CABINET.

THE POSITION OF THE BRITISH MERCANTILE MARINE.

Memorandum by the President of the Board of Trade.

1. Appointment of Cabinet Committee.—A Committee of the Cabinet was appointed on the 13th December, 1933, to consider the position of the British Mercantile Marine, the serious condition of which was causing anxiety both in the country generally and in Parliament. A Committee of the Chamber of Shipping on Shipping Policy had been investigating the position for some time previously and had submitted to the Board of Trade reports both before and after the meeting of the World Economic Conference. The immediate cause of the appointment of the Cabinet Committee was the receipt of a report from a special Committee of the Chamber of Shipping on tramp shipping, which put forward definite proposals to the Government, including a request for a subsidy of 10s. per gross ton per annum to ships operating, and 5s. per ton per annum to laid-up ships. The situation was complicated by the fact that the Tramp Committee's proposals were the subject of considerable difference of opinion in the shipping industry, which showed no unanimity as to the policy that should be adopted.

2. The Cabinet Committee proceeded to examine the proposals of the Committee on Tramp Shipping, and they also gave consideration (vide paragraph 15) to a joint statement of policy representing the views of the shipping industry as a whole which was received from the Chamber of Shipping and the Liverpool Steam Ship Owners' Association towards the end of February 1934.

3. The request of the Committee on Tramp Shipping for a subsidy to tramps was not acceptable to the Cabinet Committee, mainly on the grounds (a) that it did not attempt to deal with the fundamental causes of the shipping crisis, namely, the great increase (due largely to foreign subsidies) in the quantity of shipping competing for the carriage of a heavily reduced volume of world trade, (b) that the shipowners were unable to demonstrate that the subsidy they proposed would confer any permanent benefit on the industry and would not merely be dissipated through a reduction of freights caused, at least partly, by competition between British ships, and (c) that it would inevitably call forth requests for similar subsidies to other industries, e.g., cotton.

4. The Cabinet Committee, therefore, gave consideration to a scheme designed to reduce the amount of superfluous British cargo tonnage while at the same time improving its quality. This scheme would involve the grant of financial assistance from the Government to shipowners for the building of new ships, or the modernizing of existing ships, on condition that they scrapped three times the amount of similar tonnage. The scheme would also have the advantage of providing a much-needed stimulus to employment in the shipbuilding industry.
This scheme, however, met with an unfavourable reception from shipowners, who maintained that new ships could not compete successfully with those foreign ships that have the assistance of subsidies of low running costs, or both, and that, owing to higher capital charges, new ships could not necessarily compete successfully with old ships whilst freights remain at their present level. They made the further objection that the scheme would reduce the number of units in the British Mercantile Marine while leaving the volume of foreign tonnage unaffected. This latter criticism is met if the measures suggested in paragraph 6 (b) (ii) of this memo. are adopted.

Fighting subsidy for tramps.

5. In these circumstances the Cabinet Committee, impressed by the necessity of doing something to assist the shipping industry and, particularly, the tramp section of the industry, gave further consideration to the question of a subsidy, and they came to the conclusion that, while anything in the nature of a "dole" (that is, a gift of public money to the shipowners for the purpose of satisfying their creditors and improving their financial position) must be strictly ruled out, the grant of a fighting subsidy aimed at bringing about the discontinuance of foreign subsidies might properly be considered by the Government, provided certain conditions were fulfilled by the shipowners. It is the case that the foreign competition from which British tramp shipowners are suffering comes even more from foreign ships assisted by low operating costs than from foreign subsidised ships, but the Cabinet Committee agreed with me in my view that a subsidy for the purpose of assisting British ships to compete with low cost foreign ships could not be justified. It will, however, be appreciated that a subsidy granted to British ships on the ground of foreign subsidies could not be prevented in practice from acting to the detriment of low cost foreign shipping.

6. Conditions to be fulfilled.—The conditions on which the Cabinet Committee consider that a fighting subsidy might be granted are as follows:—

(a) The shipowners would have to produce a satisfactory scheme for applying the subsidy and would have to satisfy the Government that the scheme would as far as practicable—

(i) prevent the subsidy from being dissipated by the domestic competition of British ships carrying tramp cargo, and

(ii) ensure that it was effectively directed to securing the greater employment of British tramp shipping at the expense of foreign subsidised shipping;

i.e., there would have to be a real measure of organisation of tramp shipping.

(b) It would further have to be clearly understood—

(i) that a fighting subsidy, if given, would be given for a definite period only, and within that period be subject to withdrawal if foreign subsidies were reduced or removed, or if the freight market came back to remunerative levels, and

(ii) that the owners should, through their international Shipping Conference and in any other ways open to them, endeavour to promote an international scheme which would approximate the supply of tonnage to the demand.

(c) The scheme would apply primarily to tramps, but so far as a British cargo liner carried under tramp conditions a tramp cargo in the trades covered by the scheme, it would be entitled to the subsidy.

7. Cost.—Subject to the above conditions, the Committee left the proposals to be settled between the Chancellor of the Exchequer and myself, particularly as regards the financial provision which would have to be made for a subsidy on the lines proposed. It is clear that the rate of the subsidy will have to be such as will enable owners of British vessels carrying tramp cargoes to secure charters in competition with foreign subsidised vessels in the various tramp trades. The subsidy will thus bring pressure on the subsidising countries by forcing the laying up of more of their shipping. The total amount required for this purpose cannot be determined until some progress has been made by the shipowners in
working out their scheme, but, on the basis of such estimates as are possible, I suggest, with the Chancellor of the Exchequer's concurrence, that the shipowners should be requested to work out their scheme within the limit of £2,000,000 for a year, a sum which is about the same as the maximum amount the tramp owners would have received under their own subsidy proposals.

8. **Attitude of the shipping industry.**—Two of the great difficulties of dealing with the question of assistance to British shipping are the differences of opinion in the industry itself and the reluctance of the tramp shipowners to consider any other measure than their own proposal of a flat subsidy. I am convinced that the tramp shipowners will not abandon this proposal and set themselves to the difficult problem of producing a subsidy scheme which could be defended until it has been made perfectly clear to them that the Government cannot give them money without first satisfying themselves so far as practicable that the help given is likely to lead to improvement in the general position of the industry. I may add that the differences of opinion in the shipping industry extend to the proposal for a subsidy, and correspondence which I have received shows that it is even now by no means clear how the Chamber of Shipping and the Liverpool Steam Ship Owners' Association stand respectively in regard to the proposal.

9. **Proposed communication to shipowners.**—In these circumstances, if my colleagues approve the proposal of a fighting subsidy, I propose to meet the Shipowners' representatives at once and inform them that the Government is not prepared to grant the request of the tramp owners for a flat subsidy, but that the Government is prepared to consider the grant of a fighting subsidy aimed at bringing about the discontinuance of foreign subsidies provided the shipowners are prepared to comply with the conditions set out in paragraphs 6 and 7 of this Memorandum.

10. **Public announcement.**—After the meeting with the Shipowners I shall be in a position to make a public announcement of the Government's decision, and this I should propose to do in a Statement after Questions on Tuesday, the 3rd July.

The statement will include references to other matters considered by the Cabinet Committee as indicated in the following paragraphs.

It would be desirable, if practicable, that a summary of my statement should be telegraphed to the Dominion and Indian Governments in advance.

11. **Communications with principal foreign maritime countries.**—After the public announcement I propose to approach the representatives of some of the subsidising countries (for example, Italy), pointing out the position into which we have been forced and urging the reconsideration of their subsidising policy.

In this connection I should explain that Notes were received some time ago from the Danish, Netherlands, Norwegian and Swedish Governments expressing their willingness to co-operate with His Majesty's Government (and if so desired to join in a conference) for the purpose of discussing remedies for the shipping situation. Among the possible remedies to which reference was made in the Notes were the abolition or limitation of subsidies, and the formulation of an international plan for the adjustment of tonnage to the requirements of trade. Similar Notes have since been received from the Greek and Estonian Governments; and the German Government has sent a Note which, while making no reference to particular remedies, expresses readiness to co-operate.

12. These communications were considered by the Cabinet Committee, who, while of opinion that an international conference of Governments would not serve any useful purpose at present, decided that communications calling attention to the serious position of shipping and to the remedies, both national and international, which might be adopted should be sent to the Governments of the principal foreign maritime countries, including the subsidising countries, of whom the most important are Italy, Japan, the United States and France. If the proposal for a fighting subsidy is approved, the letters to foreign Governments will explain the reasons for its adoption and the objects at which it is aimed. It may be anticipated that our action in opposing foreign subsidies will receive support from the non-subsidising countries.
Possible financial assistance for liners in particular trades.

14. I called the attention of the Cabinet Committee to the possibility that fighting subsidies may be required to assist British liners in meeting subsidised foreign competition in particular trades, and, apart from the proposal for a fighting subsidy described above, this is as far as the Cabinet Committee is prepared to go in respect of subsidy. The grant of fighting subsidies to liners cannot be dealt with by means of a general scheme, as each case would have to be considered on its merits, and it would be necessary to consider whether the grant of a subsidy would be the best way to deal with the case.

Shipping industry's Statement of "agreed policy."

15. The proposals in the agreed statement of the shipping organisations, to which reference is made in paragraph (2) above, were carefully considered by the Cabinet Committee, who, however, came to the conclusion that the main proposal was impracticable. It contemplated the formation of a group of nations (including all the great creditor nations) who should agree to accept certain obligations (e.g., "to stabilise prices and currencies and to restore the freedom of the seas for peaceful commerce") and should accord favourable treatment to one another while discriminating against countries outside the group. The joint statement of policy also contemplated that, pending the operation of other remedies, subsidy might where necessary be met by subsidy, but the statement emphasised the importance of securing that the grant of a subsidy to one section should not prejudice other sections of British shipping.

Protective Measures.

16. Proposals for the adoption of various protective measures, under which British ships would receive privileges not granted to foreign ships, have been put forward by different sections of the shipping industry. These proposals include the reservation of the coasting trade and of inter-Imperial trades, the preferential treatment of British ships or of cargoes carried in British ships in Empire ports, differential duties against foreign ships which have the benefit of Government subsidies, and the like. These measures have not received the approval of the shipping industry as a whole, which is apprehensive of the possible consequences of action of this kind.

Inter-Imperial Co-operation.

17. The Cabinet Committee decided on the despatch to the Dominions and India of a Memorandum setting out the results of its survey of the position of British shipping, stating the substance of the communication to foreign maritime countries referred to in paragraph 11 of this Memorandum, and requesting the Dominion and Indian Governments to consider their position in the event of further action becoming necessary to defend British shipping. This course is being followed, both owing to the desirability on general grounds of keeping the other Governments within the Empire informed on a matter of such vital Imperial significance as shipping (the importance of consultation with the Dominions has been urged in several Debates in the House of Lords), and also on account of the fact that, if protective measures had to be further considered, the co-operation of the Governments in the other parts of the Empire would be valuable, if not essential.

Legislation.

18. If a fighting subsidy scheme is found practicable, legislation will, of course, be necessary. Whether any legislation passed should include provisions (a) for enabling financial assistance to be given for building new cargo ships or modernizing existing ships against the scrapping of old vessels (a proposal on which the shipowners may possibly change their views before we have to legislate); and (b) for securing that British ships shall not be transferred to foreign owners without the consent of the Board of Trade—a course which has been strongly urged in some quarters—will require consideration in the light of the circumstances at the time. I have also agreed, at the urgent request of the shipowners
and with the concurrence of the Chancellor of the Exchequer, to propose the repeal of the statutory obligation which requires that the fees paid by the shipping industry in respect of services rendered by the Mercantile Marine Department shall meet half the cost of administering those services.

Points for decision.

19. The points on which a decision is required may be summarised as follows:

(i) The proposal that a fighting subsidy, to cost not more than £2 millions and aimed at bringing about the discontinuance of foreign subsidies, should be granted for a year to British ships carrying tramp cargoes, provided a satisfactory scheme for applying the subsidy is produced by the shipowners incorporating the conditions laid down in paragraph 6 (see paragraphs 5 to 7).

(ii) The proposal that consideration should be given to the grant of subsidies in special cases to British liners prejudiced by subsidised foreign competition in particular trades if the grant of financial assistance appears to be the best method of assistance (see paragraph 14).

(iii) The proposal that financial assistance on lines contemplated by the Cabinet Committee should be made available by the Government for a scrapping and building scheme if and when it appears that such a scheme would be used by the shipping industry (see paragraph 4).

(iv) The preparation in due course of legislation to sanction the grant of a fighting subsidy, the grant of subsidies to liners in special cases, the grant of financial assistance for building and modernising on condition of scrapping (should this be found desirable) and the concession as to fees referred to in paragraph 18, and to deal with any other relevant matters.

Board of Trade, June 25, 1934.

W. R.