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POLICY STUDY No. 67

British Shipping: The Right Course

Michael Colvin MP and Jonathan Marks AICS



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This paper was prepared for the Centre for Policy Studies by the study group on shipping policy, under the direction of Michael Colvin MP and Jonathan Marks, Member of the Institute of Chartered Shipbrokers.

Conflict of interest and secrecy of practice obstruct the impartial and open presentation of the problems of shipping. While hoping that this paper will contribute to debate, the Centre for Policy Studies emphasises that its arguments and recommendations are the responsibility of the authors alone.

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This pamphlet takes a fresh look at the problems of the British shipping industry and suggests practical proposals to solve them. It recommends:

i. The development of a policy of effective competition in Britain and within the European Community. Liner conferences* should be required to register their agreements and to disclose to shippers how their freight rates are adjusted for bunker and currency changes. Admissions to conferences should be subject to published criteria and be resolved by independent adjudication. Loyalty agreements* should be a maximum 70% of a shipper's custom. Within the EEC, the competition articles should be applied to outlaw reserved cabotage* and a regime of brought in to enable the Community to bargain for better access to the trade of the U.S. and of developing countries;

ii. A positive taxation policy offering new entrants a preferential rate of Corporation Tax or a tax holiday. Depreciation allowances should be available on identical terms for new and second-hand vessels. Capital Gains Tax or Corporation Tax should be reimbursed when profits are reinvested in vessels within 7 years. An Inland Revenue clearance system to advise on future liabilities is advocated. Burdens of double taxation should be removed;

iii. New British registration rules recognising the need for a register confined to the Britain and the dependent territories. Non-resident persons or companies should be required to appoint an accountable person in the Britain or dependent territories, so that jurisdiction can be effectively exercised. Ports should be divided into different categories for purposes of registration so that safety requirements can be adequately met. A General Register of British owned ships registered abroad should be created and the Merchant Shipping Act of 1894 updated accordingly;

iv. The delegation of some duties of ship inspection and approval to the Classification Societies. Vessels built in the Community should be automatically eligible for admission to our register if they bear current acceptable safety certificates. In the long run, a European register of ships is desirable.

v. The development of bargaining by company or group in place of national wage negotiations. Facilities for balloting should be provided by companies for their staff. The government should encourage more efficient use of manpower and introduce statutory minimum manning levels;

vi. Measures to provide merchant vessels with defensive equipment for use in the event of hostilities and to prepare emergency unloading facilities. More use of RNR personnel in training with the merchant fleet should be undertaken; and,

vii. Improved statistical information on shipping, to be collected by the government. A standing conference of representative interests with independent advisers is needed to widen the terms of debate and to open a dialogue with the government.

Note: Passages in the text are emphasised in bold face to draw attention to the most important of these recommendations.

* See Glossary

Introduction

Britain's economic prosperity depends upon our success in international trade. It generates a third of our national income and employs a corresponding proportion of our workforce. As a major exporting and importing nation, it is essential for us to have free access to world markets to sell our goods and services. It is equally vital to be able to purchase raw materials and finished products abroad. We need the freedom to invest overseas and to attract foreign capital into Britain. No other leading industrialised country has so clear a stake in open trading markets. The prosperity of our country rests upon this foundation.

Our shipping industry is of critical importance in sustaining Britain's competitive performance in the world's markets. The comparative advantages that the British-owned and registered fleet once enjoyed have made it one of the largest national flags and have provided a major contribution to our overseas earnings. Even now, an industry which employs about 45,000 officers, cadets and ratings in about 800 vessels, which earns £3.5 billion p.a. and which in total contributes a surplus of £1 billion to the balance of payments each year is clearly vital to our future. Threats to its prosperity constitute a danger to our long-term interests.

Unfortunately, the evidence of crisis in the shipping industry is all too apparent. The advantages which we once enjoyed in supplying shipping services have long since ebbed away and our fleet has shrunk accordingly. Indeed, it is no longer self-evident that merely because we are an island nation engaged in large-scale trading activities, we must have shipping services of our own. Britain is actually in overall deficit - i.e. paying more for the services which we buy from others than we gain from those to whom we sell - on our sea transport accounts. The world recession has compounded our problems. It has cut British shipping traffic with disproportionate severity. Indeed, it has been argued that if our fleet continued to decline at the anticipated rate it would be all but impossible to mount another Falklands expedition and would cast into doubt our ability to fulfil our role in NATO. It is not, therefore, surprising that voices have been raised within and without the industry calling for drastic action to avert such a calamity.

The range of remedies proposed is very wide. The General Council of British Shipping has argued on behalf of the shipowners for the retention of capital allowances, for state help with training, for less onerous regulation and for retaliation against

protectionist measures abroad. The National Union of Seamen has, in contrast, demanded public ownership of shipping, with tight controls to prevent investment in shipping overseas and the restriction of British cargoes to British vessels in our coastal waters and on short sea routes. Both sets of proposals involve a departure from the policies that successive governments have followed. Neither promotes fair competition within the shipping industry or secures better access for our vessels to the world trading market. Nor do the proposals encourage the new entrants so urgently needed in our industry, nor explain how we are to regain the comparative advantages which justified the existence of a British fleet. Because they fall short of these basic requirements, we consider that there is a need for a fresh assessment of the state of British shipping. Constructive policies are required if it is to be revived. It is this assessment and these policies which we aim to set out here.

The fundamental malaise of the industry worldwide is due to 'over-tonnaging'. There are too many ships in nearly all parts of the market. Many shipowners see no possibility of a return to prosperity without some dramatic development in world affairs such as the closure of the Suez or Panama Canals, or a major war in the Middle East. And perhaps they are correct. In making this assessment and putting forward what we believe are practical policies we have come to appreciate the immense difficulties involved in an international business and submit that this paper should be received in the spirit in which it is prepared - as a stimulus to further constructive debate.

The decline of the British fleet

Since the end of World War II the overall decline of our merchant fleet has been gradual, although our share of world tonnage fell more rapidly. The scale and rapidity of the decline since 1975 is clear and much more serious. At its exceptional peak in 1975, our registered fleet had over 1,600 vessels of 50 million deadweight tons; by the spring of 1984, there were less than half this number of vessels representing below 20 million dwt.

Table 1

Type	31. 12. 70		31. 12. 75		31. 12. 82	
	No. dwt ('000)		No. dwt ('000)		No. dwt ('000)	
Passenger	120	518	112	241	85	162
Cargo Liner	700	6,371	413	4,147	133	1,597
Container	34	433	89	1,276	64	1,465
Tramps	371	1,972	298	1,409	186	613
Bulk Carriers	175	5,519	248	12,908	97	5,831
Tankers	431	18,812	454	30,005	303	15,079
Total	1,836	33,625	1,614	49,986	868	24,746

Source: General Council of British Shipping (GCBS) April 1983

The process of contraction is continuing, and the forecast that the British registered fleet will be reduced to 500 ships of 16 million dwt by the end of 1986 has been made by the GCBS. Should it go further, as the shipowners fear, the consequences for Britain's commercial position and our strategic interests will be profound.

The decline in the size of our fleet is partly caused by the world recession. The volume of trade between the developed

countries has not grown since the middle of the last decade and for the last five years has been in decline. Most of the conditions which fostered the expansion of the our registered fleet in the late 1960s and early 1970s - easy credit terms buttressed by generous investment grants or allowances, rapid technological advances through 'containerisation', relative stability of currency and the fiscal attractions of the British flag to foreign owners - disappeared with the onset of the recession. Now there is a worldwide surplus of available tonnage, the era of lavish investment incentives in Britain is over, high real interest rates have killed cheap credit, and fluctuations in the exchange rate for the pound sterling against the dollar have threatened the long-term competitiveness and profitability of our industry. The prospects for technological advance are hampered by manning restrictions imposed by unions. Our fate is not in our own hands.

This alteration in the economic climate has imposed changes on the shape and size of our fleet. The reduction in the volume of trade caused a drastic decline in the freight rates for both wet and dry cargoes which directly affected the size of our fleet in these sectors. Similarly the fall in the demand for energy, coupled with the growth of our own North Sea oil production, the widening and deepening of the Suez Canal and the laying of pipelines reduced the world demand for oil tankers by half. It will not be until the end of the 1980s before the tanker surplus is finally eliminated - unless there is some radical change in market conditions¹. Thus, the sectors in which the British fleet had hitherto grown most rapidly, and which had been most successful in attracting foreign investment, were those that declined the most dramatically.

In the scheduled cargo-carrying 'liner' trades, the replacement of conventional vessels by container ships has led to a sharp reduction in the number required: nine container ships took the place of sixty liners on part of the Britain-Australia route alone. On the cross-Channel routes, an intensive competitive struggle has been going on to the benefit of travellers and shippers. Our coasters have also had to face competition from continental rivals whose currencies lack the support of oil reserves and some of whose governments reserve state-generated cargoes and domestic traffic to national flag vessels. On deep sea routes and in cruising, Far Eastern crews have offered advantages in terms of overall labour costs which we have proved unable to match. Were it not for the sharp shift in our trading pattern towards our Community partners since our accession, with our share of imports and exports by value

¹ January 1984. Drewry Report.

rising from 30% in 1971 to 46% by 1980, the prospects for our fleet would be grim indeed. As it is, we can expect a continuing decline in the dry bulk cargo and tanker sectors of our fleet.

The process of contraction has been painful and has inevitably brought casualties. The number of major British-owned companies or groups of companies primarily interested in shipping has fallen from the figure of thirty identified by the Rochdale Committee of Enquiry in 1970 to less than half that number today. Some companies have disappeared altogether; others, like P&O or British & Commonwealth, have diversified their interests. The emergence of consortia of shipping companies (which, like OCL and ACT, seek economies of scale and minimisation of risk), provides further evidence of this process of concentration. New companies in the industry are either conglomerates, like Trafalgar House, aiming to build up their shipping interests, or leasing companies seeking a tax haven. Wherever one looks - in the long established deep sea and cross trades sectors or in the expanding ferry and offshore supply sectors - there are fewer companies operating than there were fifteen years ago. New entrepreneurs, particularly at the lower end of the scale, have little encouragement to enter. Foreign companies, moreover, control half our registered tanker tonnage and a third of our bulk carrier fleet. Barely half our registered tonnage is, therefore, beneficially owned by domestic shipping interests and those interests are more concentrated than ever. This marks a radical change from traditional British patterns of commerce.

Of course, the market for the industry's services is distorted too. Cargo liner services are dominated by the shipping conferences, which generally fix tariff rates and the conditions offered to shippers, and which determine the shares that member companies have in such trade as is controlled by the conference. One aim of these conferences is to keep freight rates at a level low enough to deter potential entrants but high enough to provide themselves with a reasonable return. The GCBS has claimed that 'a liner conference does not enjoy a dominant position no matter what its share of the market, so long as the trade is open to actual or potential competition from outsiders². In fact, it was the existence of these cartels (which rarely carry less than 50%, and more commonly up to 80% or 90%, of the cargo on their routes) which encouraged the growth of flag discrimination on the part of the developing countries eager to join the conference and to save foreign

² GCBS evidence to the House of Lords Select Committee on the European Community's Competition Policy: Shipping. July 1983. Minutes of Evidence, p.23.

exchange. They were determined to build up their own fleets for political as well as for economic reasons. Such fleets symbolised their newly-won independence and helped their programmes of industrialisation. It was partly this political determination which inspired the formulation of the UNCTAD code. This came into force last autumn, and gave developing countries a vested interest in the regulated trade which had originally set out to challenge, when it was in the hands of private companies. Indeed, there will undoubtedly be pressure sooner or later for the extension of the code to the bulk trades. The temptation to go behind the fence, to reach bilateral agreements with the developing countries in order to buttress the position of established companies must be resisted. As the mercantile marine of the Soviet Union and its Comecon allies expands and its trade increases, and as other independent operators come into the market, this temptation will grow. If we succumb to it we head towards complete regulation of shipping.

Table 2

Conference Lines' share of trades from Britain

Britain/West Africa	70%
Britain/Australia	80%
Britain/New Zealand	95%
Britain/Canada	92%
Britain/US	92%

Source: British Shippers' Council. April 1984.

It has traditionally been a major objective of British governments to keep the shipping markets of the world open to our industry. Britain has worked to minimise protectionism and to keep trade between OECD members free from the restrictions of the UNCTAD liner code through the adoption of the Brussels Package. Successive administrations have accepted the existence and operations of liner conferences as long as the trades themselves are open, and have supported efforts to make the conferences more acceptable to shippers through the establishment of voluntary consultative machinery. Britain has even sought to diminish the impact of competition from the Soviet Union and its satellites by encouraging their entry into the conference systems and by reducing the number of cruise berths out of British ports. But such initiatives, along with those on maritime safety, take place in an international context. A long-term policy for British shipping is hard to detect. If there is an

official view on the structure of the industry, on its tax regime, on its requirements for registration and regulation, it has yet to be made public as a coherent whole. Despite the survival of the Greenwich Forum and the British Maritime League, initiatives on policy usually spring from the limited circle of the GCBS, the NUS and the other pressure groups in the industry. It is they who set the terms of the public debate. It is not by chance that the owners are resisting the application, in however limited a fashion, of the Community's competition rules and are seeking retaliation against protectionism abroad. For the same reasons the seamen want public ownership of the industry and the extension of their monopoly over labour. Both seek an economic heaven with the dangers removed. Genuinely free enterprise with all the risks and rewards attendant upon it scarcely figures in their thinking simply because it does not exist internationally. The truth is encapsulated in the saying 'we play cricket but they play karate'. Only fair and vigorous competition in world markets can provide a measure of economic efficiency and regain some of the comparative advantages which will secure our shipping industry's future.

The survival of the British merchant marine depends upon the creation of a broader base of entrepreneurial shipowners, free from unnecessary and burdensome fiscal and regulatory constraints, and thus in a position to face fair competition and the changing trends of the shipping markets of the world. Government should use its powers to create a fairer environment for international competition.

Competition

The record of successive British governments in promoting fair competition within the shipping industry is a meagre one. A general view has been promulgated neither by ministers nor by officials on the structure of the industry. For example, should measures have been taken to check the fall in the number of major shipping groups over the last decade and a half? The failure to formulate policy in this area has been a weakness (as was shown in the story of Trafalgar House's bid for P&O).

Certainly no attempt has been made by any government to regulate the activities of the cartels in the industry. Official supervision of the liner conferences has been limited to receiving the details of their tariffs over the last 41 years. As long ago as 1970, the Rochdale Committee recommended that the government should hold a watching brief, and together with the shipowners and shippers devise a code of practice to govern their conduct. But in place of the analysis of conferences' costs, revenues and tariffs which the committee wished to see published (along with improved arrangements for admission to conferences with an independent appeals procedure, and standing consultative machinery involving shippers, shipowners and the government) much weaker voluntary provisions came into being under the CENSA code of 1971. We believe that there is a good case for giving the CENSA code statutory control over entry into liner conferences. Details of the range of costs and of financial returns were obscured by the use of averages in conference accounts and none of this information was published: the consultative arrangements were with shippers alone and excluded governments. To all intents and purposes the liner conferences have escaped the scrutiny which the Rochdale Committee thought that the public interest required. The fact that these conferences can offer regular and scheduled services to shippers is of course a major point in their favour. They provide a stable environment for the development of international trade. Regular shippers who commit all their cargo to a conference can be rewarded with loyalty rebates. Competition from other modes of transport - for example, that offered by the Trans-Siberian railway to the Far East Freight Conference - and from non-conference lines on the same route inevitably imposes restraints on the tariffs levied. Average profits are no more than moderate. It would be quite wrong, so conferences argue, for them to be subjected to the full rigours of our restrictive practices legislation or of the articles on competition in the Treaty of Rome.

But a defence of the liner conferences along these lines is not entirely convincing. Shipping conferences meet the criteria established under British law for two or more firms acting together to control more than 25% of a market: in economic as well as legal terms they are 'complex monopolies' supplying liner services to their market. It is extremely rare to find a conference controlling less than 50% of the cargo moving on its route. There is evidence that conferences do discriminate between large and small shippers and between commodities. Furthermore, their accounting procedures obscure differences in efficiency between the member companies: the less efficient are partially protected from the expansion of the more efficient by the pooling system. Their freight rates are, moreover, set at levels designed to discourage new entrants even though these rates may be below those (claimed to be necessary to secure the reasonable level of profits) customarily cited in their initial negotiations over revised freight rates with shippers. Shippers, who are usually fragmented and often lack commercial relations with one another despite the existence of shippers' councils have provided no effective counterbalance. Liner conferences thus offer a measure of protection to the inefficient and inhibit cost-effective service to their customers. The case made by the Rochdale Committee for greater openness in their affairs is still sound.

Despite a political belief that the conference system is ripe for reform we do realize the practical reasons for their existence. And we acknowledge that they provide a relatively stable environment for a large part of the British merchant fleet. To apply to international liner shipping the domestic principle of free competition would ignore the fact that in international trade free competition can exist only if practised by others as well as our own country. Furthermore, another cause of imperfect competition is the disparity of basic cost conditions. We have therefore accepted the argument that any immediate dismantling of the system would quickly lead to disaster with the breakup of much of the fleet and consequent loss of influence worldwide. It is against this background that our recommendations for competition have been made.

Britain's national interests lie in having efficient shipping services to carry our imports and exports. Measures designed to improve the industry's performance will benefit not just the net earnings of exporters and the consumers of imports but the economy as a whole. This is why action should be taken to implement the Rochdale Committee's recommendations. It is possible to suggest a series of measures to achieve this objective. First of all, full details of the agreements under which shipping conferences operate should be publicly available. An official register, to be kept by the Office of Fair Trading or the Monopolies and Mergers Commission, should be opened on which all agreements in restraint of competition

would have to be entered. This would cover those mutual arrangements under which companies agreed not to trespass on each other's trade routes in return for undertakings not to enter their preserves. A powerful argument has been advanced by Professor Goss to the effect that the financial data collected by conferences and used in negotiations with their shippers should no longer be presented on an aggregated basis but should clearly identify the range of costs, revenues and profits of the component companies. Such information, if made available to shippers, would enable them to negotiate more effectively and to identify the scope for expansion of the market shares of the more efficient shipping companies. We accept that there are problems in implementing this wide ranging initiative. The government therefore **should ensure that variations in tariff rates to take account of changes in exchange rates or in bunker charges, technically called Currency Adjustment Factors and Bunker Adjustment Factors, should be explained to shippers and be open to challenge by them.** The use of these charges by conferences to maintain their revenues in real terms without fully responding to changes in the terms of trade has been a major source of grievance to shippers and should now be removed. Finally, **admissions to conferences should be subject to published criteria and be resolved by open and independent adjudication supervised, if necessary, by the Department of Transport.**

A series of measures of this kind would strip away the secrecy which has surrounded the activities of these cartels and would provide the basic information against which to measure their claims. It would also secure the improvement in the bargaining position of shippers which the British Shippers' Council has so long been seeking. No doubt conferences will claim that such action would be a mortal blow to them and that they would be forced to relocate outside this country. But such a claim is merely special pleading: there is no threat of unbridled competition here, merely an adjustment in bargaining positions and a requirement to substantiate their arguments. If shippers wish to operate under conference arrangements these measures should be applied; the alternative is to expose them to the rigour of our Restrictive Practices legislation.

Admittedly, these proposals would by themselves be ineffective if the power of conferences continues to be sustained by binding loyalty agreements. The tighter the bond between liner conferences and shippers, the more difficult it is for new entrants on a trade route to win custom. The major attraction to shipping companies of 100% loyalty agreements with the majority of shippers is that actual and potential competition is eliminated. It is difficult to regard the argument of the GCBS that such loyalty agreements are essential to forward planning and investment and the guarantee of sufficient capacity on the route as completely sound. They seem

rather to be a form of mitigation aimed at defending the conferences' dominant position. The British Shippers' Council has consistently sought a more flexible application of these agreements, with a shorter period of notice for their termination and the right to be free to consign some cargo traffic to non-conference lines. The government itself has argued that no more than 70% of shippers' custom need be covered by a loyalty agreement and that it should be terminable at three months' notice. This recognition of shipper's needs - whatever the acknowledged difficulties of policing such a restriction - is thoroughly sensible and should be incorporated in the draft E.E.C. regulations on shipping when they come to be approved.

In fact, the Treaty of Rome contains articles prohibiting agreements which distort competition and constitute an abuse of a dominant position in the market. Both liner conferences and loyalty agreements are open to challenge in the Court under these articles until such time as a regulation exempting them comes into force. The European Commission's recent proposals envisaged the exclusion of shipping from the application of the articles on competition, provided that liner conferences did not discriminate between the countries of origin or destination of the goods carried and subject to much more flexible loyalty agreements being offered to shippers. The Commission itself would have powers to revoke the exemption enjoyed by a conference if it infringed these conditions and to enforce the procedures for investigating complaints³. It was predictable that the prospect of complying with a regulation which would widen choice for shippers and weaken the control of the conferences would provoke outspoken opposition. Much has been heard of the dangers both of applying the regulation now that the UNCTAD liner code has just come into force and of conflicts of jurisdiction with the US and with developing countries. It would be a profound mistake on the part of the British government to be diverted by these distractions.

The negotiations over regulation for maritime transport within the Community offer Britain a major opportunity (which the delaying tactics of countries like France and Germany should not be permitted to close). Our first task should be to reform the community's internal practices by ensuring the articles on state aids provision are implemented and by removing reserved cabotage. The government should be prepared to go to the European Court if necessary to ensure that some of our partners no longer breach the

³ GCBS evidence to the House of Lords Select Committee on the European Community's Competition Policy: Shipping. July 1983. Minutes of Evidence, pp. ix-xi, xii-iv, xxxvii-xli, 273

treaty's rules. Then, having put our own house in order, the Community could move effectively and tackle the external problem so that the regulation can be brought in provided that it clearly specifies the nature of any jurisdictional settlements the Commission may enter into and subject to the omission of the power to cancel conference agreements retrospectively. This would give us the leverage to tackle overseas discrimination and particularly to press on the one hand the US government to abandon cabotage in its coastal trade and its practice of reserving government-generated cargoes to its own flag, and on the other hand the dumping practices of the Eastern block fleets. We should certainly not be afraid to use the European Community's collective bargaining power to reach agreements giving our shipping companies easier access to the trade of developing countries. The subject should receive priority in any revision of the Lome Convention. But, above all, the enforcement machinery and procedures which the draft regulation envisages will, together with the national measures we suggest, bring the cartels under proper public scrutiny and subject them to sanctions of effective competition.

Taxation

The nature and incidence of the British tax regime has been of profound importance to our shipping industry and was once a major incentive to fly the British Flag. It has been the aim of successive governments since World War II to find the right mixture of corporate taxation and investment incentives to promote the industry's long-term expansion on a sound economic basis. In common with the rest of British industry, shipping has therefore experienced the transformation of the previously levied Income and Profits taxes into Corporate Tax - and the alternating operation of investment grants and allowances (together with provisions for capital depreciation).

Unfortunately, the development of these fiscal policies - whatever the intentions of the administrations which introduced them - have actually made it more difficult for the free market to work effectively in shipping. Established companies have been provided with fiscal advantages which favour them and act as a barrier to the entry of new firms (other than through leasing). Competition in the industry has thus been made less effective and new entrepreneurs have been deterred from entry even in the role of more flexible tramp owners. Worse still, unprofitable investment by some firms has been encouraged and incentives have in practice been provided for mergers between existing companies for financial rather than for economic reasons. Our tax system has operated to hinder rather than to promote the set objectives of competitive efficiency and profitable investment, even if it has encouraged some overseas owners to register in Britain.

The explanation for this failure of the tax system lies in its discriminatory nature. It is the company or corporation that is taxed, not the investment or ship. The incentive to invest depends upon a company's tax position and its past decisions on investment. The allowances hitherto offered on capital expenditure have been most beneficial to companies which could use them to offset a tax liability on their profits. An established shipping company has thus been able to use its allowances to full and immediate effect, especially if it has profits from other sources. But a new entrant without such profits has faced the prospect of a lower post-tax rate of return. A formidable barrier to entry into shipping has thus been raised. There is a further disadvantage that flows from this. Existing companies are encouraged to undertake investment schemes with very low pre-tax rates of return while proposals involving much higher yields are rejected because their post-tax profitability is too low. An ineffective use of resources is thus promoted. Companies

in a 'full tax' position need to make less investment when their pre-tax profits are low in order to retain this advantage and to avoid tax when their profits rise. Incentives of this kind are seen as a form of tax shelter and act as a stimulus to mergers for financial reasons. Shipping companies have been moving out into other industries in which pre-tax profitability is higher, and banks and other financial institutions have for precisely this reason been moving into shipping through financial leasing as a tax shelter for their profits. This process has speeded up since accelerated depreciation allowances became available in 1972 and has exacerbated the problem of 'overtonnaging'.

The straightforward solution to this problem would be to put all British companies on an equal footing by abolishing capital allowances on plant and machinery. Such action would allow the standard rate of Corporation Tax to be substantially reduced. This in itself would improve the position of new companies in relation to more established ones. The radical action taken by the Chancellor of the Exchequer in 1984 to phase out capital allowances over the next three years was welcome in principle for this reason. 100% first year allowances encouraged investment which was not necessarily profitable and thereby interfered indiscriminately with market forces. The Chancellor's specific concession retaining free depreciation for new ships recognises shipping's special problems in an international market. But it offers help neither to new owners nor to tramp operators. **The government should assist new entrants into the shipping industry by offering them a preferential rate of Corporation Tax or a tax holiday for a period, perhaps, five to seven years.** Such special treatment could be justified only for genuinely new entrants (rather than for existing operators appearing in a new guise). In either case, the barriers to entry would be dismantled and profitable investment stimulated. We believe that this is a more practical recommendation than the extended use of the Business Expansion Scheme.

Our priority must be to make it easier for existing owners to adjust the shape of their fleets, and for prospective ones to acquire the necessary vessels to trade without undue consideration being given to tax implications. The volume of laid-up tonnage in the world means that many recently built and technologically advanced vessels are available on the second-hand market. If free depreciation were to become available on these vessels on the same basis as it is for new ones, then British owners could be encouraged to purchase the most commercially suitable vessels relatively unconstrained by tax considerations. It has been the ability of our foreign competitors like the Greeks to exploit the purchasing possibilities of the market which has given them such a conspicuous advantage. This country needs to be ready to profit from revival in

world trade. For that reason, we recommend that free depreciation be extended to second-hand vessels on the current terms for new ones.

The strategy of buying vessels at the bottom of the market and selling them at the top is an old formula for commercial success. The ability of the entrepreneur to read the market is crucial. But the tax regime makes fiscal liabilities rather than market opportunities the determining factor. This is one of the reasons for the disappearance of individual shipowners from the industry. There is little chance of new entrepreneurs being attracted into shipowning or, indeed, of growth of existing companies, unless the incentive to buy and sell vessels is provided. Indeed for some the profitability of shipping ventures is in 'turning' vessels and not in trading them in the currently depressed if volatile market. It would be possible to encourage such entrepreneurs by reimbursing them for any Capital Gains Tax or Corporation Tax liability incurred when their profits are reinvested in vessels within seven years. Although this might create a loophole for shipowners, there is no doubt that the present period allowed for rolling-over exemptions under the Capital Gains Tax rules is too short. It hinders investors from utilizing their assets to their best advantage and undermines the strength of our fleet. If the market is adversely affected by the exigencies of the tax system, we cannot expect to exploit its opportunities successfully. Nor can we expect to have the entrepreneurial skills to succeed in shipping in the long run.

The tax changes advocated here would certainly alter the climate within which our shipping industry operates. They would stimulate investment and provide greater competition. But they could be successful only with the co-operation of the tax authorities. All too often, the Inland Revenue is unwilling to advise or inform an owner of his or his company's precise liabilities when a second-hand vessel is to be purchased or a leasing arrangement is made. This uncertainty discourages purchases both of existing vessels and of those which are built abroad. Foreign owners operating under our flag suffer even more severely. If our measures were to be adopted better arrangements are necessary. It should surely be practicable for the Commissioners of the Inland Revenue to establish a system of quick clearance to advise owners or prospective owners of their future liabilities if they are contemplating purchases or sales in the market. It should also be possible to remove the threat that anticipated tax advantages may be subsequently denied.

Fundamental reform of the tax regime applied to shipping is necessary and will involve long-term changes. We have to take account of the spread of 'unitary taxation' abroad and to resist the threats of 'double taxation' wherever they arise. It cannot be

right that owners should be penalized by heavier taxes if they trade under British flags to countries whom we consider friendly and, indeed, who may be recipients of British aid. A concentrated effort by the government should be made to negotiate a removal of the liabilities of double taxation imposed by foreign states.

At home, we must be alive to the risk that, if shipping agencies are taxed as management companies, there will be a major exodus of firms from the City to the great detriment of our invisible earnings. Our recommendations aim to restore effective incentives and to revive entrepreneurial opportunities. This is essential if the decline of our flag fleet is to be halted and then reversed.

Registration

The rapid decline in the number and tonnage of vessels registered under the British flag has been the major concern of the current debate about shipping policy. As a result the discussion has been dominated by proposals to preserve and to expand a fleet of exclusively British-owned, British registered and British manned ships. The measures put forward by the General Council of British Shipping on the one hand and by the National Union of Seamen on the other have thus been cast in too narrow a mould. Appeals for a combination of fiscal favouritism and easy credit, for cargo reservation and overt retaliation against foreign competition, even for crude protectionism (along with doctrinal public ownership) have inevitably been forthcoming.

Any debate conducted in these narrow terms is highly misleading. It ignores not only the international role which the City of London plays in world shipping through such institutions as Lloyds Insurance market and the Baltic Exchange (with all the specialist agencies, accountants, brokers and lawyers to be found there) but also the substantial degree of foreign investment in the country's registered fleet. Approximately half of it appears to be owned abroad or to be held by the British subsidiaries or associates of foreign companies. Foreign control was concentrated principally in the tanker sector (which had grown from 40% of our registered tonnage in 1968 to 60% by 1981) where half was in their hands, and in the bulk carrier sector (which had rise from 14% to 28% of our fleet over the corresponding period) where a third was owned abroad. Ironically, it was in these sectors that the growth of the fleet had been most marked. The decline of the British registered fleet is caused in part by the withdrawal of foreign investment in our industry, without which it would be only half its present size. The economic benefits which accrue to this country are indirect but nonetheless vital to the maintenance of the City in its role as the shipping capital of the world.

Recognition of the importance of foreign investment in, and ownership of, British registered vessels is a prerequisite for the development of a coherent strategy. Other registries have been able to offer substantial savings in manning and operating costs. Domestic shipowners and shipping companies have quite naturally found these inducements just as attractive as have foreign owners: consequently, there has been a flight from the 'red duster'. At least 148 British-owned ships were registered under flags of convenience in 1982. A substantial amount of 'British' shipping is therefore missing from

the statistics compiled by the General Council of British Shipping and by the Department of Transport. Indeed, the existence of this category is scarcely reflected in the policy debate at all, save when complaints are made about the process of so-called 'flagging out'.

The need for a more modern definition of 'British' ownership is evident. Under the Merchant Shipping Act of 1894, a ship was and is deemed a British vessel if it is wholly owned either by British subjects or by bodies corporate established under and subject to the laws of this country or some part of the sovereign's dominions and having their principal place of business in the British or those dominions. The legislation covered Britain and the Dominions and Colonies which made up the Empire. Since then, of course, almost all colonies have achieved independence and they and the former dominions have developed their own registers and shipping laws. Some of these countries have chosen to require their citizens and companies to register on their own national registers and have barred access to them for ships owned elsewhere in the Commonwealth. Others have moved to 'open' registries, and no longer require registered vessels to be British within the terms of the 1894 Act. These developments have caused increasing difficulty in applying the legislation. Some of the registries in our remaining dependent territories are not equipped to enforce the full range of international law governing safety at sea, the prevention of pollution and the training and welfare of seafarers. As a result, Britain has had to accept the responsibility for imposing our own maritime law on ships which are owned by companies outside our jurisdiction without the means to enforce it. This is clearly anomalous. Furthermore, sub-standard vessels have been able to obtain registration as British without complying with the rigorous safety requirements applied to vessels registered here. Such abuses should no longer be tolerated.

A new set of criteria for registration under the British flag must take account of these problems. Registration must provide both a record of all the ships we have and a guarantee of our jurisdiction over them. **New legislation is urgently needed to establish a register limited to British and the overseas dependent territories (e.g. Bermuda, Gibraltar, Hong Kong etc.) alone: it should specifically exclude the independent members of the Commonwealth.** This will remove the 'dominion-wide' registration provisions of the 1894 Act. It is essential that eligibility to register should be confined to those over whom we can exercise jurisdiction. There is no need to change the requirements on eligibility in the 1894 Act but **non-resident persons or companies must appoint an accountable person in Britain or in the dependent territory where their vessel is registered over whom jurisdiction may be exercised.** This will ensure that there can be no escape from

the reach of the courts. Of course, this would not of itself ensure that the dependent territories are able and willing to administer the whole range of international maritime convention. A system, however which recognises and provides for different categories of ports of registry has already been suggested by the government. This takes account of the varying resources of the dependent territories and yet also ensures that vessels seeking British registration would need to be registered at a port with the necessary administrative expertise to deal with them. It offers a neat and simple solution to the problem of enforcing safety requirements.

The government should take action to centralise and computerise its registration procedures (covering both Britain and the dependent territories). The opportunity should also be taken to establish a register of vessels owned by British-based individuals or bodies corporate but registered under foreign flags. This information would help to clarify the true extent and size of the 'British' fleet, and put the debate on future government shipping policy on an altogether sounder footing. New legislation is required to amend the 1894 Act to allow wholly owned British vessels to be registered abroad and compete freely and openly without the fiction of foreign owning companies or shares held in trust. It may even be possible to include some of or all the vessels on the General Register in future negotiations for trading benefit for British flag tonnage.

Britain is committed to 'open' world trading markets. The fact that our shipping register is an open one is proof of this. It would be a profound mistake to drive away the foreign owners and investors who sail under our flag. It would be even more unwise to surrender to the demands of Third-World countries for a strict link between beneficial ownership and flag registration. That would simply risk losing the advantages of specialisation in the international shipping market from which much of its long-term success has flowed without any compensating gains. Provided we tackle the anomalies that have arisen, our registration system can be adapted to the conditions of the late 20th century without running any such risks. Outlawing open registry shipping, as suggested by the UN, would do untold damage to the future of the British fleet.

Regulations and safety

The issue of safety at sea has always been of vital concern to seafarers and their passengers and the industrial and technological developments which have produced oil and chemical tankers as well as gas carriers have made it a matter of increasing importance to those dwelling near our coasts and in our ports. Responsibility for establishing the necessary framework of regulation to protect all those travelling or working on the high seas has lain in the hands of the government for over a century. Co-operation between the governments of seafaring nations has led to the ratification of a number of international conventions governing maritime safety.

Britain has played a leading role in creating this framework. Our government helped to set up the International Maritime Organisation (IMO) under United Nations auspices in 1959 and has since taken a prominent part in its deliberations on the technical issues arising from efforts to improve safety at sea. Indeed, we have gone further in many respects than IMO conventions require by applying stricter standards to vessels registered under the British flag and by extending our regulations to cover matters on which there is no international agreement. As a result, the casualty rate for British registered ships is now only one-eighth of that of the world fleet for similar vessels.

This enviable record is due in part to the modernity of our fleet and partly to the high safety standards maintained by our seafarers. The inspection of vessels by the Department of Transport's officers has also contributed. All British registered vessels are required to carry international safety certificates which should be issued only after they have been fully surveyed. These certificates vary according to the class of the ship and the voyages on which it is engaged. Vessels that carry passengers have to meet particularly rigorous requirements. It is the duty of the Department's specialists - ship surveyors, marine engineers, naval architects and navigation officers - to inspect all the safety equipment and navigational aids. They are also responsible for approving ship stability. As far as possible, this work is done in conjunction with Classification Societies. Substantial progress has been made in the last decade in aligning their requirements, and much of the survey work on cargo vessels has been delegated to the Classification Societies which apply standards laid down by the Department. But on safety matters it is the Department alone which acts and accepts responsibility.

It is clearly right for the government to take this view, backed as it is by a growing body of international agreements. Nonetheless it does mean that some of the work of inspection and approval is duplicated to the cost of the owners and their customers in terms of money and time. The vital point here is to ensure that the safety regulations set by the government and by international conventions are observed. We believe that there is greater scope for delegating the duties of inspection and approval to the Classification Societies. It is practicable to devise a system of licensing by the Department of Transport of approved officers of the Classification Societies for the purpose of performing these tasks. There is no inherent reason why this should not extend to the inspection of safety equipment, navigational aids and ship stability. There are many ships' masters available who have a long career at sea behind them and all the expertise in ship operations necessary to undertake such tasks. Provided there is a degree of competition on costs between the societies, savings in official manpower and public expenditure ought to be possible. So too should savings for the shipowners.

But there is a second and perhaps more serious question involved here. Many of the requirements of the Department of Transport are unduly restrictive and impose penal costs on ship operators. The incredible case of the official inspector who prevented a vessel sailing until one brand of boiled sweets had been replaced by another (approved) one springs to mind. It is the range of requirements, moreover, which deters many owners from transferring their vessels to the British flag or from purchasing second-hand vessels.

Here are a few typical demands:

- Shelves in cupboards to be moved;
- Extra coathangers to be fitted;
- Thermostatic valves to be fitted in showers;
- Chairs to be fitted with armrests;
- Bunks to be extended from 800mm to 840mm;
- Separate ventilation for galley and provision stores;
- Larger medical locker;
- Modifications to radio station;
- Extend draught marks to keel; and,
- Extra costs for tonnage measurements.

The cost of transfer of vessels bought abroad can exceed £100,000 and is an unnecessary extra burden and complication for the British owner.

Lately the Department has shown greater flexibility but it is necessary to avoid any costs which do not arise directly from safety demands. As our Community partners all build vessels to high safety standards, the new proposal should create no problems for the Department.

Of course, it would be damaging to our interests if the requirements for registration under the British flag were to prevent the transfer of foreign-built vessels when they meet international safety standards. (The imprecision of the International Labour Organisation's recommendations on crew accommodation does nothing to help.) It is certainly anomalous that vessels trading under other flags can gain registration here provided they meet our regulations within a certain period but that vessels built abroad and bought for the British flag benefit from no such concession. We accordingly propose that vessels built in the member states of the Community should be directly eligible for British registration without additional demands being imposed, provided that they bear safety certificates which are currently acceptable.

This, together with the action already taken by the government to improve the procedures for transfer, would undoubtedly encourage more owners to register here and remove many bureaucratic obstacles. It would also provide a convenient starting point from which the government could argue for the establishment of a European register of ships within the next decade.

Manning

The problems faced by shipowners over registration have been more than matched by their difficulties over manning. Whilst tax incentives have encouraged 'flagging in', the Luddite attitude of the seamen's unions has been the prime cause of 'flagging out'. It is far cheaper to employ a vessel crewed by nationals of a developing country such as Taiwan than to use a British crew. There is a great difference not only in wage levels but also in the related welfare payments - the 'social wage' - the provision of leave, repatriation arrangements, redundancy rights, medical care, etc. which owners have to meet. Massive savings can be made either by replacing British seamen with foreign crews or by flagging out to the Liberian or other registers. This point can be illustrated by comparing the running costs of two identical 29,000 ton vessels built in 1977 and operating in 1982, one with British officers and a Chinese crew based in Hong Kong and the other with a fully British complement of officers and crew.

TABLE 3

	A British officers and a Chinese crew	B British officers and crew
	Pounds Sterling	Pounds Sterling
Wages and leave	217,500	362,376
Overtime	29,000	57,849
Crew travel	13,000	52,908
Manning expenses	4,400	42,118
Crew support costs	9,000	33,923
	£272,900	£549,174

The vessel with the completely British crew was thus over twice as expensive to operate. It is not surprising that British owners, faced with the payments for social security and pensions for their crews together with the GCBS levies for manning and redundancy costs, and competing against owners with no such burdens, have either replaced British seamen (where the agreement of the National Union of Seamen could be obtained) or flagged out altogether. Differences in manning levels and wage rates have added to the incentive, and the

removal of overseas earnings' relief in this year's Budget, on the unjust charge of abuse of the system, will only exacerbate the problem. The unavoidable result has been a contraction in the pool of trained British seamen employed.

Naturally, the trades unions in the industry have sought to resist this process. The National Union of Seamen (NUS) and the Merchant Navy and Airline Officers Association (MNAOA) have endeavoured to protect their members' pay and conditions of employment. They succeeded in driving up wages by 75% in the five years to 1982: the rise in Japan in the same period was only 25% and in Holland and West Germany 27% and 38% respectively. Even allowing for Britain's higher inflation rate no better illustration of the effects of excessive pay increases on employment could be given. Both unions have fought rearguard actions to maintain manning levels and to inhibit job flexibility regardless of the industry's overall position. It has to be said that, on occasions, insensitive management has helped to ensure that positive proposals were rejected. The result is that a 30,000 ton bulk carrier requires a crew of 25 men in the British fleet but only 18 in the Japanese. Foreign owners new to the British flag (or prepared like Canadian Pacific to leave the GCBS and the federated sector) can obtain union agreement to reduced manning levels but it is far more difficult for British resident owners to obtain similar concessions.

The position of the unions is buttressed by the existence of the closed shop in the industry and by the pressure which left-wing extremists can exert through its branch structure based around different ports. Because the bulk of the members cannot attend union meetings the influence of a handful of activists is disproportionately great. Wage negotiations conducted through the intricate machinery of the National Maritime Board expose employers to across-the-board demands that take no account of the circumstances of individual companies. Had the shipping industry followed the recommendation of Lord Pearson's 1966 Report and developed policies towards personnel based upon the requirements and resources of companies, this state of affairs would have been ended long ago. Attempts by the GCBS to develop company or group bargaining in the negotiations of 1981 and 1982 met with very limited success: only four deep sea companies secured agreements while a number of coasting and short sea companies failed to get them. Since then the NUS has repudiated separate company bargaining and refused to negotiate with Ocean Transport and Trading and with Furness Withy.

We maintain that the financial position of companies in the shipping industry varies so greatly that national wage bargaining is no longer appropriate. The GCBS is right to press for company or group bargaining and should not be blackmailed into surrendering to

to the demands of the NUS. There is no reason why this should not be extended beyond pay bargaining to cover other conditions of service as well. To ensure its success the top management of the shipping companies must take a much more direct and positive interest in the welfare of their officers and seamen rather than delegating responsibility to relatively powerless middle managers. Owners should also be prepared to make facilities available to their staff to ballot on any offers made to them and to provide independent supervision of such polls. This would ensure that the union officials negotiating on their behalf were fully aware of their members' views. With resolute determination on the part of the owners, a more flexible bargaining structure without inbuilt inflationary pressures could be constructed.

As a corollary, it is essential that the government, the owners and the unions should plan ahead for the lower manning levels which technological advance will make possible. The Department of Transport is already able to survey a ship and state what level of manning is safe. The options which this opens up for less costly crewing have not been sufficiently explored but we are encouraged by the Efficient Ship Project currently being undertaken by the British Ship Research Association and the GCBS. Vessels of the future will have high levels of automation and robotisation and will certainly have their engine rooms controlled from the bridge. We are sadly a generation behind other countries in the training of officers with joint bridge and engine-room qualifications. The Japanese are already experimenting with multi-purpose crews. Nor have we yet exploited the opportunities offered by devolving management responsibilities (e.g. in repairs) to the ship. It is inexcusably anachronistic that separate galley facilities are provided for officers and men on vessels whose crews total an equivalent of two rugby teams or less. The number of catering staff and stewards can and should be cut. Our vessels should require crews no larger than those of our major rivals and their costs should be comparable at least with those of our European competitors.

It is unlikely that without guidance owners and the unions will be able satisfactorily to negotiate reduced levels of manning. The unions exert undue influence over smaller shipowners and discourage new entrants. Therefore we propose the guidance required, as laid down by the safe manning certificate of the DOT, be the statutory crew number which is to apply for that ship in the event of the owner and union failing to agree.

Defence

The strategic importance of the Merchant Navy was brought to the nation's attention by the Falklands conflict. Without the support of the vessels chartered or requisitioned in April and May 1982, no expedition could have been mounted to the South Atlantic and there would have been no prospect of recovering the islands seized by Argentina. Tribute has rightly been paid to the courage and skill of our armed forces and of the officers and men of the mercantile marine who accompanied them. The lessons of the conflict both for the forces and for the Merchant Navy have been the subject of intensive study. Serious doubts have been expressed about our capacity to mount another such expedition or to meet the requirements of a major conflict in Europe should the fleet continue to contract. As the cost of warships mounts, the force-multiplier effect of our merchant fleet will become increasingly important and part of the cost of sustaining it is a reasonable charge on our defence budget.

Britain's strategic interests are evidently concentrated in Europe and the North Atlantic. It is to meet the potential threat of attack from the Soviet Union and its Warsaw Pact satellites that our forces are deployed. The mercantile marine will have a vital role to play either in a conventional war or in a nuclear one, however short or long the period that precedes its outbreak. NATO's planners have obviously considered a range of contingencies and prepared measures to respond to them. The size and shape of a merchant fleet which depends on the decisions of individual shipping companies and consortia must be under continuous examination. There is no reason to suppose that the alliance in general (or our government in particular) fails to take the interests of the shipping industry into account in its strategic planning.

The official silence on this subject is necessary partly to prevent our potential adversaries gaining information. Despite government reticence it is known that Britain's defence requirements in the event of a major conflict have been discussed with the GCBS and other interested parties. But there is a second reason why no overt response has been made to the widely expressed worries over the contraction of the fleet. The civilian vessels which would be needed are the passenger liners and ferries, the container vessels and roll-ons and roll-offs. These are in the categories where the fleet is still relatively strong. That is why the government has remained unmoved by pleas to reverse the decline of the fleet on purely military grounds.

Nonetheless, the Falklands War has necessitated a revision of our defence requirements. It would be unacceptable for us to be deprived by attrition over the next four to five years of the trawlers we may need for minesweeping duties or of the refined product carriers necessary for use as escort support tankers. No doubt there is a level at which action would be taken just as there must be for the ships required to feed and sustain the civil population. As the number of destroyers and frigates available for escort duties falls, the need for defensive equipment to be made available to merchant vessels rises. The threat from anti-ship missiles may be met either by ships capable of throwing up 'chaff' to divert them or by containerised anti-missile batteries mounted on merchant ships. More vessels should be equipped with gear for replenishment at sea. There is evidence that air cover will have to be provided for convoys in the North Atlantic; this could be done by strengthening the decks of container ships and providing them with facilities to enable Sea Harriers and helicopters to be parked below the main deck. The capital cost of such measures should be borne by the state in return for restrictions on the right to 'flag out' without government sanction.

Other measures need to be taken as well. The technological changes which have transformed the composition of our fleet have eliminated the need for equipment to handle shipboard cargo and required the construction of special berths and ports. Container ships are much less flexible than the conventional cargo ships with self-sustaining gear used to be, and are often capable of operating only between the terminals built to take their specific traffic. A number of accurately directed missiles or the dropping of modern mines might paralyse many if not most of the domestic container terminals of Western Europe. Emergency anchorages must be ready along with an adequate number of floating cranes and lifting gear to unload container ships. Here again, the government must be prepared to commit MOD funds to the design and manufacture of the equipment and to accept the cost of stockpiling.

In addition to these precautionary steps there should be more co-operation between the Royal Navy and the Merchant Navy. Royal and Merchant Navy officers at an early stage in their careers should be trained on the vessels likely to be requisitioned in the event of a conflict. Occasional joint exercises like Teamwork 84 are already providing merchant vessels with the experience they may require for convoy operations should hostilities ever occur.

Although for example the consequences of a closure of the Suez Canal or of a blockage of the Persian Gulf can be foreseen to some degree, it is the unexpected conflict that poses the most awkward challenge. Britain and her allies must be ready to respond flexibly to such challenges. We believe that the Merchant Navy will have a vital role to play. Given the changes we have suggested on registration and expenditure on precautionary measures, it will be ready to play its full part as the fourth arm of defence.

The role of the government

The revival of Britain's shipping industry depends upon the understanding and co-operation of the government. The government alone has the power to act in the key areas of taxation, competition, registration and regulation. The responsibility for representing and protecting our shipping interests in the international arena lies in its hands. If the government cannot be persuaded to act constructively, then the prospects of revival will be diminished.

Unfortunately, the government is not well equipped for the task. It lacks vital statistical information about the fixing of freight rates and on the exact extent of our participation in the cross trades. No measure of output in the industry is available. Many of the recommendations of the Rochdale Committee on the collection of statistics have yet to be implemented. There are only one-and-a-half economists on the shipping side of the Department of Transport. Under these conditions, the initiative in the public debate on how to formulate shipping policy has all too often passed to the GCBS and the NUS.

Throughout the century the shipping industry has been living in a cycle of repeated booms, excessive investment and over-building leading to prolonged slumps. Valuable capital resources which might have been employed elsewhere have been wasted. Demand for shipping services, which is fairly stable in the medium term, has been confronted by wildly fluctuating supply. It is no comfort to reflect that such conditions have been experienced by shipping industries in other countries. The root cause of the problem lies in the exaggerated expectations of investors at the height of the booms and the willingness of the public authorities here and abroad to encourage them at such times. Anything that can be done to remove this affliction would be well worth the effort.

We believe that the government has a duty to collect much more comprehensive statistics and to engage in a more open debate about the industry's future. There ought to be systematic consultation not just with the GCBS and the NUS but also with bodies like the British Shippers' Council, the British Federation of Commodity Associations, the Classification Societies, the Baltic Exchange, the financial institutions and others with a professional contribution to make. A standing conference of representative bodies (including the trades unions) would provide a suitable forum for an exchange of views without falling into the trap of indicative planning and public control. Government Ministers and

officials of the Shipping Policy Division in the Department of Transport who advise them should take part in these discussions. Better information will, at least, give the industry the chance to avoid wasting resources in the future.

The principal advantage of this proposal is that it will open up the public debate on the shipping industry's future and provide the necessary material for informed discussion. No maritime committee of the Cabinet do that. Simple retaliation against protectionism, straightforward restrictions on the Comecon fleets, surreptitious public subsidies, stifling state ownership none of these will do. (We are not, however, adverse to retaliatory measures being threatened if foreign competition remains obstinately unfair).

A proper understanding by government of the problems of the industry would reduce the possibilities of counter-productive short-term policies such as the 'Polish Ships Deal' and reckless use of the intervention fund as in the Lord Byron/Lord Curzon case.

What shipping needs and what government must help to provide is more open competition and a more efficient performance. In an economy and society based on free enterprise, more freedom and more enterprise are the remedies.

Conclusion

The decline of Britain's shipping industry from the pre-eminent position which it once occupied is a melancholy story. The loss of the captive trade routes of the Empire, the emergence of Third-World protectionism, the rise of more competitive rivals and the appearance of the Soviet fleet - all combined to end this pre-eminence.

This analysis of the problems facing our shipping industry today differs little from the many others recently completed but our package of recommendations offers a new emphasis by endeavouring for the first time to reconcile the philosophy of the free market economy with an internationally regulated, subsidised and distorted industry, where competition is far from fair. In trying to do so, we have been forced to temper political and economic belief with pragmatism and as a result have suggested policies which we believe are workable.

Our recommendations are directed primarily at government, since it is government who must first create the climate in which owners and unions are encouraged to make the changes required to halt and reverse the decline of our fleet. Many of the problems are international. Nothing less than a unified approach to solving them will succeed in restoring Britain's position in a vital economic and strategic industry.

Glossary

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|--------------------------|---|
| Brussels Package | - the terms under which the Community accepted the UNCTAD liner code but exempted intra-community shipping and that between member countries and other OECD states. |
| CENSA | - Committee of European National Shipowners' Associations (including Japan). |
| Classification Societies | - independent bodies which set out and monitor ship building and equipment safety standards. |
| dwt | - deadweight tonnage: the total weight of cargo, stores, bunkers, crew and passengers that a ship can carry. |
| GCBS | - General Council of British Shipping. |
| grt | - gross registered tonnage: the unit of measurement of a ship's size based on its cubic capacity. |
| ILO | - International Labour Organisation. |
| IMO | - International Maritime Organisation. |
| liner | - a vessel operating a scheduled service. |
| Liner Conferences | - a formal grouping of shipping lines running on a particular route or routes. |
| Lome Convention | - Treaty between EEC and over 60 developing countries which acts as main channel for Community Aid. |
| Loyalty Agreements | - An agreement made by a shipper to move a certain percentage of his trade with a particular line or within Conference agreements. |

- NUS - National Union of Seamen.
- reserved cabotage - the reservation of coastal shipping to one's 'home fleet'.
- short sea - routes usually taken to be between Britain, the Irish Republic, the Baltic and Western European countries.
- tramp - a vessel operating on a voyage-by-voyage basis, usually on the spot market.
- UNCTAD - United Nations Conference on Trade and Development: under its Code of Conduct for Liner Conferences, each country trading with another has the right to carry 40% of the cargoes generated, leaving 40% to its partner and 20% for cross-traders.

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