there were an emergency we had the necessary power to requisition other ships, I raised the same problem last week, that whilst we may have the ships that we could requisition, did we have sufficient numbers of highly skilled officers and crews to take over these ships? If my memory serves me rightly, I raised quite a thorny problem, because it would appear that we have not got adequately trained men in sufficient numbers to take over in an emergency. What is your view on it?

(Lord Brabazon of Tara) Our view is that it is something which definitely does need to be looked at. That is one of the proposals before your House in the Merchant Shipping Bill, the establishment of the Merchant Navy Reserve, which will, I hope, encourage seamen to go on to the Reserve and make themselves available in such a time. Of course, the other leg of that is the training aspect, and we are also introducing assistance to the merchant navy in their training costs. You are quite right to say that the numbers currently undergoing training are inadequate and that is why we have targetted specifically on that area and have introduced this measure in the Bill to give some assistance to shipping companies in training their officers.

Mr Callagan: Thank you.

Mr Conway

1503. I think we must resist the temptation to be the Defence Committee, but I would like to press the Minister a bit more on that. Can you give us your view on the direct support proposals that the GCBS suggested for a crew-related allowance payable in respect of each British seafarer employed by UK owners on their ships and for a Merchant Navy Strategic Reserve Contract, the incentive that you would give our owners to help with the reservists?

(Lord Brabazon of Tara) We are obviously studying the proposals which the GCBS have put up, largely for the Chancellor, I think, really rather than for my Department, and he, I know, has also been sent a copy of those proposals, and no doubt he is studying them with care. I obviously cannot make any comment as to what he might or might not do in the Budget — I do not know, but even if I knew, we are very close to it now, and I think that obviously when we look at those proposals we have to remember that, once you start to subsidise in that sort of way, it is a difficult road to go down.

Mr Mudd

1504. The Minister has suggested that in the event of hostilities requisitioning would be an adequate tool based on the existing size of the merchant navy. I would like to look at the existing age of British ships. At the present moment the average age of a British ship is about ten and a half years. Is there not now a growing responsibility to be placed upon the Government, in the interests of providing the ships for requisition, to provide the stimulus and encouragement for the creation of a newer, more efficient and more effective merchant fleet?

(Lord Brabazon of Tara) I think that ten and a half years is probably about average for many countries' fleets. I do not think it is something we need to worry about unduly at this stage. I am encouraged to see that one or two shipping companies are now making a great leap forward and ordering a few more ships. I was glad to see that P & O the other day had placed an intent to order a large, new container ship, so all is not doom and gloom. Again, really the question of providing incentives of that sort, you are again coming back to the type of fiscal measures which the GCBS advocate, which are really matters for the Chancellor to look at, and no doubt he is looking at them.

Mr Fry

1505. I wonder if I could pass one or two remarks to Mr Sunderland. May I say, first of all, his faith in the Council of Ministers bringing about the agreement on cabotage is very much greater than mine. I say that at the outset. We had the EEC Commissioner sitting before us last week. He very commendably talked about creating an EEC shipping policy but when I did suggest that by the time the EEC came to a decision there would not be a British merchant fleet to defend, he did not quite say that would not happen but did accept it would take some time to achieve. Now we are seeing a situation where some of our EEC partners have a decided advantage in the present situation. Why should the Germans throw away the advantage they have in relation to cabotage and why should they give it up? The history of the EEC does not exactly give one confidence that they will actually step forward and say, "We will give up our advantage for the sake of British shipping," so the problem that arises, if I may say so, is, if there is no agreement on it what is the British Government going to do to bring about such an agreement? One of the things we could do is to say, "Right. If you will not come to the negotiating table and will not agree to share this, then we will restrict our own cabotage." How long, therefore, is the Government going to wait for the Germans and the Dutch and anybody else who has an advantage to carry on taking trade away from us before it does something more actively to defend British merchant shipping?

(Mr Sunderland) Perhaps before the Minister comments on that I could amplify my earlier remark by a reference to the commitment of the Council of Ministers to complete the internal market by 1992. That I think I can say is a solemn commitment on the part of Ministers and that will embrace shipping as well as the trade in goods and other services.

1506. We all have our views at to whether that is going to be achieved, but do go on.

(Mr Sunderland) I think that, combined with the judgment of the Court on the internal side, together, if I may say so, with our experience during our own Presidency — when, although we did not get a

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[Mr Fry *Contd*]
cabotage regulation we made quite a bit of progress towards one and time ran out on this because the Presidency only lasted six months and we had a very substantial package of measures to get through — those three factors together do give us some ground for confidence.

(Lord Brabazon of Tara) Could I say something on your particular question about the Germans and the Dutch. We have no argument with the Germans and the Dutch. Their coasts are open to us. It is really with the Southern European states whose coasts are totally closed to us. I do not think that closing our own coasts completely would be the wish of the industry. They would rather see us try and open the coasts of those countries who at present close them to us, notably France, Italy, Greece and Spain. One has to make a judgment about what is the best thing to go for. We believe that it is best to try and get other people's coasts opened to us rather than closing our own, even if we were legally allowed to close our own, which is doubtful.

1507. Can I take up that point about the Dutch and the Germans. They do have an advantage in terms of short sea shipping over and above the trade we have. The figures we have been given are an 11 to 15 per cent. advantage over UK-owned and registered ships. In the light of that fact we cannot even get an agreement on cabotage. I must put it to you, Minister, is it not time the Government took some firmer steps to try and at least reduce that disadvantage against two very near neighbours and fellow members fo the EEC?

(Lord Brabazon of Tara) When you are talking about that advantage you are talking about the investment grants which the Germans have given their short sea trade in particular. I think they may now be regretting giving them that. There is evidence of over-tonnaging. You are going down the road again of the sort of investment grants which used to be given in the old days, which have resulted in over-tonnaging, in lower rates and the sort of situation in which world shipping has found itself, not only our country but everywhere else as well in the industrialised world, in the last few years.

1508. With respect, you have not answered the question I asked. How much longer is the British Government going to hope its EEC partners will agree over cabotage? Is there not a very strong argument for saying we will put some kind of time limit on this because of what is happening to our own coastal shipping, which has not exactly been turned down in previous Ministerial statements but it has been suggested is a possibility? May I put it to you, Minister, that perhaps the time has come to say it is more of a probability unless there is some action taken by your partners?

(Lord Brabazon of Tara) We have always said that unless we can get a cabotage deal through we might have to take other action, for instance going to the European Court of Justice, and we have looked very carefully into the matter. Unfortunately, it appears it does not entirely come up with a solution which would meet with favour by our shipowners or, indeed, ourselves. I think you will find the issue of cabotage will come up before the Standing Committee on the Bill probably fairly shortly and perhaps I had better let my colleague Mr Mitchell deal with the question then when it comes up rather than now.

Mrs Dunwoody

1509. With respect, it is actually rather fundamental to the decisions that this Committee is taking. I find it very difficult. I understand your attitude that we can, if needs be, go to the European Court, although I understood Mr Sunderland to be saying that had already happened in one case, not for cabotage but certainly in related terms. I have to say to you my experience of the European Court is that even when it takes a decision it can be anything up to four years before that decision is put into operation. When I was a Member of the European Parliament I had statistics given to me by the Commission which proved that, unlike the British, who nearly always comply with decisions of the Court quite quickly, other European nations can take up to four or five years before putting into operation the decisions that are taken against them. We are in some difficulty here because, as far as we can see, the Department is saying that the size of the fleet, even though it may in the final analysis be a matter for our defence, is not one for the Department of Trade. You can only look at the fiscal and organisational effects in relation to trade and it is not your responsibility to look at it in relation to the national interests, because if that were so, presumably you could give us an estimate of what you regard as the bottom line. I find it very difficult to work out exactly what the Department does regard as a minimum commitment because at the moment it is not clear what size merchant fleet you would accept was necessary since many of the things you said, frankly, are conditional — *if* there were an emergency and *if* we had sufficient ships readily available, then we *could* conceivably take them over. I would like to know what the Department regards as a workable, viable merchant fleet and that I am not clear about. For example, I understand you said in another place in a debate on the mercantile marine that there had not been enough structural change to meet the competitive challenge of even larger units of international shipping. What kind of structural change are we talking about and what more can you expect in terms of structural change than has already taken place? You said you want us to look at different sections of the industry and I understand the logical approach from that point of view but since we cannot, as a Committee, seem to find out what your interpretation of that is, it makes it a little difficult for us to decide how you have come to those conclusions.

(Lord Brabazon of Tara) I understand we have in fact produced evidence to the Defence Committee on what we consider to be a size of fleet which is needed for strategic purposes, and I understood those figures had been made available to you. If they have not, I will make sure they are. I understand they have been.

1510. I am sorry, but we have been told that the General Council are concerned about fiscal advan-

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[Mrs Dunwoody *Contd*]
tage. The Department presumably is interested in the trade involvement. That must be your responsibility. The GCBS said that in the future the UK-owned and registered fleet would contain no more than one hundred ships by 1995 of more than a particular tonnage. Is that a forecast you agree with? It must be a forecast obviously, but is it something you accept? Does it worry you? Do you think that you can reverse that situation by further legislation or are you really content that the very marginal changes — it seems to me — that you are suggesting will actually have the effect which you seek? What is the attitude of the Department towards the maintenance of a viable fleet?

(Lord Brabazon of Tara) I had hoped I had said something about that at the beginning, with respect. Our job is to make sure that there is a sufficient supply of ships for defence and strategic needs and that is what we have done. We have produced the figures — incidentally, which are confidential, so I cannot go into them here now, but you have got them. On the question of whether I accept the GCBS figure of one hundred ships, obviously if that was the case that would be extremely alarming and we would before that happened had to have taken further steps than we have already. So I think I do not accept that figure at the moment, no. We have seen the decline in any case flatten out perhaps over the last couple of years or so, but as I say, we keep a close eye on the numbers. We know — the Ministry of Defence lets us know — what we need, and if the situation arose where the measures that we have taken or are in the process of taking at the moment do not turn out to help stop the decline, then obviously we would have to think about taking further measures, yes.

1511. Which is it that has happened: we have not got a plateau and the decline has stopped or you feel you must take more measures because the decline will continue?

(Lord Brabazon of Tara) I said we appear to be on something of a plateau at the moment but, having said that, I do not want to sound complacent about the issue.

Mr Trotter

1512. We hear suggestions from time to time that we should have a Ministry for the Marine in this country. There are, I think, a number of our European competitors in the marine field who do have such a ministry. One suspects it is not as simple as that name on the door would imply, that those ministers have many other responsibilities as well, but are you able to tell us anything about the Department's thinking on that? Could there be advantages in having a single Ministry for the Marine, dealing with everything to do with marine matters?

(Lord Brabazon of Tara) I am not sure. We deal with most of the things to do with marine matters. We do not deal with the defence side of it directly. I do not know of any European country which combines those two. We do not deal with fishing.

1513. Ship-building?

(Lord Brabazon of Tara) Or ship-building. Fishing: I know the French combine their Ministry to include fishing. I do not know whether there is any particular advantage in that or not. I would not have thought there was necessarily. Ship-building: I do not really see that there would be any great advantage in that particularly either. The interests of shipping and ship-building, as you will all be aware, do not necessarily always run together. Certainly they have not run together over the last few years.

1514. When we had the EEC Commissioner before us last week I pointed out to him that the French petroleum industry was complaining at the current time that it was an obligation imposed on it that two-thirds of the oil brought into its refineries from overseas should be carried in containers under the French flag. I suggested that was contrary to the EEC rules. The gist of his reply was that no official report of that transgression had been made. Would it not be open to our people to make such a complaint if this is in fact true?

(Lord Brabazon of Tara) I would have thought it would be, yes. I wonder if I might ask Mr Sunderland to comment on that. He is the expert on European matters.

(Mr Sunderland) Yes. The position in practice is perhaps not quite as you have stated, Mr Trotter. I believe that oil companies can transport in the course of a year oil equivalent to two-thirds of their imports into France — it does not matter where in the world they carry it, and that is slightly different from a law which says that a given quantity of imports into France should be carried in French-flag vessels. Nevertheless, other members of the Community have pointed out to the French that its effect is equivalent to that of a cargo reservation law, and the matter is being looked at now in the light of the Freedom to Provide Services regulation which came into effect last year. I am not quite sure how the lawyers will finally resolve it.

1515. It is very interesting to have your more detailed explanation of what the law actually says. One would think a fit description would be to say it is a typical Gallic law and extremely clever to get round the problem we are addressing. I suppose it would be open to other countries to do the same thing.

(Lord Brabazon of Tara) I would hope that was one of the reasons why we got those four regulations through in the Community a couple of years ago. It is just the sort of thing we ought to be able to catch.

1516. The Commissioner, when one put it to him after one had run off the seas hopefully all the badly-maintained and badly-crewed ships we would still be left competing with the well-maintained and well-managed ships with third world crews, perfectly happy with that standard of wage, I think was saying that might be something the EEC should tackle and he was using words that implied some fiscal support. Is there not in fact perhaps a very good argument for the Common Market taking this on board, because we are dealing with such an international problem? It is probably the most international problem there is in commercial life. Would not the EEC be the right body to handle this?

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[Mr Trotter *Contd*]

(Lord Brabazon of Tara) I think there is a lot to be said for that. The Commission is bound to come forward now with the second stage of Community shipping proposals to cover just those sort of issues, and I very much look forward to seeing what they do propose on an EEC-wide basis covering fiscal measures, tax, etc. I think that is the right way forward.

Mr Dicks

1517. Sitting through some of the evidence from your colleagues in the Department one would be forgiven if one thought there was a touch of complacency. There was a television programme called "It Will Be All Right On The Night", which shows you what goes wrong before the actual programme goes out. Listening to the views put forward about the defence implication, it is like this: "What about the crews?" "Don't worry. We will get that sorted out on the night." "What about cabotage?" "We think we can sort it out." "How many ships in the fleet?" "Don't worry. We think the number will sort itself out in due course." We had last week the EEC Commissioner talking about getting things right: "Where there is a political will coming from all the countries, it should be okay. We must wait for the countries to get together. We, the Commission, have not got the power. It is up to the countries." I get the feeling that on the night the whole thing is going to fall apart if we are not careful. That is the impression some of my colleagues get, listening to all this. You said you thought — one specific example — that the industry would like to see the coastlines opened up rather than us closing down ours. If that is not successful — and it is not going to be; after all, the Community said they would keep their spending within certain guidelines and they have forgotten that. They spend like there is no tomorrow, so if that goes wrong, I cannot see there is going to be any coming together of the EEC to do anything constructive. Have you asked the industry what they would like to see the Government do if the southern European states are not going to open their coastlines? Have you said to them, "What would you like us to do within a certain time-scale and how would you like us to do it"?

(Lord Brabazon of Tara) We have spent the best part of the last getting on for two years now discussing with the industry and others about how we might proceed on the cabotage issue and we have come up with some pretty difficult things, which are not really likely to be that successful. I am talking about the European Court of Justice route. So we are, yes, in constant touch with the industry about how they would like us to proceed in this matter, but unfortunately we have not been able to come up, at this stage anyway, with what would be a really satisfactory solution to it.

1518. The point I am making is this: you said you have been looking at this for two years. You have now said, "We have had no success under the British presidency. We are hoping for success under the German presidency", although we have a vested interest in keeping things as they are. When is tomorrow going to come, when somebody wakes up in your Department and says, "For God's sake let us see action, and action now" about anything to protect the decline of the fleet, to protect us in the EEC, to do anything constructive, for somebody in the industry to look up and say, "At last we are making a move forward positively?"

(Lord Brabazon of Tara) We have brought forward the measures which are contained in the Bill at the moment. That is a positive step forward as far as the industry is concerned. It is the first effort, I suppose you could call it, at subsidy that the Government has produced for the industry. So far as cabotage is concerned, I can assure you that the contacts we have had with the industry indicate that they do not want the closure of our coast. They would much rather that we succeeded in opening the coasts of those countries which are closed. That is very certain.

Chairman

1519. Could I return to another question from Mrs Dunwoody when she quoted your arguments in the House of Lords that there had not been enough structural change to meet the competitive challenge of even larger units of international shipping. I am not sure you fully explained to the Committee exactly what kind of structural change was required.

(Lord Brabazon of Tara) I am not sure I can remember the reference Mrs Dunwoody made to the speech I made and when I made it. I wonder if I could be reminded.

1520. It was a quote from one of the speeches you made in the debate on the mercantile marine in July 1987.

(Lord Brabazon of Tara) I think we obviously have seen a good deal of structural change within the industry in the first few years and one of the good things, I am bound to say, about the British shipping industry is that we have not seen the bankruptcies that have taken place in other countries, some of which have been most spectacular. As I said earlier, the industry has adapted itself to those areas in which it can profitably trade. There might still be some further progress to be made in that direction as to further structural changes. There have been recent mergers and consolidation, which is all to the good if we want to have a strong, competitive industry.

Mr Fry

1521. Can I follow that up because when the Chairman of the General Council of British Shipping was giving evidence he made that very point, that they were not all actually on the breadline or going into bankruptcy, but he did make it quite clear that that was largely because those companies were diversifying and were not, in effect, relying so much upon shipping for their income. I put two points to you. One is, I hope the Government is not taking comfort from the fact that the shipping companies are not going bankrupt and, therefore, feels that it does not need to do any more to help the shipping industry. The other point is that it was made quite clear by the General Council of British Shipping that they were not encouraged to invest and it does seem to be this area where there is a broad disagree-

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[Mr Fry *Contd*]
ment, a very fundamental disagreement, between the Government and the General Council. They are saying, "We will carry on in business but do not expect us to be the kind of companies that we were in the past, owning as many vessels, employing as many British seamen. We are going to need some kind of alternative financial structure if you expect us to go back into the market of ordering ships." I would be very grateful for your comments on those two points.

(Lord Brabazon of Tara) It is definitely fair to say that the GCBS generally did not welcome the 1984 fiscal changes which took place so far as capital allowances were concerned, although there were certain special measures included in those to assist the shipping industry. On the general point of those measures, of course they have been found to be successful elsewhere in industry. There is no doubt about that. I do not think anybody could argue that, so shipping does seem to be a unique case in not having been advantaged by the 1984 removal of capital allowance or overall first-year capital allowance. I point out at the same time that that was accompanied by a fairly substantial reduction in corporation tax. I accept that since that time there has not been very much investment in new shipping but we have, as I said earlier, begun to see a little bit now. You will have to ask yourself the question whether you want to encourage companies to invest in what has been an unprofitable area up to now or not. Obviously where shipping companies can see a profit in their particular trades then if they want to stay in that they will eventually need to re-invest, but I do not think we desperately want to encourage companies to invest in something which is fundamentally unprofitable.

1522. But do you see any difference in principle in a Government investing in areas of high unemployment or even inner city decline because it feels that that kind of investment is necessary to the well-being of that area and investing in an industry which it has now been accepted may well be vital to the needs of this country? Is there any real difference in principle? In both cases the Government is surely investing in its own best long-term interests and surely any attempt to pretend there is a difference between the two kinds of investment is only going to blur the whole issue?

(Lord Brabazon of Tara) I was talking about investment in industry generally. As I said earlier, we introduced a couple of measures to assist in the Merchant Shipping Bill and, as I said, if we find that the situation deteriorates still further and we get to the danger point in the number of ships available, we may very well have to look at other means.

Mr Fry: May I finally put to you very much the point that Mr Dicks was making. This Bill, which we accept is of value — although it is doubtful how great that value is — is welcome. The trouble is that the Bill has come after a period of tremendous decline in British merchant shipping and surely the real danger is that there is not enough urgency about it. You have not yet really given us any idea of the timescale you have when you think you are actually going to do more than you have in the Merchant Shipping Bill which is before Parliament. You are going to wait much longer. At the current rate of decline we shall reach the 100 and shall wait longer. I must put it to you, Minister, that our concern in this investigation is the fact that the Government has tended to react too late and without the degree of urgency and this has been mirrored by this sharp and very tragic decline in British merchant shipping.

Mr Bevan

1523. I would like, if I may, to put it to you another way, in boxing parlance which you will understand. Are we not counterpunching all the time instead of punching? I suggest everywhere we look there is deterioration, there is decimation in shipbuilding, there is demise in shipowning, there is deregistration in ship operation, there is now new promotion to prepare for a revival in modern shipbuilding in a multinational way away from us overseas. Our flag has been seduced away by others and is in dramatic decline and we are now like the man who is going downhill; he is going downhill at such a speed he cannot correct. We are correcting by counterpunching or attempting to correct by counterpunching rather than putting in some of our own blows. I am rather of the opinion that we are leaving it to such a time that the decline is now terminal and that unless there is some real strategy immediately in terms of attacking parlance we shall not be able to make it reparable.

(Lord Brabazon of Tara) I am afraid I would disagree. As I said earlier, we appear to be on some sort of a plateau at the moment. The size of the fleet on the British Islands register has been static now for the last six months or so and we have begun to see one or two companies ordering new vessels. The most important point to make is the one of world markets and we have now at least begun to see a slightly better trend in rates in the world. Do not forget, all this goes back to the profitability of the companies at the end of the day and whether they can actually make money out of their shipping activities. They have been through some very bad times over the last few years caused by low charter rates which are nothing to do with the Government and nothing to do with any Government really, except those who have, for whatever reason, encouraged their shipbuilding at subsidised prices which has added to the over-tonnaging in the world market. We have now, I hope, begun to see some recovery in rates and that is what it is all down to at the end of the day, whether shipping is going to be profitable or not.

Chairman

1524. With respect, Minister, you said the decline over the last few years had nothing to do with the Government. What has the Government done to try and arrest the decline, which seems to be the main question, and what does it intend to do? So far, to be absolutely frank, we do not seem to have any positive, definite answers.

(Lord Brabazon of Tara) I did not say the decline in the last few years had nothing to do with the Government. I said that the bad rates in world shipping markets had nothing to do with governments except for those who had encouraged cheap,

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[**Chairman** *Contd*]
subsidised ship-building. That is what has been the cause of most of the shipping industry's problems. Over-tonnaging and consequent low freight rates have really been the problem and I do not think the Government could take any blame for that.

Mr Conway

1525. Minister, I think the point you make about the 1984 Budget has been taken on board by many members of the Committee and the fact we now have the lowest corporation tax in the industrialised world. I am sure the ship owners will appreciate that point when deciding where they should be registered. Your Department on 10th December last year issued a press notice reminding the public that UK shipping had made a £0.7 billion contribution to the balance of payments for 1986. Do you consider that contribution to the economy as of significance when we look forward to perhaps a bullish Budget in the middle of March, and can you give the Committee some idea of how much of a loss this country has sustained in terms of balance of payment earnings, tax, employment, etc., due to the decline of the fleet if we have gone from that kind of contribution in the economy in 1986 to the present contribution?

(Lord Brabazon of Tara) I have not got the figures with me at the moment. I am not certain they were not in the evidence that we gave to the Committee, but obviously the overseas earnings of shipping are not as great as they used to be in the old days, but that is true of a number of industries in the country and a number of other industries have come up and made up for that. I do not think that one can justify subsidising a fleet to the extent just so that you get a positive balance of payments in that particular sector. Mr Sunderland would like to add a point.

(Mr Sunderland) I think it is true to say that the industry's contribution to the balance of payments in 1986 was its best for some five or six years, so this is an area where we are not in fact seeing a continued decline.

Mr Fry

1526. Not seeing a decline? Surely that is over a very, very short period of time; if we go back five, ten years we must be seeing a decline.

(Mr Sunderland) Perhaps I could say then that the decline in the contribution that the industry makes to the balance of payments is nothing like proportional to the decline of the tonnage. It has in fact turned up in 1986 while, as we all know, the number of ships on the British register was declining, so there is not an immediate correlation.

Chairman

1527. Could I come to the question of the supply of officers and crew, Lord Brabazon, and say that in evidence on 25th March last year given by Mr Dempster of your Department, he said that the Secretary of State's objective is to train cadets in larger numbers than those that are now entering the merchant service. What those numbers should be is still a matter for consideration. Now, the number of UK seafarers decreased between 1975 and September 1987 by some 70 per cent, and perhaps the most worrying aspect of all of this contraction has been the virtual disappearance of cadets and trainees. Cadet numbers have fallen by some 93 per cent since 1975 to a total of less than 500 and, as Mr Sunderland pointed out in evidence on 9th February, only 189 cadets entered training in 1987. Will the training assistance in the Merchant Shipping Bill be sufficient to ensure an adequate and continuing supply of cadets or have you yet decided what number of cadets is required?

(Lord Brabazon of Tara) Certainly we do not regard the present number of 189 as being at all satisfactory, and we would obviously like to see a substantial increase in that number. Now, the assistance, if the Bill goes through intact, will be £3.5 million a year in the first full financial year, and that should go quite a long way to increase those numbers quite considerably. I cannot say that it will happen overnight. Obviously there has got to be the desire for people to go into a seafaring career and therefore the industry and various other societies, etc., will, I hope, be promoting the sea as a career again and encouraging people to take up training, but I would very much hope that within a fairly short space of time we would at least see a doubling in the number of officer cadets going in for training.

1528. In a speech to the GCBS in December the Secretary of State announced that the Government was aiming to publish its plans for the training scheme for cadets early in the New Year. Can you tell us what are the special features, if any, of that scheme?

(Lord Brabazon of Tara) Basically, we would like to build on what is currently available under the YTS scheme, which I think is a two-year scheme only. Now, the training of an officer cadet takes four years as a minimum, I think. We would obviously like our assistance to be able to pay for in any case a substantial part of the second two years of that training. We would also set quite a bit of store by giving assistance for serving officers in training up to a higher standard, getting on to their next qualification, and we would like to make assistance available for that as well.

1529. Are you able to give any indication at all of numbers? Will it be roughly the same as before; will it be a small increase or a substantial increase? Do you have any target figures in mind?

(Lord Brabazon of Tara) As I said, we will have to see how it develops, but I would very much like to see at least a doubling in the present number of cadets — at least a doubling.

Mr Dicks

1530. Just to follow up on the answer you gave to the first part of the Chairman's question, you said that people have to see a future in the industry. We keep coming back to this. You cannot expect people to come into an industry that is in a rapid state of decline, however short-term the plateaux are. The Government has got to do something to encourage young people to come forward to train as officers. In terms of employment, let alone the industry, the Government has a duty to see there is a future. How can you expect somebody to take up a career in the

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[**Mr Dicks** *Contd*]
merchant marine if the whole industry is declining — I do not wish to be disrespectful — and there seems to be this touch of complacency; "Everything will be all right tomorrow"? How are you going to encourage people to join the marine? What input are you going to put into that equation?

(Lord Brabazon of Tara) As I said, some British companies are very profitable at the moment in the shipping industry. There should be a good career for young people to get into. It is to a certain extent, up to the Government to give encouragement. I would have thought the fact that we were providing this special assistance for training — it is not something we do in many other industries, if any; I do not know what happens elsewhere. It is pretty unique — in one sense did indicate the Government's commitment to the future employment of British seafarers, and secondly, as I said, the fact that there are some profitable, good British shipping companies around. There are also, of course, opportunities for service on non-British ships, where British officers are highly valued still.

(Mr Sunderland) Could I add two points on this, Chairman? First, I think there is a sense in which the industry's own predictions about the future have been self-fulfilling. I have spoken to people in large and successful shipping companies who have bemoaned the fact that good quality cadets are not coming forward because school-leavers have been told that there is no future in the industry and they have been told that there is no future because their careers advisers have read in the newspapers that the industry itself is forecasting its own demise. Some people in the industry I know are not very happy about some of the statements that are made on their behalf. The second point I would like to make, in case there is some misunderstanding about the Minister's reference to the YTS scheme, is that our scheme of assistance for training will cover all four years of the training. Although it is modelled on the YTS scheme the intention is that we should make the assistance available throughout the period of the cadets' training.

Mr Fry

1531. Could I follow that up because in some evidence we received a long time ago, before the election, we were told two things: firstly, there was now no national scheme and even if a youngster was interested it was very difficult indeed for him to find out how he could get training. That was the first point. The second point was that although I am sure I welcome and the industry welcomes the Government's intention to increase the number of cadets — and you did say, Minister, you hoped for a doubling — I think my memory serves me right that we were told that even to maintain the current level of the merchant shipping fleet approximately 500 cadets per year would be needed. Either that estimate is wrong — you might take that view — or even on your hopeful estimate of 378, which is twice the current level, that will still be 25 per cent. below the number of cadets that is considered to be the minimum for the present fleet. Does that mean you are expecting the fleet to reduce further or would you feel that further steps might well be needed to increase from 378?

(Lord Brabazon of Tara) Let us get to the 378 first and then see where we go from there. We have a bit of a way to go to get there.

1532. But you would not argue about the fact that there has been a lack of national policy in relation to training and, indeed, the fact that your 378 may still be too few?

(Lord Brabazon of Tara) I would not necessarily argue that 378 would still be too few. I only used the term "doubling" in a wide sense. I think it is a good first step to aim for. When we get there let us see if we can get up to 500.

1533. But before you embark on a national policy of trying to do that, is it not a good idea to try and find out exactly how many you are going to need? What is the point of leading youngsters up the garden path and they discover they have not got a job or, what could be even worse, training youngsters and then they discover they have not a job to go to? If I may say so, there does not seem to have been sufficient investigation in depth as to how many cadets really are going to be needed because that is exactly what a young man wants to know. He wants to know what his future is going to be.

(Lord Brabazon of Tara) You yourself have quoted a figure of 500 cadets a year being needed, so we could comfortably double the present figure. I would not guarantee that they would all get a job because one could not do that but there would obviously be an opportunity for them there. So I do not think there is any danger at the moment that those who do take part in this training and do get qualified would not be able to find a job at the end of the day. I think there is obviously every chance that they would.

Mr Mudd

1534. While the Minister has steadfastly rebutted all the suggestions of the Committee that the British Merchant Navy has virtually reached the point of no return, it seems that even he is prepared to concede that we are closing on that very fast indeed and one must now look at the world attitude towards the attitude of the British Government towards maritime matters. It does seem that we are being lackadaisical; it does seem that we are not providing incentives; it does seem that we are prepared to live with the continued erosion of such of our Merchant Navy as exists. Can we ask the Minister to contrast this with the attitude of the French? Monsieur Guellec, the Secretary of State for the Sea, in October of last year totally eclipsed Moses by laying down 23 specific aids for the French maritime industry, and I quote from *Lloyd's List* of 4 February: "By the end of 1987, 11 companies had already qualified for government grants totalling French Frs. 128 million, while another nine had been declared eligible for aid and a further six applications were under consideration. Whilst no one in France, least of all M. Guellec, would claim that the merchant navy plan alone had put a stop to the rundown in the French merchant fleet, it does seem to have contributed to the creation of a climate

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[Mr Mudd *Contd*]

in which shipping companies have felt encouraged to take the often drastic measures which they felt were needed to adapt their activities to the requirements of the international maritime freight market." I would simply ask the Minister this: what earnestness, what evidence is there that in the Department of Transport there is now the determination to press the Treasury, the Department of Trade and Industry and all other sources to give the British Merchant Navy the signs of encouragement and support that M. Guellec managed to find in his 23-item shopping basket that has led at least to a more sustained initial recovery on the part of the French Merchant Navy over the last four months than we have seen in the British Merchant Navy over the last four years?

(Lord Brabazon of Tara) Before I comment I would like to ask Mr Sunderland to comment on some of the aspects of those French proposals. I would say we have made some commitment through the measures we propose in the Bill to give assistance to the fleet, and I have tried to make it clear that obviously we keep a close eye on the situation as it is at the moment. If the situation does deteriorate further from the present, we may very well have to take further measures. I have already said that. I think some of those French proposals were not quite as new as they seem.

(Mr Sunderland) There is no doubt the French Merchant Marine Ministry has done a very good job of advertising its package of measures, but if you look at them you will find they fall into at least three categories: first, re-affirming old measures such as the adoption of an international register to allow French shipping companies to employ foreign seafarers rather than French, which may not be interpreted in all quarters as support for the French merchant marine; continued support for the loss-making national line — the great bulk of the revenues earmarked for the French merchant fleet were of that order — and some extremely minor measures which I am sure, had they been proposed as elements of a package to say, the British merchant marine, would probably have been ridiculed. So I do think one has to look at the detail of these before coming to the conclusion that the French merchant fleet has been turned round with a massive programme of government assistance.

Mr Mudd: With respect, though, Mr Sunderland has touched upon some of the less attractive and perhaps more negative aspects of M. Guellec's package, but the fact still emerges that the French Merchant Navy, which was probably heading for the same rocks of disaster that lie inexorably ahead of our own Merchant Navy, has now been given the power and the ambition to steer clear of that disaster. It does, therefore, seem in the French Merchant Navy there is a new confidence and an upturn that sadly is a mirrored reflection of the low morale that seems to exist within the British Merchant Navy sector.

Chairman

1535. You have no answer to that?

(Mr Sunderland) I did not think we were being asked a question, Chairman.

Mr Bidwell

1536. Are you able at this time to say anything about the GCBS's proposals with regard to National Insurance contributions? The GCBS has recommended that the employers' contribution to National Insurance be reduced by 50 per cent. Are you able to comment on that?

(Lord Brabazon of Tara) I cannot comment on that any further than to say that we have seen them and the Chancellor of the Exchequer has seen them. I cannot comment any further than that really.

1537. We will have to wait until after the Budget, will we? I have a question on safety. The Committee has been told that the Association of Board of Trade Marine Surveyors opposes delegation of passenger ship surveys because "the standards of classification society surveys are not uniform resulting in an overall decline in safety". The UK, however, permits four out of five annual surveys of cargo ships to be carried out by classification societies. Does not this also have implications for safety? What we are worried about is reductions of standards coming into line with economies in shipping and so on. We are worried about the prospect of a decline in safety.

(Lord Brabazon of Tara) Can I say that we take safety extremely seriously in the Department. At the same time, we obviously have tried to reduce over the years the burdens of costs on our ship owners, and we have been able to avoid a certain amount of duplication by allowing certain classification to be taken by the classification societies rather than by our own marine surveyors. I think our classification societies certainly are of a very high standard indeed, and I would have no doubts about their abilities. However, we have not extended that to the classification of passenger ships, and we have no present intention to do so.

Mr Trotter

1538. Can I turn briefly again to the subject of flags of convenience? I think Mr Sunderland referred to the French having found this as one of their 23 steps. The place they have chosen is Kerguelen, which I believe is an unpleasant, uninhabited rock in the South Indian Ocean almost on the edge of the Antarctic. I suppose Rockall might be a similar place in Britain, but we have in fact got the Isle of Man as a register. That is seen as one of the more hopeful signs to the members of the Committee when we went there. What is the Department's view on the development of the Isle of Man? Surely, one of the advantages of it is tied up with this question of National Insurance and tax payments. Is this something on which the Department has a view as opposed to the Treasury?

(Lord Brabazon of Tara) We certainly are very pleased with the development of the Isle of Man registry, and it is true to say certainly in recent years that a good deal of shipping leaving the UK mainland register has gone to the Isle of Man and therefore is as available to us in time of emergency as if it were still on the mainland register. I think I am right in saying that so far as National Insurance contributions are concerned, there is no difference

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[Mr Trotter *Contd*]

between the Isle of Man and the UK. I think the Isle of Man has to pay the same as we do. With tax, yes, there may be an advantage there on collection of PAYE. Whether the company is responsible for paying or the seafarer himself is responsible for paying as a resident of the United Kingdom does not alter the fact that somebody has to pay at the end of the day. The main advantage of the Isle of Man register appears to be the way that the companies can renegotiate their crewing agreements, which for some reason they do not appear to be able to do on the mainland register so easily, and it seems to have been successful on the whole, and we are very pleased that it has grown as a register.

1539. I think the Norwegians have not bothered to go to Spitzbergen as their equivalent of Kerguelen; they have an international register too. It does make one wonder whether one has to find a rock off an off-shore island. Have you given any thought to an international register based in Cardiff or London?

(Lord Brabazon of Tara) We would reckon with the Isle of Man register we have largely got all the advantages which the French perhaps have with Kerguelen or the Norwegians with their own off-shore international register. I am not saying they are exactly the same, but I think there are many advantages.

1540. Would the Department be in a position to help us in discovering the situation so far as tax-collecting and insurance-collection in the Norwegian and French off-shore registers are concerned?

(Lord Brabazon of Tara) I do not know that we can do that at the moment. We can certainly produce evidence probably of that and send it in fairly speedily before you conclude your inquiry.

Chairman: That would be helpful. Thank you.

Mr Dicks

1541. I would like to come back on one point Mr Mudd made. You said about helping the industry and the problems about doing this and it is a free market. What I find surprising is that over the last few years the Government has written off £1 billion to developing countries in overseas aid. Do they now receive that money back if they have called it gifts? £256 million in the current financial year has been written off in that form. That is to people in a sense; we get no work out of those loans. The money just goes out there. Yet we are asking, or the industry is putting forward a view that the Government should be doing something in terms of help — financial, yes, of course — and the points Mr Mudd made were valid. How can the Government wipe out in the last two or three years £1 billion of loans because they know they will not get repaid and so call it a gift, forget about it? Why is it not the Department's policy to be fighting its corner for the shipping industry, as Mr Mudd rightly said, with the Treasury, Department of Trade and whosoever else? If the Government can help with £1 billion in two years, £256 million this year, why can they not help our own industries? Sometimes it is because of support given to shipping lines by other countries themselves, as Mr Mudd rightly said about France.

(Lord Brabazon of Tara) I do not think I can comment on that.

1542. It is the principle I am talking about.

(Lord Brabazon of Tara) We may write off £0.25 million a year on overseas aid. A matter for my colleagues, and I would quite like to hear the answer which they might put forward, but where would you stop? You are talking about subsidising the shipping industry to that extent. What other industries would come up and say they would like the same treatment?

1543. Here is an industry that is in decline largely through no fault of its own in many ways, because of the point you raised earlier. You were saying that the Department's attitude is "We cannot help. We cannot do this. We must wait for the EEC to come together. We must wait for the Merchant Shipping Bill to come through." That is touching the edge of the problem. I am saying money is obviously available because you can just cross it off as though it does not exist — £256 million this year. I want from you, Minister, is you saying, "We will fight our corner for the industry we represent in Government." I am not getting that message. We did not when we had your officials here before. We are not getting it today. There will be people reading the minutes of this hearing and they are going to go away — and the industry itself — with the same feeling.

(Lord Brabazon of Tara) When you are looking at the subject of Government attitude to public expenditure, we have kept a tight rein on it over the last eight years, and we have seen the benefits of that in the economy as a whole. I hope you will not disagree with that. Our interest in the shipping industry is obviously of great importance to us. It is a question of where you think public expenditure is best placed. Is the shipping industry a good haven for public expenditure?

1544. Can I ask a final question: how much of our exports is moved by ships?

(Lord Brabazon of Tara) A good many.

1545. Exactly.

(Lord Brabazon of Tara) I think the figure is 90 per cent, but that does not necessarily mean that we have to have our own ships to do it.*

1546. I accept that, but what I am saying is we need a backbone of our own ships and industries.

(Lord Brabazon of Tara) We need a backbone of ships for our strategic and defence purposes. We have that at the moment. We have covered that ground, I think, this afternoon. Whether you need a shipping industry to carry your own goods around the world is another question. I believe that very early this afternoon you referred to the British Shipping Council. You said that they did not feel there was any direct need to have a shipping

**Note by witness:* The Department of Transport has since confirmed that the figures are 98% by weight, and 76% by value.

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[**Mr Dicks** *Contd*]

industry. They were quite happy to use the services of the cheapest available shipper from wherever he came, so I do not think that we can accept necessarily that economic argument.

(Mr Sunderland) I wonder if I might add a point in reply to Mr Dicks' suggestion that the Department of Transport does not fight the corner of the shipping industry in Whitehall or anywhere else around the world. I would remind the Committee of the remarks of the President of the GCBS in his inaugural address last year, when he commented in extremely favourable terms on the support which the Department gives to the industry at every opportunity.

Chairman

1547. Minister, you have said many times this afternoon that if the decline continues you will have to take further measures, but I certainly feel that specifics have been rather lacking. Could you perhaps tell us what exactly you have in mind, it may not be this year, but next year or the year after? What further measures do you envisage having to take if the decline does continue?

(Lord Brabazon of Tara) That is a very difficult hypothetical question to ask and I really do not think I can answer it this afternoon.

1548. This is probably the last time we are likely to meet before drawing up our report. Is there anything more you would like to tell us or any of your colleagues would like to add to what has already been said?

(Lord Brabazon of Tara) No, I do not think so. I very much look forward to reading your report when it comes out, which I gather is going to be at Easter time — I do not know if that is right or not — and I very much look forward to hearing what you have to say. No doubt you will give us a lot of food for thought. As I said at the very beginning of the afternoon, we were pleased to be able to act on the recommendations in your interim report pretty speedily. You reported just before the election and we introduced the Merchant Shipping Bill within a very few days of the beginning of this present session. Whether we shall be able to act in the same way on the recommendations you make this time around remains to be seen. Thank you.

Chairman: Thank you, Minister. The timescale for our report will be the end of April/beginning of May, hopefully. It only remains for me to thank you and your colleagues very much for your attendance before the Committee this afternoon, which no doubt will play a part in our final deliberations and in our report when it is produced. Thank you very much.

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HOUSE OF COMMONS SESSION 1987-88

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TRANSPORT COMMITTEE

DECLINE IN THE UK-REGISTERED MERCHANT FLEET

MINUTES OF EVIDENCE

Tuesday 22 March 1988

Inland Revenue
Mr P Lewis, Mr E McGivern

H.M. Treasury
Miss C E C Sinclair

Department of Health and Social Security
Mr Michael Lloyd

Ordered by The House of Commons *to be printed*
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TUESDAY 22 MARCH 1988

Members present:

Mr David Marshall, in the Chair

Mr David Gilroy Bevan
My Sydney Bidwell
Mr Jim Callaghan
Mr Terry Dicks
Mrs Gwyneth Dunwoody
Mr Peter Fry
Mr Neville Trotter

Memoranda submitted by Inland Revenue

TAX INCENTIVES AND THE SHIPPING INDUSTRY

BACKGROUND

1. Under the present system, a company pays corporation tax at 35 per cent. (27 per cent. for a small company*) on all its taxable profits, whether distributed or undistributed.

2. The starting point in calculating a company's trading income for tax purposes is the commercial profit in its accounts. That profit is then adjusted in accordance with tax law and practice. In particular, depreciation of fixed assets charged in the accounts is added back and instead a deduction is made for any "*capital allowances*" which are due. These allowances are deducted as a trading expense of the business so that they either reduce the taxable profits or augment (or create) an allowable tax loss.

3. Capital allowances are, broadly speaking, a standardised form of depreciation and are intended to take account of capital consumed in the earning of taxable profits. Ships qualify for capital allowances as items of plant and machinery. In brief, this means that under the existing system 25 per cent. of the capital expenditure is allowed for tax purposes each year on what is known as the "reducing balance method".

4. For example, in a simple case where there has been no previous expenditure qualifying for capital allowance, a ship is purchased in Year 1 for £1 million.

(a) In *Year 1*, the capital allowances due are £250,000 viz —

Cost	£1,000,000
25 per cent.	£250,000
Unrelieved expenditure	£750,000

(b) In *Year 2*, the capital allowances are £187,500 viz —

Unrelieved expenditure brought forward	£750,000
25 per cent.	£187,500
Unrelieved expenditure	£562,500

THE PRE-1984 SYSTEM OF CAPITAL ALLOWANCES

5. The concept of enhanced rates of capital allowances to provide an incentive to investment was part of the capital allowance system introduced in 1945 to assist post-war reconstruction. By 1984 the incentive element had been increased to provide a 100 per cent. first year allowance in respect of qualifying expenditure on plant and machinery, including ships.

6. This meant that the full cost of a ship could be fully written off against tax in the first year if profits were sufficient to absorb the whole allowance or if other income was available — including, in the case of a company, the income of other companies in the same tax group — against which any excess of the allowances could be offset by way of loss relief.

7. A special facility known as "free depreciation" was available to UK traders in respect of qualifying expenditure on new (but not secondhand) ships. In general terms, under this arrangement the whole of the 100 per cent. first year allowance could be claimed and used in any year in which the trade was continuing. If the first year allowance was not claimed, an annual writing down allowance of 25 per cent. of the qualifying expenditure was available instead on the reducing balance basis.

1984 BUSINESS TAX REFORMS

8. The 1984 Budget and Finance Act included provisions for a comprehensive reform of business taxation. The objective was to create a more neutral tax system based on significantly lower rates of tax coupled with allowances for depreciation at rates more closely linked to useful asset life.

9. Introducing the reforms in his Budget Speech, the Chancellor of the Exchequer said

"The current rates of corporation tax are far too high, penalising profit and success, and blunting the

*A rate of 25 per cent. is proposed in the Budget statement.

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cutting edge of enterprise. They are the product of too many special reliefs, indiscriminately applied . . . My purpose, therefore, is to phase out some unnecessary reliefs in order to bring about, over time, a markedly lower rate of tax on company profits.

First, capital allowances. Over virtually the whole of the post-war period there have been incentives for investment in both plant and machinery and industrial, although not commercial, buildings. But there is little evidence that these incentives have strengthened the economy or improved the quality of investment. Indeed, quite the contrary: the evidence suggests that businesses have invested substantially in assets yielding a lower rate of return than the investments made by our principal competitors. Too much of British investment has been made because the tax allowances make it look profitable, rather than because it would be truly productive. We need investment decisions based on future market assessments, not future tax assessments.

I propose to restructure the capital allowances in three annual stages. In the case of plant and machinery, and assets whose allowances are linked with them, the first year allowance will be reduced from 100 per cent. to 75 per cent. for all such expenditure incurred after today, and to 50 per cent. for expenditure incurred after 31 March next year. After 31 March 1986 there will be no first year allowances, and all expenditure on plant and machinery will qualify for annual allowances on a 25 per cent. reducing balance basis". (Hansard 13 March 1984, cols. 295 and 296)

10. The Chancellor went on to say that when the proposed changes had taken place, tax allowances for assets such as plant and machinery would still on average be rather more generous than would be provided by a strict system of commercial depreciation.

11. Thus, the 25 per cent. writing down allowance means that nearly 60 per cent. of the cost of an asset can be written off against tax over the first 3 years and 90 per cent. over 8 years. The remaining 10 per cent. is generally reckoned to represent residual scrap value. In other words, the system reflects an average asset life of about 8 years. The shipping industry expects a ship to have a normal useful life of about 15 years so that the annual capital allowances will normally exceed the actual depreciation each year.

12. The UK's main rate of corporation tax was reduced progressively from the pre-1984 Budget rate of 52 per cent. down to 35 per cent., while the rate for smaller companies was cut in 1984 with immediate effect from 38 to 30 per cent. (and has since been reduced in line with the basic rate of income tax). As the Chancellor explained at the time, it was the changes in the capital allowances regime, together with the abolition of stock relief, which enabled him to achieve the significant reductions in company tax rates. His objective was to increase post-tax profitability and so provide greater incentives and rewards for enterprise.

Flexibility of capital allowances

13. The 1984 changes also provided a greater degree of flexibility in the use of writing down allowances. (Improvements were also made in the use of the first year allowance during the transitional period — these are not described in this paper).

14. The rule that writing down allowances, unlike first year allowances, only became due when an asset was brought into use for the purposes of the trade was changed so that writing down allowances became available from the time expenditure was incurred. This gave earlier relief in cases where stage payments were made during the construction of, for example, a ship.

15. A new application of "free depreciation" was introduced for expenditure from 13 March 1984 on a new ship: "rolled up" writing down allowance. This allowed the taxpayer to postpone any part of the writing down allowance, and then make use in subsequent years of as much of the accumulated allowance as he wanted, provided that he was still carrying on the trade. This new facility was extended to secondhand ships from 1 April 1985.

Balancing charges

16. The capital allowance system includes provision for "balancing adjustments" designed to bring allowances given into line with actual depreciation. These adjustments reflect the fact that the capital allowances can only be an approximation of the amount of capital consumed each year in the earning of the business profits. The actual depreciation incurred cannot accurately be determined until an asset is disposed of or scrapped.

17. Thus a "balancing charge" may arise where an asset on which capital allowances have been given is sold for more than the unrelieved expenditure. In the simple example in paragraph 4, if the ship were the trader's only item of machinery or plant and it were sold at the beginning of *Year 3* for £600,000, a balancing charge of £37,500 would arise (unrelieved expenditure £562,500 less £600,000) and this amount would be treated as a trading receipt increasing taxable profits or reducing an allowable loss.

18. If, on the other hand, the ship were sold for £500,000 it would have depreciated by more than the total allowances given for years 1 and 2 and the 25 per cent. writing down allowance would continue to be given on the balance of £62,500 expenditure unrelieved.

19. However, most ships in the UK merchant fleet will have been acquired before Budget Day 1984 and are likely to have attracted a 100 per cent. first year allowance, so the unrelieved expenditure will usually be

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nil. If such a ship is sold, there will in all probability be a balancing charge of up to the amount of the sale proceeds.

20. In practice, however, because of what is known as the "pooling system" — see the Annex for a description — balancing charges would not normally arise in respect of disposals of plant or machinery. The sale proceeds would simply reduce the balance of unrelieved expenditure in the "pool" on which further 25 per cent. allowances were due. But as all past expenditure on ships will probably have been fully allowed for tax purposes, there will usually be no unrelieved expenditure in the pool. For the present therefore, shipping companies may face balancing charges, depending on the timing of disposals.

21. *Disposal and replacement of ship in the same year.* In these circumstances a balancing charge is not likely to arise. If, for example, a company bought a ship in 1983 for 100, obtained 100 per cent. first year allowance and sold it in 1988 for 80, there would be a potential balancing charge of 80. But if a replacement ship were bought for 120 in 1988, the cost (120) would go into the pool of qualifying expenditure. As in the example in the Annex, there would be no balancing charge and the 25 per cent. writing down allowance would be available on the balance of expenditure in the pool of 40.

22. *Disposal and replacement in different years.* Where, in the above example, replacement occurs in 1989 (the year following disposal), a balancing charge of 80 will arise for 1988. But if there was a trading loss in 1989 (either created or augmented by the 25 per cent. allowance on the cost of the new ship) which could not be used against other profits of that year, the normal tax rules allow the loss to be carried back and set against the 1988 profits *including* the balancing charge. Where however the replacement occurs, say, 3 years later in 1991, any loss for that year cannot be carried back for relief against the balancing charge as losses can be carried back for only one year.

23. In the longer term, the ability of ship owners to roll-up writing down allowances and take them at will, coupled with rates of capital allowances more closely reflecting useful asset life and significantly lower rates of tax, will reduce the incidence and impact of balancing charges.

BUSINESS EXPANSION SCHEME

24. In 1986 the Government extended relief under the business expansion scheme to cover investment in companies providing ships on charter. Tax relief is available to individuals at their full marginal rate for investment of up to £40,000 per annum.

SHIPPING INDUSTRY REPRESENTATIONS

25. The General Council of British Shipping (GCBS) has suggested certain relaxations of the new capital allowances system to allow greater flexibility for the shipping industry. The first of these would allow a balancing charge to be "rolled-over" against future expenditure.

26. Under the proposal, the proceeds from disposal of a ship in year 1 would not give rise to a balancing charge in that year but would be rolled forward. Provided the proceeds were reinvested in a new or secondhand ship acquired within 3 years of the end of the year of disposal, a writing down allowance would be given on the cost of the replacement ship as reduced by the disposal proceeds rolled forward. Thus, in the above example, the sale proceeds of 80 in 1988 would be netted off against the purchase price of 120 in say, 1991. There would be no balancing charge and a writing down allowance would be due in 1991 of 25 per cent. of 40.

27. In substance, this would amount to the reintroduction of accelerated capital allowances in the form of a 100 per cent. first year allowance for so much of the expenditure on the replacement ship as is necessary to eliminate the balancing charge. A tax charge for the year of disposal — normally required to withdraw any excess allowances and so equate the tax relief for depreciation to the actual depreciation in the value of the ship — would only crystallise if no replacement had occured by the end of the permitted roll-over period.

COST

28. The GCBS put the cost of their proposal at *£12 million* for every 100 ships. This implies an annual cost of some *£77 million* to maintain the UK-owned fleet of some 640 trading ships of over 500 grt at its present level.

29. Our estimate of a possible profile for the cost of roll-over relief using the basic GCBS data and assuming the measure took effect for accounting periods ending in the year 1988/89, is:-

1988/89 negligible
1989/90 £35 million
1990/91 £55 million
1991/92 £55 million

declining thereafter to an eventual £10 million a year.

FURTHER GCBS PROPOSAL: A SPECIAL SHIP ALLOWANCE

30. The second GCBS proposal is the introduction of a special 50 per cent. tax allowance for the cost of

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a new or secondhand ship. Thus, a special 50 per cent. first year allowance would be due in respect of investment in ships. This, together with the existing 25 per cent. writing down allowance, would mean that 75 per cent. of the cost of a ship could be written off against tax in the first year. The effect would be to reintroduce an investment incentive in the form of accelerated capital allowances and, like roll-over relief, would run counter to the objectives of the Government's 1984 business tax reforms.

31. On the GCBS assumptions about numbers of ships replaced etc., *the cost* of this proposal is estimated as likely to rise to £200 million in 1990/91 and the following year, and then decline to around £90 million in 1995/96.

ANNEX

The Pooling System: A Simplified Example

A new business spends £1 million on plant and machinery at the beginning of YEAR 1. Subsequent transactions are as shown. Capital allowances are 25 per cent. writing down allowance.

Year	Opening Value of Pool (a)	Acquisitions/ Disposals (b)	Capital Allowance (c)	Unrelieved expenditure in Pool
			25% of (a)&(b)	(a)+(b)−(c)
1	–	1,000,000	250,000	750,000
2	750,000	None	187,500	562,500
3	562,500	New machine *bought* for £200,000	190,625	571,875
4	571,875	A machine *sold* for £50,000	130,469 (25% a-b)	391,406
5	391,406	None	97,852	293,554

In YEAR 6 business ceases and all plant and machinery sold for –

(a) £100,000 : balancing allowance of £193,554 given in that year (ie £293,554 less £100,000).

(b) £350,000 : a balancing charge would be made in this year to recover the excess capital allowances of £56,446 (£350,000 less £293,554).

In example (a), the value of the assets was *less* than the unrelieved expenditure, so further capital allowances of £193,554 were due.

In example (b), the value of the assets was *greater* than the unrelieved expenditure, so the excess allowances were recovered by the balancing charge of £56,446.

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TAXATION OF SEAFARERS AND PAYE

1. This note describes briefly the taxation of seafarers, and the arrangements for collecting their income tax through the operation of PAYE by shipping companies.

A: TAXATION OF SEAFARERS

GENERAL POSITION

2. The tax treatment of a seafarer (or any other employee) depends on whether or not he is resident in the United Kingdom.

- If the seafarer is *resident* in the United Kingdom he is taxable on all his earnings, subject to the general relief which applies to the overseas earnings of people who work for long periods abroad (described below).
- If the seafarer is *not resident* he is only taxable on earnings for duties performed, or treated as performed, in the United Kingdom.

RESIDENCE RULES

3. Whether a seafarer is resident in the United Kingdom or not is determined principally by the amount of time he spends in this country. Broadly, he will be non-resident if

- he is physically absent from the United Kingdom for the whole of an income tax year
- he does not visit the United Kingdom for more than 182 days in any year, or more than 90 days on average, during *either* a period of more than 3 years in which he is employed wholly abroad, *or* a period in which he is serving on a ship which does not visit the United Kingdom.

LIABILITY OF NON-RESIDENTS

4. A non-resident seafarer's duties are regarded as performed in the United Kingdom where they are within United Kingdom territorial waters or a designated Continental Shelf area (if they are in connection with gas or oil activities), and on any voyage which does not extend to a foreign port. Earnings in respect of any such duties are chargeable to tax.

RESIDENTS — RELIEF FOR LONG ABSENCES OVERSEAS

5. Seafarers resident in the United Kingdom (which of course *excludes* the Isle of Man) are chargeable to tax on all their earnings including those for duties performed overseas. There are, however, special rules (dating from the 1970's) which relieve from tax certain overseas income earned during the course of long absence abroad.

6. A seafarer is entitled to this relief where the duties of his employment are performed partly or wholly outside the United Kingdom in the course of a qualifying period of at least 365 days. A qualifying period consists of 365 or more consecutive days during which:-

(i) not more than 62 consecutive days are spent in the United Kingdom; and

(ii) the time spent in the United Kingdom does not exceed one-sixth of the total number of days since the period began — this test is applied at the end of each overseas visit as shown in the examples below.

The earnings relieved from tax are those attributable to the qualifying period.

EXAMPLES

(a)	Days Out of UK	Days In UK	Cumulative Total	1/6 Rule
	40			
		20		
	30		90	15

Days in the United Kingdom (20) exceed 1/6 of the cumulative total (15) so this cannot be part of a qualifying period.

(b)	Days Out of UK	Days In UK	Cumulative Total	1/6 Rule
	30			
		20		
	255		305	50.8
		50		
	80		435	72.5

The days in the United Kingdom are less than 62 consecutive days and less than 1/6 of the cumulative total at the end of each overseas period, so the whole period is a qualifying period.

7. A day of absence from the United Kingdom is any day when the seafarer is outside the United Kingdom at the end of the day — at midnight. A ship would normally be taken to have left the United Kingdom at the moment at which it leaves its berth or anchorage (whichever is the later) to proceed on its voyage. Arrival times are similarly defined.

8. The days of absence from the United Kingdom do not need to be spent on duties of the employment. But no relief is given for a part of a qualifying period in which no duties are peformed abroad if that is the only part of the qualifying period in a particular tax year. Thus, for example, if in a qualifying period running from

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1 March 1987 to 31 March 1988, the period 1 March 1987 to 10 April 1987 consisted of a period of leave spent abroad no relief would be due for the period in 1986-87.

9. Seafarers are among the main beneficiaries of this tax relief. A seafarer who spends long periods overseas will generally pay no tax on his earnings. This relief is, in effect, an extension of the rule that an employee who is absent from the country for a complete income tax year is not resident for tax purposes and therefore not liable on his earnings from foreign duties.

TRAVEL RELIEFS

10. Since 1986 special relief has been available for travelling expenses of United Kingdom resident employees who work overseas. This enables them to receive from their employer, tax free, the cost of an unlimited number of journeys to and from the United Kingdom while working abroad.

B: PAYE

11. Pay As You Earn (PAYE) is the system by which income tax liabilities on earnings from employment are collected. Employers are required by statutory regulations* to deduct tax from payments to employees and to account for that tax to the Inland Revenue. (Normally employers' and employees' national insurance contributions (NIC) are collected alongside income tax through PAYE. But the two do not always march in step, and this note does not cover the NIC liability and collection rules, for which DHSS are responsible).

BACKGROUND

12. In the past, UK shipping companies generally employed and paid their own crews and deducted PAYE tax from wages paid. In recent years growing numbers of these companies have contracted with manning agencies to engage, employ and pay crews for their ships. Most of these agencies have been based overseas or off-shore — some, but by no means all, in the Isle of Man. The arrangements made by each company with the crewing agencies vary in detail. One common feature has been that, prior to these new crewing arrangements, PAYE was operated but subsequently it was not.

13. Although many of the shipping companies also re-flagged their ships at the same time as they entered into crewing agency arrangements, the flag under which the ship sails is not relevant either to the question of the seafarer's liability to tax or to the operation of PAYE.

14. Some major companies have made changes of this kind in recent years. The Revenue decided last year that, in view of the amount of tax possibly involved, a fact-finding exercise should be mounted (with DHSS), with a view to achieving a consistent treatment of the shipping industry as a whole. This concentrated on the larger companies and its findings are currently under consideration.

THE LEGAL POSITION

15. PAYE is a means of collecting UK income tax liabilities on earnings from employment. Generally speaking therefore we are only concerned with officers and seamen who are resident for tax purposes in the UK and who are therefore liable to UK tax on their earnings.

16. Collection of employees' tax is achieved by placing on employers an obligation to deduct tax under PAYE and to supply information about employees' earnings. The statutory regulations define the employer for this purpose as:

a. the person paying the employees; or

b. any person who, although not the employees' immediate employer, has general control and management of the work being done by the employees.

17. If the seafarer's actual employer, ie the manning agency, is not within the UK jurisdiction he cannot be required to operate PAYE. However, under the regulation mentioned in paragraph 16.b. (Regulation 3 of the PAYE Regulations) a person other than the manning agency ("the immediate employer") may be regarded as the employer for PAYE purposes if he has general control and management of the employees' work. The actual arrangements operated between the shipping companies and agencies have therefore to be examined to establish whether, in the circumstances of each case, the shipping company retains the necessary measure of general control and management over the way the crews of its ships carry out their work to bring it within the scope of PAYE.

18. When earnings are liable to tax but the tax due cannot be collected through PAYE — because, for example, there is no employer within the UK jurisdiction who is liable to operate PAYE — it can be collected directly from the employee. But (with some minor exceptions not relevant here) there is no entitlement to collect tax from the employee himself in this way where an "employer" should have operated PAYE. So, if the Revenue conclude that a shipping company is liable to operate PAYE, that is strictly the only way in which the seafarer's tax liability can be collected. Leaving the collection of this tax as a matter simply between individual seafarers and the Revenue is thus not an option if there is an "employer" within the meaning of the PAYE Regulations. Such an arrangement would, in any event, be inherently inefficient, and in the absence of an obligation on an "employer" to provide information about earnings there could be a

The Income Tax (Employments) Regulations 1973, (SI 1973 No 334) as amended.

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significant and, over time, a growing loss of tax.

PRESENT POSITION

19. PAYE is not currently being operated where foreign and offshore crewing agencies are involved. The shipping industry is aware of the Inland Revenue's enquiries and is waiting to hear their outcome.

20. We hope to be in a position to tell them soon. If the decision, in any particular case, is that PAYE should be operated, the Revenue would put their view of the legal position to the companies concerned and ensure that they had all the necessary documentation to enable PAYE to be re-introduced as soon as possible. Any disagreement about PAYE obligations would normally be resolved in the course of discussions; but if agreement could not be reached, the question could be determined by the independent Appeal Commissioners.

21. If it were established that a shipping company had no PAYE obligations, it would be necessary to seek to collect the tax directly from the seafarers themselves.

POSSIBLE REPERCUSSIONS

22. There have been suggestions that, if the Revenue conclude that PAYE should be operated, some owners may decide to move their operations further afield, since there are already a number of other factors encouraging them in that direction. As explained below, it is not clear why the operation or non-operation of PAYE should be a significant factor. But in any event, the Revenue has no option but to apply the law to shipping companies in the same way as it does to all other employers.

23. The question of PAYE concerns *the mechanics* by which shipping crews pay their tax; it does not in any way affect the *amount* of tax for which they are liable. Given that the same amount of tax is legally due, whether it is collectible by PAYE or otherwise — and it goes of course without saying that the shipping companies would not condone or encourage illegal tax evasion by their employees — the operation of PAYE should have no implications for the level of pay that the shipping companies would need to offer the crews in a competitive labour market.

24. Similarly, it is not expected that the operation of PAYE would involve substantial administrative costs for the shipping companies. Independent studies have shown that for larger employers (particularly those with computerised payrolls) the administrative costs are normally relatively small and in practice are largely offset — or more than offset — by the cash flow advantages of only remitting the tax due to the Revenue some time after it has been deducted from employees' pay.

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Examination of Witnesses

MR P LEWIS, Director of the Personal Tax Policy Division, Inland Revenue, MR E MCGIVERN, Director of the Business Profits Tax Division, Inland Revenue, MISS C E C SINCLAIR, Fiscal Policy Group, Treasury, and MR MICHAEL LLOYD, Department of Health and Social Security, were examined.

Chairman

1549. Good afternoon. This is the last evidence taking session of the Committee in this particular inquiry. We are grateful to you for coming along. I would repeat a special word of thanks to Mr Lloyd of the DHSS for coming at such short notice. Could I start by referring to the question of tax incentives in the shipping industry and say that the Committee has read your paper on Tax Incentives with great interest. Can you tell us why the Government decided in the recent Budget not to give any form of tax relief to the shipping industry?

(Mr McGivern) The Chancellor explained in 1984 that his objective in introducing a new system of business taxation was to move towards a more neutral scheme of tax by removing special tax reliefs in favour of substantially reduced tax rates. The changes which were introduced in 1984 did contain certain measures to take account of the special position of the shipping industry, but the tax incentives you are referring to, I presume, were those which were suggested *inter alia* in the blue book produced by the GCBS in December 1987. Those reliefs, in particular the roll-over of balancing charges and the special 50 per cent. first year allowance for ships, would have re-introduced an element of incentives into the tax system that would have run counter to the objectives of the 1984 reforms.

1550. In respect of roll-over relief, in your paper you explain the difficulties of conceding roll-over relief for shipping and in paragraph 29 you estimate the expenditure it would require, but if we are going to retain a merchant fleet has not some such measure as this got to be conceded?

(Mr McGivern) The roll-over relief is, of course, a limited measure of deferral of tax. The pre-1984 tax regime contained very significant incentive reliefs for the shipping industry and, indeed, for industry generally; amongst those were the 100 per cent. first year allowance for investment in ships. It is, I think, rather interesting to look at what happened to the fleet over the period in which those reliefs were available. That first year allowance of 100 per cent. expenditure on ships was available throughout the whole of the period from 1975 to 1983. I think 1975 was the year when the size of the fleet was largest; yet during that period the fleet declined by some 54 per cent. in terms of gross registered tonnage. Referring to the pattern of expenditure which the GCBS very helpfully set out in their report in Annex E, it will be seen there that, notwithstanding that accelerated capital allowance, the expenditure on new and secondhand ships declined by something like 58 per cent. over the period from 1977 to 1983, and declined further over the two transitional years 1984 and 1985, although there was a temporary increase in 1984. Whilst a roll-over relief might encourage replacement of ships, it is not clear that it would in fact encourage additional investment in ships.

1551. Your estimate of the cost of roll-over relief is significantly different from the GCBS's. Can you explain why this should be?

(Mr McGivern) Yes, Chairman. The costings are done, I think, on different bases and are not strictly comparable. The GCBS costs are based on what I might call the hypothetical first full year cost which in practice will not arise. It is based also on the assumptions set out in their policy paper of December 1987. By contrast, the costings which we have produced show the profile of the cost over a number of years, and they have been refined to take account of two factors: one is that we would expect that some balancing charges which would arise when ships are disposed of would be set against new expenditure in the same year under the present arrangements, so there would not be an additional cost where that happened: secondly, there would be some loss of writing down allowances on that part of the expenditure used to cover balancing charges. So there is a difference in the base.

Mr Fry

1552. Might I just follow this on a bit further and say that taking paragraph 29 the figures you give us are that in the next financial year the costs will be negligible. Although there is £35m in the next year and £55m in the next two up until 1992, you state that it would decline thereafter to an eventual £10m a year, which does seem a fairly modest cost for renewing a British merchant fleet. Is it not a point to be made that, perhaps without some kind of incentive, those ships will not be replaced at all. If the shipowners cannot afford to do it instead of saying, "There we are", we shall end up with an even smaller merchant fleet. In your estimation do you think the cost you have worked out is large, or would you consider it a fairly reasonable one for any government to consider?

(Mr McGivern) I think as to the reasonableness or otherwise of the cost that is a matter Ministers would want to decide in relation to their overall fiscal and other policies. I would just make the point that this does, of course, refer to the cost of roll-over relief, and whether, in fact, the ships would be replaced simply because of the existence of a tax relief of this kind is perhaps open to question because in other evidence which I think was given to the Committee, a factor which was brought out time and time again was that investment would be encouraged by profitability and that tax considerations would be only one of the factors to be taken into account.

1553. Surely, if the ships were not replaced there would not be any roll-over relief? Either they would replace the ships and buy them and get relief, or they would not do it and would not get relief?

(Mr McGivern) Yes, it is quite true. Obviously if the ship is not replaced then the roll-over relief would not apply. It would also be for consideration whether the existence of the roll-over relief would actually encourage the replacement of ships which would not otherwise take place in, for example, the

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[Mr Fry *Contd*]
sectors where the run down had been greatest and which continue to be unprofitable.

1554. Could I follow this on further and say, obviously the Inland Revenue are not very happy with roll-over relief. May I say in this day of standardisation in the Common Market, as I understand it, the current practice in the Federal Republic of Germany and the Netherlands is that there is a degree of roll-over relief and that, apparently, is also mirrored in Japan, Spain, Norway and Sweden, therefore it does seem this particular way of trying to assist or maintain the merchant fleet is fairly modern practice in countries with which we would seem to have a great deal in common. Would you accept that is true?

(Mr McGivern) Could I perhaps just comment on one of your opening remarks where I think you said the Inland Revenue are not in favour of roll-over relief. I do not think the Inland Revenue have a policy here at all. The question of whether there should be a roll-over relief must be one for Ministers. I hope I have not given the Committee the impression that it is the Revenue's policy to be in favour of or against a particular relief. International comparisons in the field of taxation are extremely difficult to make and can be misleading. If I could, for example, pick up the point you make in relation to Germany. Yes, it is true that they have *a* relief which allows in effect for the deferral of a balancing charge, and so too do some of the other countries which you have mentioned. But those countries are in the main, with some exceptions, countries which have a high rate of tax on business profits and a system of special incentives which is the kind of tax system which the Government abandoned in 1984 as a result of its business tax reforms. So if one picks up a particular tax relief it is possible to find that there is not now that equivalent in the United Kingdom system. But the reliefs are only one side of the coin. The countries that you have mentioned have, on the whole, higher rates of tax, including higher rates of tax on shipping profits, than the United Kingdom. The exceptions, for example, are the United States, which has a 34 per cent. rate in comparison with our 35 per cent. rate, if you ignore the state taxes which some American states charge in addition to the federal tax. Spain also has a 35 per cent. rate. The Netherlands has recently announced proposals to reduce its corporation tax rate from 42 per cent. to 35 per cent., and is abolishing, as I understand it, some other reliefs which have been part of the old system. In particular, the special tax credit which was available for investment, I gather, is no longer available to shipping from 1986, and in its place is an investment grant for five years. It is possible to single out a particular aspect of another country's tax system, particularly one which has the kind of structure which there was in this country in 1984 and find a special relief is not now available in the United Kingdom to match that.

1555. You keep coming back to this change in policy in 1984 as the key reason why proposals put by the General Council of British Shipping and others is not acceptable. Is it because of that change that you see that there would be some kind of difficulty in giving such reliefs to the shipping industry not generally available to other industries in this country?

(Mr McGivern) I think any proposals for a new tax incentive would be considered by Ministers against the objectives that were set out at the time of the 1984 business tax reforms. In addition, in this instance I think Ministers would have regard also to what happened to the fleet, ie to the significant decline that occured in the fleet during the whole of the period the 100 per cent. first year allowances were available to the shipping industry and to industry generally.

1556. The General Council of British Shipping made the point very strongly that they were doing quite well, largely because they diversified. Would you say that the very fact that the shipping companies have now diversified into interests other than ship owning would make it even more difficult to apply any kind of special relief to shipowners?

(Mr McGivern) Do you mean in policy terms, or as a matter of operational feasibility?

1557. I think what I am getting at is that obviously one would not want to see special incentives given to an industry which perhaps might not be entirely used by that particular industry but to further the interests of the group, part of whose activities were ship owning?

(Mr McGivern) Certainly I would expect Ministers to take into account the extent to which any additional relief would spill over into the related activities of the group of companies, of which shipping was a member. It would be a factor which Ministers would take into account. The answer would depend, obviously, on the nature and form of the particular relief.

Mr Bevan

1558. I find it difficult to pose these questions because we come across this holy edict of 1984, which apparently overrides all further Budget considerations. This cannon law that was enunciated on taxation in 1984 would seem to pre-empt any other form of differentiation or consideration thereafter – is that what you are saying?

(Mr McGivern) I hope I am just explaining to the Committee what the reasons were behind the 1984 reforms. The extent to which those reforms might be modified or special reliefs introduced to take account of the particular factors which have led to the relief being proposed is, of course, a matter for Ministers.

1559. I have noticed you are bland, you say, you are not in favour and you are against a form of tax, you merely react to a political requirement so, therefore, one has to try and frame a question in another way to get the information which one wants. The information I want is: was shipping and taxation thereon or thereof either in roll-over relief or initial tax relief discussed in the terms of this Budget between you and the Treasury?

(Mr McGivern) I hope the Committee will understand that I cannot really reveal the policy

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[**Mr Bevan** *Contd*]
advice that civil servants give to Ministers. I would say that the proposals in the GCBS policy document formed the basis of their Budget representations to Treasury Ministers in the run-up to the Budget, and they also made those representations to the Inland Revenue. The issues were before Ministers in framing their Budget proposals. They were also considered at the time of the 1984 reforms. In particular the proposed special ship allowance was considered at the time of those reforms, and the then Financial Secretary explained that it ran up against the difficulty that in the form proposed, it would amount to a first year allowance of 62.5 per cent. and would, therefore, re-introduce the incentive element which had been removed as a result of the 1984 changes. Ministers recognised the position of the shipping industry at that time by making changes to those reforms.

1560. Thank you, that is one stage of it. We are not talking about that time, but talking about this time. Were they taken into consideration this time?
(Mr McGivern) Ministers had the proposals of the GCBS before them when they were considering their Budget package.

1561. One must assume, must one, that they were not sufficiently front-ranking to transcend the enunciation of 1984 in the terms of those who decide upon the policy?
(Mr McGivern) I think all I can say in response to that is that in the absence of specific proposals in the Budget, Treasury Ministers have not been persuaded that changes which were proposed in that particular document should be made.

1562. Well, it remains to be seen whether this Committee is of that opinion when it comes to the deciding factor, and this is what motivates my questioning. Could I then turn to the other proposal by the GCBS and that is of a 50 per cent. initial ship allowance? Would not this measure have been of particular use in an up-market situation and, if so, why was advice not proffered by you to that extent?
(Mr McGivern) I hope you will understand that it is not possible for officials to say what advice was given to Treasury Ministers in relation to any particular proposal. I am not trying to be evasive, but that is the position that I am advised I should take in matters relating to advice given to Ministers on particular policy issues. Could I just say, to try to help the Committee, that the factors which I think would be relevant in considering a proposal of this kind, which, as I say, did come up in 1984 at the time of the business . . .

1563. 65 per cent. in 1984?
(Mr McGivern) Well, the 50 per cent. ship allowance can work in two ways. If the allowance were given, 50 per cent. of the cost of the new ship, let us say 100, and in addition in the year in which the new ship was bought there was to be a writing down allowance of 25 per cent. of the 100, then obviously the total relief in the first year would be 75. If, on the other hand, the normal writing down allowance of 25 per cent. were to be given on the balance of the expenditure after the 50 per cent., then that would mean a total first-year allowance of 62.5. That is the basis of those figures. In essence, of course, the effect of such a relief would be to provide a specific investment incentive in favour of investment in shipping. That is a factor which I think would be relevant in the Minister's decision as to whether or not that should be accepted. It is also, I think, a relevant factor that during the transitional period — that is the two years after 1984 when the tax changes were introduced, that is the year to March 1985 and the year to March 1986 — the capital allowances regime provided for a first-year allowance of 75 per cent. in the first of those years and 50 per cent. in the second year. Perhaps a factor which would be relevant in considering how effective such a measure would be would be to look at what happened to expenditure in new and second-hand ships during that period, and you would see that it did decline. That in itself might not be a decisive factor, but I am simply trying to be helpful to the Committee to indicate some of the factors which Ministers might want to take into account in deciding whether or not to restore an investment incentive.

1564. Surely you would agree, would you not, that if the size of the British Merchant Fleet is to be retained, if the tonnage of the British Merchant Fleet is to be retained, and if this is important, a measure such as this is imperative in its retention?
(Mr McGivern) I find it difficult to support that conclusion when the figures for investment in the fleet, and the size of the fleet, over the period when not a 50 per cent. but a 100 per cent. first-year allowance was in force, showed a continuing decline due, I accept entirely, to changes in international trade, over-tonnaging, et cetera. But during that period from 1975 to 1983, 100 per cent. first-year allowances were available and that was not sufficient to halt the very significant decline in the fleet and the question I am posing is whether it would automatically follow that the restoration of an incentive allowance would have the effect which it is suggested it would have.

1565. Would it have part of a package effect?
(Mr McGivern) That, I suspect, would depend on what the other elements in the package were. I cannot say what the package might be.

1566. Would you agree, for instance, with regard to the bus industry that the specific bus grant, which is now removed, when initiated, working down from 100 per cent. through 75 per cent., 50 per cent., had a very significant effect on the production of the new type of integrated buses at that time?
(Mr McGivern) I am sorry, I am not familiar with details of that particular industry, sir.

Mr Trotter

1567. You referred to the United States as having no tax relief for shipping, but, of course, as I understand it, there is a subsidy of nearly $500 million a year given by the American Government to the shipping industry, so they may not give it in tax relief, but they certainly give a great deal of

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[Mr Trotter *Contd*]
assistance to that industry which is competing with our own.

(Mr McGivern) I am not aware of what the non-tax arrangements to support the American fleet are, Mr Trotter.

1568. Coming back to 1979/83, the decline went on despite the allowances, but of course one could argue it would have been even greater had there not been allowances.

(Mr McGivern) Indeed there is no way of knowing what would have happened if the allowances had not been in force.

1569. Many people think that the circumstances in the world shipping scene have changed from what they were in 1979/83. Could it not be argued that it is worth trying allowances of this nature? They may not work, they may not lead to an increase in construction or purchase in the British Merchant Fleet, but surely it is worth trying and surely it is self-evident that the British Merchant Navy is rapidly disappearing?

(Mr McGivern) I have tried to explain the considerations which underlay the 1984 tax changes and some of the factors which I would expect Treasury Ministers to take into account. I think that is not a question which an official could reasonably answer.

1570. You cannot move a factory from the United Kingdom to Bermuda or anywhere else in the world, but you can move a ship overnight from the United Kingdom to many places all over the world and many of those places overseas have no tax at all on the profits of shipping. Is this not a factor which perhaps advisers might offer in advice to Ministers?

(Mr McGivern) We do, of course, explain to Ministers what the international tax treatment of any particular industry is to help Ministers to formulate their decisions on tax policy but, as I mentioned, international comparisons can be very difficult. You are quite correct in saying that some countries do not impose any tax on shipping, but if a shipping company in this country flagged out a ship, the mere flagging out of a ship would not affect the liability of the United Kingdom company to United Kingdom tax. A company which is resident in the United Kingdom for tax is liable to tax on its worldwide operations. The fact that a ship might be flying another country's flag would be irrelevant in determining the extent of the UK profits liable to tax.

1571. Even if it was owned by a company that was itself based in Bermuda, if the eventual ownership of that company came back to London?

(Mr McGivern) If the company itself was not resident in the United Kingdom then it would not be liable to United Kingdom tax and obviously tax reliefs would be of no help to that company.

1572. If they are not paying any tax on their profits then they do not really need tax relief, do they?

(Mr McGivern) The question is, if they are not profitable whether the tax relief could have any effect.

1573. I am sorry, I am not making myself clear. They are making a profit, they are registered in Bermuda and probably paying lower wages as a result of that, but they do not have to pay any tax on the profit because the subsidiary itself is based in Bermuda?

(Mr McGivern) That would be the case if the company was not resident in the United Kingdom: it would not be liable to United Kingdom tax.

1574. It is not very difficult for them to get around the tax net in those circumstances. You simply put your subsidiary in Bermuda instead of Gracechurch Street?

(Mr McGivern) There are of course proposals in the Budget, of which you will be aware, relating to the change of residence of United Kingdom companies.

Mr Trotter: I suspect that in that respect the shipping industry will be able to keep on as it is now.

Mr Fry

1575. Therefore from the Inland Revenue's point of view, it is far better for a British shipping company to flag out its ships and make a profit and therefore pay tax than not flag out and not make a profit and therefore not pay tax?

(Mr McGivern) What I was trying to convey was that the liability to tax of a United Kingdom company is based on its worldwide operations, so the fact that some of its ships may be carrying the flag of another country, and some carrying the United Kingdom flag, is not relevant in determining the measure of its profits for UK tax purposes.

1576. Therefore, you agree with what I have said, forgetting the policy point of what Ministers ought to do, strictly from the Inland Revenue point of view, in other words, the income coming into the Exchequer, it wants companies making profits and paying tax on those profits; therefore, really it is probably better from the Inland Revenue's point of view, in terms of advising Chancellors where they would get more revenue or less revenue, for British shipping companies to be profitable even if they flag out, rather than not flagging out and not being profitable?

(Mr McGivern) The profits that result from the company's worldwide operations will be charged to tax, irrespective of the changes — I am ignoring the implications of double taxation agreements etc. If a company takes measures which increase profitability and those profits are within the scope of UK tax, it must follow that there will be a higher tax charge as a result of that.

1577. You are saying that flagging out is irrelevant to the Inland Revenue?

(Mr McGivern) It does not affect a company's tax liabilities.

Mr Trotter

1578. Can I come back — it is surely possible for a company to find a way round that. Surely by having

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[**Mr Trotter** *Contd*]
a subsidiary registered in a country which pays no tax the trading income of that ship can be free of UK tax?

(Mr McGivern) Yes, that is the case. In response to the last question I was replying in terms of a United Kingdom company resident in this country, and chargeable to tax in this country. If you are referring to a subsidiary company which is not resident in the United Kingdom and is not trading in the United Kingdom through a branch or agency, then of course it will not be liable to UK tax on its shipping activities.

1579. In those circumstances, what Mr Fry said would not apply and you would get nothing out of the profits?

(Mr McGivern) Because it would not be liable to United Kingdom tax.*

1580. Is there not an argument for looking at the wider economic significance of the Merchant Navy. Are there not a great number of jobs in this country and, indeed, profits, dependent on our still having a Merchant Navy? One is thinking of the activities of the City of London in terms of insurances and other marine-related activities, apart from engineering activities which must be related to ship owning. Is there not an argument for assisting and helping this industry from a wider point of view than just ship owners?

(Mr McGivern) In forming decisions about tax on any particular industry, yes, Ministers do take account of factors other than those which I have mentioned. They did indeed do so in 1984 when they introduced a new style free depreciation for the shipping industry allowing them to roll up the 25 per cent. writing down allowances on ships and to use that at will, and that is uniquely available to the shipping industry. They have also, as you know, extended the Business Expansion Scheme to companies providing ship chartering, and there is a measure in the 1988 Budget relating to that particular scheme which would make investment in ship chartering more attractive than investment in other companies attracting relief. As you will be aware, the Chancellor has decided to place a ceiling on the total amount of investment which can attract relief under the Business Expansion Scheme in any one year. That ceiling is £500,000 in the case of most companies. In the case of companies engaged in ship chartering it is £5m, so it may help the ship charterer.

Mrs Dunwoody

1581. The basis of the advice that you offer Ministers is that to all intents and purposes shipping should not be regarded as a separate element but should be regarded as a straightforward business, and the taxation that would be evolved should be more related to the reaction between investment in plant and machinery and its results going into any special category. You are saying that we are looking for forms of taxation which will not differentiate between shipping and other businesses?

(Mr McGivern) No, that would not be the way in which we would necessarily present the issues to Ministers. We would obviously rehearse particular arguments being advanced for any particular proposal. We would set out how those arguments apply generally to the tax system and generally to other industries. We would also rehearse other arguments which would be advanced by particular proponents of any particular scheme, and the proposals would be set in the wider economic context, where necessary, with help from colleagues in the Treasury.

1582. Much of the decision therefore to move from pre-1984 taxation patterns to the subsequent arrangements was dictated by your firm view that the link between investment and 100 per cent. allowances could not be demonstrated to have made a massive difference to the fleet. In other words, you are saying, as you have said more than once to us this evening, when they had very much larger concessions than we are talking about, the fleet nevertheless was not maintained and, therefore, we cannot demonstrate that investment incentives are directly related. Is that the burden of your evidence?

(Mr McGivern) Not quite in those terms. I am sorry if I have not made it clear. What we have tried to do in our evidence is to set out, first of all in the memorandum what the Chancellor's objectives were and the reasons why he introduced the 1984 business tax reforms. In commenting on the questions put to me, I have tried to indicate some of the factors which Ministers would probably take into account in reaching a view on any particular form of new tax relief, whether it be for the shipping industry or for any other industry.

1583. We are looking, as a Committee, for a means of maintaining a Merchant Fleet and obviously many of the elements which some of my colleagues have put to you this afternoon will be important to us, they will be outside the field of taxation and we are certainly not asking you to give a political explanation of why certain decisions have been taken, but would you not agree that in fact what we are looking for is a form of taxation which is efficient, which produces the results that we want in terms of the Merchant Fleet and which can be defended in terms of efficiency? When you talk about roll-over relief, for example, would you not feel that those sorts of reliefs could be tailored by the Chancellor to fit in almost any way that he wanted the results that we both are aiming at? In other words, could it not be a tax which could be very easily seen to be responding to the needs of the Merchant Fleet without failing its job as a means of collection for the Inland Revenue?

(Mr McGivern) What I have tried to do was to explain to you the issues raised by the particular proposals which have been put forward, and which I have seen, namely the roll-over relief and the 50 per cent. ship allowance; what they in fact mean in terms of present taxation rules; the extent to which they fit in with or require modification of the objectives of

**Note by witness:* UK tax would, of course, be chargeable on any dividends or other income remitted from the subsidiary to the United Kingdom parent, subject to any double taxation relief which might be due.

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[Mrs Dunwoody *Contd*]
the 1984 reforms and what the costs might be. I do not think, as an official, I can go any further than that; it is then a matter for Ministers to decide whether the reliefs themselves can be tailored in the way in which you have suggested.

1584. I accept that, but let me come back then to a question which I think you can answer. Would you agree with the Rochdale Committee's conclusions in 1970 that the investment grant system is not well suited to shipping or would you assume that shipping can in effect be treated in the same way as any other industry? Is there in the Department a link between investment grants and the changes that we need to see in the Merchant Fleet because you have quoted more than once this afternoon the fact that when much larger reliefs existed, the fleet nevertheless declined? In this Committee we might argue with you if we were in a position to argue, and that is obviously not what we are asking you to do, but we might argue with you that there are all sorts of other elements which had an immediate effect on that decline and which could not be countermanded by the degree of tax relief that we are talking about. What I want to know from you is does the Department actually accept that shipping is not an industry which can be directly linked to create a direct link between investments and investment grants and the results that we want?

Mr McGivern) The Inland Revenue, of course, was not responsible for administering investment grants, so I . . .

1585. You are playing a very straight bat, but what I am asking you for is the basis on which the Department gives its advice.

(Mr McGivern) The Inland Revenue would not be responsible for advising Ministers on the efficacy of investment grants as an aid to assisting investment. We would be responsible for advice on tax policy issues relating to incentives given through the tax system and if I understand your question correctly, you are contrasting the use of a cash grant up-front with some form of tax relief. But the Revenue would not be responsible for advising Ministers on matters relating to investment grants.

Mr Fry

1586. But are they not responsible for advising Ministers on what might be the most efficient ways to assist the industry? The cynic might say that whatever is put up, the Inland Revenue finds what is wrong with it and persuades Ministers not to do it. I hope I am not being unfair and not being personally unfair, but that is certainly the way the document may read and that is why I asked you my question. Is it not the responsibility to say, "Well, yes, there are serious disadvantages in certain measures, but some measures would be more helpful and more productive than others"?

(Mr McGivern) I hope I did not give you the impression that the Inland Revenue would present only one side of any particular argument in presenting advice. We analyse the evidence and the arguments in presenting neutral advice to Ministers on any particular technical proposals that are put to them. As regards what is the best way of assisting a particular industry, whether it be tax or investment grants, then one would expect input from the Departments which would be responsible for administering that grant; and, of course, Treasury Ministers will also have advice from the appropriate Treasury division, if I may put it this way, in terms of the value for money of the particular proposal put to them.

Mr Fry: Is not one of the purposes of the 1984 change that a lot of companies were not paying any tax at all and they were successfully using the system to avoid paying tax and one can understand why the Chancellor came to the decision he did and why we have the present system, but it does bring me back to the point that surely there are some methods of assisting companies which lose less revenue to the Exchequer or are less wasteful of public money than others, if you like, and all I am asking is has there been any consideration of the various alternative methods, the investment incentives for the shipping industry on that basis? Have Ministers been given different scenarios, if you like, of what would happen if certain policies were followed?

Chairman

1587. Perhaps Miss Sinclair from the Fiscal Policy Group of the Treasury could tell us something about the policy investment grants.

(Miss Sinclair) Unfortunately I am not actually the right person from that part of the Treasury, but in support of my colleague, I think it might be helpful to the Committee to remind them that, of course, Treasury Ministers sit in the Treasury and while they receive advice direct from the Inland Revenue officials on policy matters, they also receive balancing advice not only from my section of the Treasury, which is concerned with tax policy overall, but the public expenditure side of the Treasury where they have a particular interest in the general cost-effectiveness of measures, including grants, or public expenditure measures which might bear on the shipping industry, so all that advice comes before Ministers and they take their decisions on taxation policy or on grant policy with the different pieces of advice before them.

Mr Bidwell

1588. Is there not something in addition to that and that is the figure with which the Departmental Minister, the Secretary of State, presents his case in the build-up to budgetary arrangement? Surely that is the way they work in the Cabinet, is it not? If you have a slovenly transport minister, it might not be so . . . let me get an agreement , I am questioning him . . . and this turnover of transport ministers that we live through on this Committee, every now and again we get a change of Transport Minister because they want to give some shunted-out Minister a job in the Cabinet, it seems, and he is shoved from one Department to another and that must have a serious effect on the overall thrust, a change in the Secretary of State and surely that has some effect in those discussions?

Mrs Dunwoody: You cannot ask a Treasury official that.

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[**Mr Bidwell** *Contd*]

Mr Bidwell: Well, I am asking the question and if the young lady can give something away, so much the better.

(Miss Sinclair) You cannot expect me, and indeed I am afraid I am not in a position to comment on whether that has an effect, but what I can tell the Committee is that obviously the Secretary of State for Transport, who has the primary responsibility for shipping policy in Government, and it is not a Treasury prime responsibility, makes representations to the Chancellor and the other ministerial colleagues in the run up to the Budget and these may well cover a range of issues and are fully taken into account when the Chancellor frames his Budget judgment.

1589. What international comparisons have been made running up to this particular recent Budget? We know what kind of a Budget it is and for what purpose it is designed and we are not here to discuss that specifically at the moment, but what international comparisons and how are they presented? Are they presented with like economies and so on or is the British Merchant position looked upon as a special case in view of our special situation as an island nation and our enormous dependency on a vigorous Merchant Fleet, preferably registered in Britain? Has all that, in your view, seriously been taken into account in recent times because your evidence and the manner in which it has been presented is of enormous importance in that regard, is it not?

(Mr McGivern) When we are presenting evidence of the tax position of other countries we do, of course, target that evidence in relation to the particular proposal that is being put forward. If I may say so, you have put your finger on one of the very real difficulties of making international comparisons in the tax field. The economies of the countries can be different; the particular sector may be less important in terms of input to the national economy than the equivalent sector in this country; the rates of tax may be very different from the rates of tax in this country, and the allowance itself may be very different. We have been able, where any proposal is being put to Ministers, to advise them of what the comparable tax treatment of the particular industry or particular form of income is in other countries, and one presents that as fully and as fairly as is possible to do so.

1590. Are you satisfied that the Ministers concerned regard the merchant shipping industy as a special case?

(Mr McGivern) I have no doubt that Treasury Ministers are fully seized of the position of the merchant shipping fleet and, as I say, they made it clear in the 1984 debates, when they made special concessions and departures from the 1984 business tax reforms, that those were made because of the special circumstances of the shipping industry.

1591. We have a note that £5m has been applied to the BS shipping schemes. This has already been criticised by the Edinburgh tankers. Considering the sums required for shipping investment, it seems quite inadequate. Why was a limit of £5m chosen? Would not £10m have been more appropriate?

(Mr McGivern) In announcing the ceiling the Chancellor explained that the purpose of the Business Expansion Scheme relief is to encourage full equity risk investment in companies. When the scheme was introduced even fairly large companies had difficulties raising equity finance, but with the growth of the venture capital market it has become easier for companies to raise larger amounts of equity and the Chancellor decided, therefore, that he would focus the BES relief on smaller companies, and for that reason he introduced a limit of £½m. He decided, however, to make an exception for shipping, for ship chartering, and also for the new relief which is available in respect of investment in companies providing rented property and he fixed on a limit of £5m. It is a matter of judgment, of course, as to what that limit should be, but if you look at the amount that was raised last year for ship chartering through the BES scheme it was around £5m.

Mrs Dunwoody

1592. I am sorry to bring you back to this business of the form of taxation, but it is important for this Committee to understand whether or not the Inland Revenue feel that their existing forms of tax collection are efficient, and whether they are better in relation to this one industry, because for the moment we are talking about an industry which we regard as being different. I am not asking for personal views, but would you say that Ministers do accept that there is a fundamental difference between shipping and other industries, and that taxation is sufficiently aware of that very fundamental difference?

(Mr McGivern) Ministers are fully aware of the position in the shipping industry. As Miss Sinclair has explained, there is continuing input into the Budget decision-taking process by the Secretary of State for Transport. The industry itself is very efficient in making its position known to Ministers and, if I may say so, has presented a very cohesive and well presented argument in the blue book. Ministers are fully aware of what the position in the shipping industry is. They took special account of the circumstances of the industry when introducing the new style free depreciation which enables the shipping industry, uniquely, to roll up the writing down allowances and use them at will. That is not a provision which is available to other sectors of the economy.

Mr Dicks

1593. What concerned me, you say Ministers are aware — and some of the questions should have been directed to Ministers and not yourselves — all the advice coming in to the Department from the industry appears to be ignored in the sense that they keep saying, "Nothing you are doing is good enough and everything you are doing is inadequate and we are suffering". At what stage — you initiate policies as well as react to Ministers' requests — will an official be saying to a Minister or Secretary of State, "This industry is in such a fast rate of decline almost

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[Mr Dicks *Contd*]
anything has to be done"? What concerns me is that we will all sit back and say, "Now is not the right time", there is the 1984 exposition and the current approach to taxation, yet the industry is saying, "For God's sake, forget all that nonsense, we are in rapid decline". At what stage would officials say to Ministers, "Look, something drastic needs to be done. The Treasury has to bang its head together with the officials in the Transport Department, the Inland Revenue and everywhere, otherwise we will not have a British ship left." When does that sort of scenario take place? How far are you from that fatal situation?

(Mr McGivern) I hope nothing I have said has given the impression that the evidence being put in by the shipping industry itself is in any sense ignored — it is not. I would like to reassure the Committee of that. The evidence which the industry has put in is certainly well known to officials in the Treasury, the Inland Revenue and to Treasury Ministers themselves. It is the role of officials, whether it be in the Treasury, the Revenue or any other Department, to draw the facts to Ministers' attention and to present them in the context of their general policy and objectives, whichever sector of the economy they may be looking at and to do it fully and fairly. That has been done in this case as it is done in the case of other industries asking for special tax reliefs. As to when a decision is taken that an industry is in special need of tax relief, at the end of the day that is a matter for a Minister's political judgment.

1594. Is there any sort of notional point in officials' minds where the alarm bells ring as against just vaguely hearing them and say, "For God's sake, Minister, you have to look at this now because of the situation the industry is facing". The industry itself is virtually saying that the Government or Civil Service are taking no action to make any impact? That is the sort of impression we are getting from the industry.

(Mr McGivern) All I can say is that the representations which the industry have made are well known to officials and they are fully aware of them and they are taken into acount and considered very fully both in the presentation of advice to Ministers and in the formulation of policy decisions. I cannot say to you that there is a particular level of the fleet at which any official is going to say, 'For God's sake, something has got to be done". One presents the arguments in relation to the particular tax relief which is being sought in the context of the particular industry itself and to the general economic and other arguments concerned.

1595. What would you say to us if we went back to the industry and said, "We have listened to top officials from the relevant departments and they have said your points are listened to, everything is taken into consideration", and the industry would say, "We do not care about that. Nothing is being done." How do we bring you face to face with the industry to make something happen? They will say it is all words from the government and you would say it is not, "We are doing all we can", and they would say, "That is nothing". How do we get on the same lines?

(Mr McGivern) We do of course talk to the industry. Indeed, I have spoken to representatives of the industry about their policy document; it is part of the process of informing the Department about what is happening in the shipping industry. This is a common occurrence and as with other sectors of industry we do keep very much in touch. The personal advice which they give, in addition to the written representations of the kind we have before us, are taken into account, are reported to Ministers and at the end of the day, it is a ministerial decision as to whether a particular tax relief or level of tax relief is or is not to be introduced. I can assure you that the evidence which the Committee adduce is well known to officials and is taken into account in the advice we put to Ministers, in shipping as in all other aspects.

Mr Trotter

1596. Coming back to the Business Expansion Scheme, perhaps I should declare an interest, in that I think I own one link in the anchor chain of the EDINBURGH TALLA which is the only ship of any size to have been bought under this scheme. The fact that there is only one ship would seem to indicate it has not been very successful — there are two or three small coasters. Is it not an expensive use of revenue, in that this seems a very costly way of helping the shipping industry, or is the main reason not to help the shipping industry but to encourage share owners like myself?

(Mr McGivern) There is, I think, a twin objective in the BES scheme. One is to encourage the provision of full risk equity finance essentially to smaller companies which might have difficulty in raising it; and, of course, it is also to encourage investment in the particular companies concerned, so there is a dual objective there. As to whether it is an expensive form of relief, not much use is made of the scheme. It is available like other BES investment at the full marginal rate of the taxpayer and it is no more expensive or inexpensive than the cost of relief for investment in manufacturing companies or other companies which attract BES relief.

1597. Can I come back to the sort of relief that the industry is seeking? Is it not basically tax deferred rather than tax lost if they were granted the sort of relief they are asking for?

(Mr McGivern) Indeed, but the deferral of tax is still very much a revenue cost.

1598. On the basis that you never get it at all because they keep on deferring it for ever more?

(Mr McGivern) If it is continually rolled over, it would be a continuing cost.

1599. If you are right in feeling that it would not work to have this sort of relief, and I think you did start your argument earlier on this afternoon by saying it did not really work in the late 1970s and early 1980s, but if it is not going to work, surely there would not be much revenue lost, so why not try it?

(Mr McGivern) Indeed that is a factor which Ministers would take into account. Whether it would work or not, I am not, of course, in any position to say. What I have drawn attention to is what

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[Mr Trotter *Contd*]

happened to investment in the fleet and the size of the fleet during the period when the full 100 per cent. first-year allowances were due and indeed whether or not there is anything to be lost in trying it is something which a Minister would take into account, as well as the implications of that approach to a similar relief for other industries which might well advance the same argument in favour of a tax incentive.

Mr Fry

1600. One last question on this section and then I would like to turn to the question of taxation of seafarers. Reading your memorandum and listening to your evidence this afternoon, would I be right in saying that from the Inland Revenue's point of view, the proposals put forward by the General Council of British Shipping do have certain considerable disadvantages in relation to the Government's overall taxation policy and that, therefore, any change that the industry might require is basically a question of political decision and political will, nothing really to do with the Inland Revenue?

(Mr McGivern) Mr Fry, I should perhaps have made it clear earlier on, but I am sure the Committee recognises that the Inland Revenue has no view on matters independent from the views of Ministers. Of course in the final analysis it is a matter for political judgment, not only in taxation but in other areas, as to whether a particular policy initiative should be taken. Our role is to advise Ministers on the implications of any tax proposal both in terms of tax policy and also in terms of wider economic policy with the assistance of our colleagues in the Treasury. We do not have a separate view from Ministers.

1601. Can I turn now to the question of taxation of seafarers and, Mr Lewis, you too have given us a very helpful paper dated 16th March. Could you perhaps comment on the GCBS's suggestion that a percentage of the total yield of income tax paid by seafarers be returned to the Shipping Council, for example, a 75 per cent. remission of income tax would yield companies over £7½ million for every 100 manned ships in the fleet and that is what the CGBS said to us. To what extent do you think the direct return to shipowners the percentatge of the tax paid by seafarers is a feasible method of retaining UK seafarers?

(Mr Lewis) I think one of the interesting questions is that the GCBS did not, so far as I know, suggest exactly what the mechanism might be. It is not a very clear proposal, but they are simply saying that 75 per cent. of the tax on their figures comes to such an amount and if this were made available to the shipping industry, it would obviously be a help. But, as I understand it, they were not suggesting that there should be some kind of exemption for seafarers because they make the point, very strongly that there would need to be a mechanism to make sure that in effect the money did not go into the seafarers' pockets, but ended up on the shipping companies' balance sheets. It is very difficult, I think, to say very much more until there is a specific proposal on the table explaining what they really had in mind.

1602. In your paper you also deal with the question of residence. Could you tell us what consideration has been given to the length of time that people have to stay abroad to avoid liability for UK income tax?

(Mr Lewis) Yes, the residence rules which apply to seafarers — there are very few special rules, so we are talking basically about the rules for deciding residence in relation to all UK tax purposes; and certainly this, I must make clear a very simplified explanation of what the position is — can be quite complex particularly because most of these rules derive from case law rather than statute law. They have been in existence in their present form for a long time, but my impression is that the question of residence is not a very big one in relation to British seamen because usually you are talking about a seaman who has his home and family here and unless he is going abroad for three years or so on a continuous programme he is not likely to become non-resident. So my understanding is that as a matter of practice the 1 per cent. relief for overseas earnings is generally more in point for British seamen than the residence rules.

1603. We understand that Norway and Denmark have special income tax rates for seafarers and I accept the point that it is difficult to make international comparisons, but that is what the GCBS have told us. Is there any reason why we should not have a similar system in the UK?

(Mr Lewis) I think the points Mr McGivern was making about international comparisons in the business field apply equally in relation to the personal tax field because there are all sorts of differences in terms of local income tax, social security contributions and the benefits different countries provide, so it is very difficult making meaningful comparisons. And, of course, you very much have to look at the general level of tax in a country in any event because you may be better off being in a country which has relatively low rates of tax generally rather than in a high-tax country which gives some kind of marginal relief for seamen.

Mr Bevan

1604. I wonder if I could ask you with regard to the Isle of Man question. I think you maintain that if the Revenue decide that if PAYE is due, it should make no difference to firms which are flagged, but it has been reported that such firms will move their ships further and further away if that is the case and will go further afield to Hong Kong, to Nigeria, to Panama, et cetera, and it is in the Lloyd's List of the 15.1.88. How do you comment?

(Mr Lewis) Perhaps I should say first of all, in case there is any confusion, that at this point we are moving slightly away from policy advice to Ministers, which Mr McGivern has been talking about, and I have been talking about . . .

1605. To the effect of existing policy.

(Mr Lewis) Yes, that is right, and the Inland Revenue's statutory duties to administer the tax system. I think what we are saying is that in relation to PAYE, the actual tax which the employer pays

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[Mr Bevan *Contd*]
over to us comes from the employee's/seaman's gross wages and it is not an extra cost to the employer and similarly in relation to the actual cost of administration of PAYE, the system has been much simplified in recent years. It is not normally a great administrative burden and an independent study carried out a few years ago suggested that certainly for larger employers there was really often a gain from operating PAYE because the employer was able to retain the tax he would otherwise have paid over to the employee as part of his wages for a period before he paid it to us. So I think what we are saying is that looking at this as a whole, it is not too clear why operating PAYE should be a great burden on companies. It is a question of the mechanics of collecting tax. It does not make any difference to the liability of the seaman.

Mr Fry

1606. When you make the point that it does not make too much difference if British ship owners should flag out to the Isle of Man, and they are now going to find the Inland Revenue being tighter in relation to the Isle of Man, surely the ship owners will merely move further on, because the Isle of Man is more expensive than many of the other countries where there are flags of convenience and you will not have any sailors paying tax, but Philippine or South Korean tax.

(Mr Lewis) That will not make any difference. We are talking about the question of reflagging. If the seaman is a British seaman resident in the United Kingdom he is liable in the same way whether the ship is on the Isle of Man register or elsewhere. I think what we are talking about is simply the narrow question of the mechanics of collecting the tax, whether through the employer, as would normally happen with a UK company through PAYE, or directly from the seaman himself.

1607. From the seaman himself — the employer would regard that as additional cost?

(Mr Lewis) As I have tried to explain, in many cases tax is not an additional cost.

1608. Let us take the example of where the whole of the crew is supplied, which is fairly common practice now, where the ship owner takes on a crew, who effectively is taken on and is paid by a third party, surely the ship owner then should have no interest in having to pay or collect PAYE or national insurance contributions?

(Mr Lewis) As we tried to explain in the paper, under the existing regulations, it is a question of whether the ship owner in the UK still has the general control and management of his employees. I think there have already been various factors mentioned to the Committee in previous evidence suggesting that might be the case, because it is usually the case that the shipping companies are still retaining the management of the ships and they are deciding where they trade. I think evidence has been put to the Committee that marine superintendents from this country make frequent visits to the ships and that Head Office is very concerned with safety matters, for instance. This is really what we are looking at now whether, looking at all these factors together, we have to take the view that there is still general control and management of the employees or not.

Mr Bevan

1609. Management would cease if and when an owner contracted with an agent based at an exterior port miles from Britain to hire a crew.

(Mr Lewis) Not simply from hiring, no.

1610. A complete crew.

(Mr Lewis) That is what has happened.

1611. Yes, through an agency, say, in Hong Kong.

(Mr Lewis) Yes, but that does not mean to say the shipping company does not retain general control and management of the way the employees work, any more than if you have a secretary who comes from an agency — you are the person who directs how she works for you.

Chairman

1612. Coming to the question of national insurance, could I ask Mr Lloyd to explain the national insurance provisions and how they affect mariners?

(Mr Lloyd) They are very complicated. I hesitate to describe them briefly. I am going to put in a written note which explains them. In broad terms a British resident mariner who works on a British registered ship — and a British registered ship is one defined as owned or belonging to Her Majesty or a ship registered in a British port, and the employer is resident in the UK — in those circumstances full National Insurance contributions, both primary and secondary are payable. If the British resident mariner works in a British registered ship but the employer is not at all resident in any way, nor are his wages paid in the UK by anybody then only the primary contributions are payable.

1613. Can you explain the National Insurance position with regard to the Isle of Man, or is it possible for you to give us additional information on that subject?

(Mr Lloyd) I can give you some indication of the Isle of Man. The Isle of Man, in effect, has a very similar scheme, although not completely the same scheme, for National Insurance contributions as ours. The two schemes are linked by a social security agreement and, in broad terms, the same provisions relate to both. The same provisions in regard to liability apply in the Isle of Man as they do in this country. If you have an Isle of Man mariner working in an Isle of Man registered ship and his employer is resident in the Isle of Man then he pays full National Insurance contributions, and so does his employer.

1614. Thank you. We look forward to receiving papers on this. In the shipping industry National Insurance contributions are marginally abated to reflect the industry's redundancy payment system. Bearing in mind that a large proportion of UK seafarers are serving abroad for long periods of time — and therefore not at that time a liability to the

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[**Chairman** *Contd*]
NHS — is there not a case for abating further the employer/employee contribution?

(Mr Lloyd) You are aware, no doubt, that Mr Portillo announced on February 17th the fact that the abatement of mariners' contribution rates in respect of exclusion of mariners from the redundancy payments scheme would cease from April 6th. It was announced in the Hansard official report, column 632.

Mr Trotter

1615. It does seem that the nub of the PAYE situation is in paragraph 23 of your written evidence, "and it goes of course without saying that the shipping companies would not condone or encourage illegal tax evasion by their employees", surely the situation is this: if a British ship owner employs British citizens then he ought to be collecting tax from them and the only way out of that is to employ Pakistanis and Philippinos who presumably do not pay tax under PAYE.

(Mr Lewis) Or employ British seamen who are not controlled from the United Kingdom.

1616. On the NHS I do not think it as simple as that. It is possible for a Philippino crew member to have a stamp paid for him if employed by a British employer?

(Mr Lloyd) The rules on foreign resident mariners working in British registered ships are complicated.

1617. They have to be resident?

(Mr Lloyd) Yes. It is possible if a mariner is not resident in the UK neither he nor his employer makes a contribution.

1618. That would seem to be commonsense but I did not know whether it applied.

(Mr Lloyd) Yes. He has to apply for an exemption certificate.

1619. It is the same as it is for the tax situation?

(Mr Lloyd) Yes.

Chairman

1620. Why has the Government withdrawn the NHI rebate? Is that not another, albeit little, blow to the shipping industry?

(Mr Lloyd) Are you referring to the rebate given to foreign-going mariners?

1621. Redundancy payments.

(Mr Lloyd) The redundancy payment rebate was abolished because of a decision that was taken by the Secretary of State at the time of the last rerating of National Insurance contributions. In the past mariners who were excluded from the redundancy payments scheme paid a reduced rate of contribution to reflect the fact that the standard rate paid by other employers included the employment protection allocation paid into the redundancy fund, on which mariners could not always draw. In the light of the decision that no employment protection allocation was payable from the start of this coming financial year, and the fact that the employment protection allocation was disappearing, it was therefore decided that it would be illogical to continue to abate mariners' contributions in respect of a contribution which ceased to exist; that was the reason.

Mr Trotter: We understand that Norway and Denmark do have special income tax rules for seafarers and the GCBS assures us that is the case. Is that not an argument for having special rules?

Chairman: That has been discussed.

Mr Trotter: I thought it might have been.

Chairman

1622. It was answered, was it not?

(Mr Lewis) Yes, that question was put before.

1623. All that remains for me to do is to thank you once again for appearing before the Committee. It has been a most interesting and useful session this afternoon and very helpful to us in compiling our report.

(Mr McGivern) Thank you, Chairman. We look forward to reading your Report.

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