CABINET

THE BRITISH SHIPPING INDUSTRY

MEMORANDUM BY THE MINISTER OF TRANSPORT

In accordance with the Cabinet's discussion on 31st May, I am circulating this report on the problems of the shipping industry and my proposals for Government action (C.C. (62) 39th Conclusions, Minute 7).

The General Situation

2. The British merchant marine, although proportionately smaller in the world than before the last war, is still the world's largest active merchant fleet and it contains a good proportion of modern ships. Nevertheless, I am most concerned about its prospects.

3. Earnings have been very inadequate for several years and many shipping companies are known to be barely covering depreciation, and some not that. The shipping industry is accustomed to large fluctuations in its fortunes but its morale is now low.

4. The most alarming symptom is the rate of ordering of new ships, which is running at no more than a third of the rate required for replacement.

5. The implications of this are also very serious for the United Kingdom shipbuilding industry, which normally sells about 80 per cent. of its output to British owners. If the present level of orders continues, the industry will have to contract by about half.

6. The basic cause of the present state of the British shipping industry is, of course, the world surplus of ships. (This point and the industry's prospects generally are dealt with in the Annex.) But other countries' shipowners are not in general so gloomy as our own, and have not cut down their orders so drastically. In fact, one of the reasons that British owners give for their own holding back is that enough new ships have been or are being ordered throughout the world to prevent any improvement in earnings. I must emphasise that the confidence of British owners, and with it the level of their orders, may well fall lower still. In that event shipbuilders, some of whom have been comforting themselves with the thought that British owners cannot hold off ordering much longer, will react sharply; and several yards may be closed.

7. It should be borne in mind that in the 1930's the Government felt compelled to give financial aid for our fleet. Although the British shipping industry has not asked for a subsidy, a number of the shipbuilding unions have for some time advocated the Government's subsidising a scrap-and-build scheme, and the shipbuilding employers may soon add pressure of their own. The shipbuilding unions are also now talking about direct Government orders for merchant ships.

The Reasons

8. All shipping is suffering from a general surplus of tonnage. World freight rates have been depressed for several years, whereas costs have risen. British shipowners have been faced with large increases in seamen's wages during the last few years and must now expect another.
9. This situation is made worse by the fact that many foreign Governments prevent our shipowners from charging remunerative freight rates and even from carrying certain cargoes altogether. This trend towards policies of flag discrimination and unilateral regulation, supported in some cases by subsidies, is increasing both in the United States and elsewhere. The United Kingdom suffers out of proportion from these forms of interference, since they have their main impact on liner trades and 70 per cent. of our foreign-going dry cargo tonnage consists of liners.

What the Government must do

10. Our objectives should be—
   (a) to secure for our shipping a fair field internationally;
   (b) to help it develop its managerial and technical efficiency.

11. The Economic Policy Committee are supervising a study of the ways in which we might combat the nationalist activities of other Governments in the shipping field. We must protect our right to sell the services of our shipping at least as vigorously as we resist obstructions to our export of goods.

12. To maximise the industry's efficiency, we must encourage, and where necessary contribute to, co-operative efforts within the industry. It has a tradition of individualism, but firms have now agreed in principle to organise collective economic research; and the shipbuilders' research organisation will in future undertake technical investigations for owners as well as builders. These developments have needed considerable prompting from myself, and the Government will need to continue their encouragement and to give some financial help, as we do elsewhere. We must help our firms to ensure that they order the right kind of ships and go for the profitable trades, which means foreseeing correctly both economic and technical trends.

Specific Measures

13. Specifically, I propose the following:
   (a) **Appointment of a Shipping Advisory Panel**
      After consultation with the other Ministers concerned, I am appointing an advisory panel, under my chairmanship, consisting of representatives of both sides of the shipping industry, of other industry, and of the Ministry of Transport and the Board of Trade. I shall announce this before the Recess. This panel will consider both the international and the economic and technical questions that affect the industry's prosperity. I look on this as a cardinal measure, because this panel will provide impetus and direction for all we do. I am grateful to the President of the Board of Trade for offering to contribute a senior representative.

   (b) **Establishment of a Research Unit**
      I propose to appoint a small staff in my department, headed by an economist and a scientist, to carry out, in conjunction with the industry, studies called for by the advisory panel or otherwise. My department is in touch with the Treasury about this.

   (c) **Training of Officers**
      The Government's general policy favours properly organised vocational training. My Parliamentary Secretary, with the help of the Ministry of Education, has been discussing with the industry plans for training Merchant Navy Engineer Officers, and the industry is ready for improved collective arrangements. I think we will have to make a financial contribution.

   (d) **Technical Research**
      We should encourage technical research that can increase the profitability of our shipping, working primarily through the British Ship Research Association (the combined shipowners' and shipbuilders' organisation I mentioned in paragraph 12).

      The Government are already contributing to research on shipbuilding, partly by paying a grant to this organisation and partly by conducting research.
in Government establishments: we should now contribute financially to research on shipping, for example on automatic controls and improved means of handling cargoes. (Japan, Russia and America, which subsidise their fleets, are all building experimental labour-saving ships.) The Minister for Science and I are in touch over this and we shall be consulting the First Lord of the Admiralty.

(e) Promoting Standardisation

Much money can be saved by standardising ships and components of ships. Standardisation is not easy. A ship should be suited to a particular trade. Too much standardisation of components impedes technical improvement. But judicious standardisation can bring great benefits to both our shipowners and our shipbuilders. My department and the Department for Scientific and Industrial Research must pursue this.

14. I should like to announce proposals on these lines when Parliament reassembles in the autumn. My department will be discussing them with the Treasury and other departments meanwhile. I contemplate that we might spend £1 or £2 million a year in helping the industry in these ways, in addition to the £3 million over 2-3 years we contemplate spending on research into nuclear ship propulsion and the present effort of the Department of Scientific and Industrial Research on shipbuilding. But I am not asking for a decision now, except that these matters, and the ways of helping our shipping internationally, should be pursued energetically during the summer. I will report again in October. I should add that I do not wish to exclude the possibility of my coming forward later with rather more ambitious proposals if they hold a real prospect of accelerating recovery in the shipping or shipbuilding industry.

Ports

15. I should mention, for completeness, the question of ports, on which I appointed a strong outside committee to advise me. Their report is likely to be printed and ready for publication by October. They will report that more investment in our ports is needed if our industry and our shipping are not be handicapped compared with those of the Continent; but they are likely, I believe, to recommend that the ports should raise the necessary money themselves rather than be subsidised. They will also have far-reaching recommendations to make on organisational matters, such as the future of the ports at present owned by the British Transport Commission and the degree of autonomy that should be enjoyed by the independent ports. I shall be consulting my colleagues when I have received the report. The Government must be ready with their comments on all major points when the report is published. It will not, I think, be a popular document.

Conclusion

16. I invite the Cabinet:

(a) To note that the British shipping industry, and in consequence the British shipbuilding industry also, face serious difficulties.

(b) To agree that the Government should pursue energetically proposals for giving the shipping industry a fair field internationally and for encouraging and as necessary assisting measures to increase its efficiency, on the lines described in paragraphs 9-13, with the aim, if possible, of announcing proposals in the autumn.

(c) To note that the report of the advisory committee on the ports is likely to be received shortly and that the Government’s comments on its main recommendations will need to be announced when it is published in the autumn.

E. M.

Ministry of Transport,
THE PROSPECTS OF BRITISH SHIPPING

The World Situation

British shipping is not, of course, protected by tariffs, like most of British manufacturing industry; and its earnings depend on the world situation.

2. The active merchant fleets of the world are appreciably larger than is needed to carry world trade economically, especially in oil and grain. New ships already under construction have fully enough capacity for the foreseeable increase in world trade during the next few years.

3. The crux is whether over-ordering will continue. There are a large number of factors at work and prediction is extremely difficult.

4. The main cause of the present surplus of tonnage is that shipping made large profits during the shortage of shipping after World War II, during the Korean war and after the closing of the Suez Canal and that the oil companies greatly overestimated demand. Shipping provided an ideal opportunity for entrepreneurs who wished to avoid taxation: there was an enormous increase in the merchant fleets of Liberia and Panama. Concurrently the shipping of the traditional maritime countries like Britain expanded with world trade and in some cases (Norway in particular) considerably faster, in response to normal economic forces. Finally, a considerable expansion was brought about by Government action, for example, in Japan and Russia, and also in countries that had not had fleets of any size before, such as Israel, India and Pakistan. The reasons why Governments have done this are manifold; many countries believe that owning ships has strategic advantages and brings prestige: ships can be operated without a strong industrial base in the owning country, and so provide an under-developed country with a way to save foreign exchange: and national shipping can be used to support a national shipbuilding industry. A factor that has prolonged world over-ordering is that there is a world surplus of shipbuilding capacity; and when the demand for ships began to slacken the shipyards, helped in many cases by their Governments, stimulated it by offering uneconomic prices and generous credit terms.

5. In the long term one would expect that the sight of owners in difficulties because of over-ordering will act as a deterrent. In particular, international speculators are unlikely to foresee a return of the period when a ship could repay her capital cost in a few years. On the other hand, subsidisation and protection are habits not easily discontinued. There can be little hope that the trend away from free competition in world shipping will be reversed in our lifetime. Moreover, there are credible reports that the Russians plan to quadruple their fleet by 1980. This would give them a fleet as large as the largest in the world to-day and provide them with the means to open an economic offensive against the West on the shipping front.

Prospects for British Shipping

6. It is not impossible for high-wage economies to undersell low-wage economies in providing cargo shipping. Admittedly there are limits to what can be done to reduce wage-costs by investing capital in larger and better-equipped ships. Admittedly also British crews tend to be on the large side. However, the wages of crews amount, on the average, to no more than about one-quarter of shipowners’ total outgoings. Competence in operation (i.e., obtaining a quick turn-round in ports, obtaining cargoes so that the ship is fully loaded, avoiding accidents, keeping down maintenance costs and saving fuel) is fully as important as wage rates.

7. Passenger shipping is another matter. Wages are a higher proportion of total costs. A passenger ship must be regarded not merely as a means of transportation but as a hotel; and in the hotel business the cost of services must always bulk large.
8. British shipping, besides being backed by an advanced economy, enjoys two advantages—

(1) Britain has a long-established position of dominance in many trades, which is protected by agreements with other shipowners and with shippers, derived from a long history of giving shippers what they want. On the other hand a number of Governments throughout the world are seeking to undermine, for the benefit of their own countries' shipping, the arrangements that British shipping has been able to secure.

(2) Britain is a country with a large sea-borne trade of its own. Admittedly our shipping would be in a bad way if it was reduced to carrying half the total of British imports and exports and lost its employment on carrying trade between other countries; but at least it is not so exposed as, e.g., the Norwegian shipping industry.

9. On the other hand (a) British shipping has the disadvantage of being the largest user of British ports; (b) a large proportion of its competitors enjoy Government subsidy or protection or both; (c) the management of some shipping firms is weak, and the industry as a whole tends to be old-fashioned. The last is, of course, of critical importance to its ability to counteract the effect of high wages by competence in operation.

10. At present most British passenger shipping and tramp cargo shipping is probably not doing much more than covering direct operating costs; and some are not even doing that. Cargo liners seem to be operating more profitably, but at a lower level of return on capital than in most manufacturing industry.

11. Looking at the future, it appears that, in the short term, there is little or no prospect of an improvement for British shipping, whatever anyone does. This does not mean that a large contraction will immediately set in: owners will continue to operate the ships they have, and it is in the shipyards that the short-term effects are being felt. In the longer term everything depends on how far the industry's competitiveness can be improved and how far it can be given a fair field for competition. It is difficult at present to avoid the impression that some decline not merely in the British share of world shipping but in the size of the British merchant fleet is inevitable. On the other hand it would be defeatist to suppose that no action the Government takes to stimulate or help the industry can have any significant effect.

British Orders for New Ships

12. The most immediately serious feature in the present situation is that whereas a few years ago British orders for new ships were big enough not merely to replace but enlarge the fleet, for the past three years they have been running at no more than one-third of the replacement rate.

13. This has not continued long enough to condemn the shipping industry to a contracting or obsolescent fleet; the situation could be retrieved. There may be an element of "wait and see" in this holding back. Moreover, some owners may estimate that the price of ships will go down still further. Credit terms are not an important factor: many shipowners have emphasised that they would have no difficulty in finding the money for new ships if they saw a prospect of operating them at a profit. The main reasons are that shipowners see no present likelihood of the world profitability of shipping improving or of Her Majesty's Government's counteracting the hostile actions of other Governments; and that many of them believe that Britain will join the Common Market and that long-haul sea traffic will be diminished in consequence, including, in particular, certain traffics, like that in refrigerated meat, for which specialised fleets have been built up.

14. The reason why this lack of confidence on the part of British owners is so serious is its effect on British shipyards.

15. The shipbuilding industry has not been doing too badly recently in getting foreign orders. It has been improving its equipment and its management and its reputation now stands higher than for some years past. It has long recognised that it cannot expect to see again the boom of the first 10 years after the war and that it is living in a world grossly over-provided with shipbuilding capacity, much of which is subsidised or protected by Governments. It had hoped, however, that
with a British Merchant Navy of about 20 million tons, it would get about 1 million tons a year of orders from British owners; and this, with no more than the present flow of foreign orders, would leave it in a reasonably healthy condition. But with British orders now running at no more than \( \frac{1}{2} \) million tons a year, it is facing a serious contraction.

16. The workpeople displaced from the shipyards in the last few years have, in general, had no great difficulty in finding other employment, with the exception of those in Northern Ireland. If British orders remain at their present level, however, there might be unemployment in nearly all places where ships are built.

**Government Action about Shipping**

17. Much could be written about the economic factors bearing on the merits of a large or a small shipping industry and similar points. However, it would largely be academic, because in present circumstances the Government’s actions must be determined by certain over-riding factors.

18. **As to what should not be done:**

- (a) A general subsidy is liable to be demoralising, as the Americans, for example, have discovered. It should be avoided if at all possible.
- (b) There is no present need to conclude that the possibilities of our remaining a carrier of other countries’ trade are so small that we should resort to simple protection.
- (c) The Government should reject any suggestion that it should fix a figure for a reduced size of the shipping industry, and “plan” with the industry a contraction to that size. There is no adequate basis on which such a figure could be calculated; the Government would attract to itself both odium for reducing the industry and responsibility for maintaining it thereafter at the planned figure; and the Government would find itself responsible for deciding which firms should live and which die.

19. **As to positive measures,** the size of the national assets of shipping and shipbuilding, in the form of skill and experience, international position and industrial and social investment, is such that the Government—

- (a) must take counter-measures against actions by other Governments in the shipping field where useful counter-measures can be identified;
- (b) must help the industry, by advice and, where appropriate, financial assistance, to be as competitive as possible. Measures of this kind are discussed in the main paper.