CABINET.

Tramp Shipping Subsidy.

Memorandum by the President of the Board of Trade.

1. The subsidy to the Tramp Shipping Industry which was provided by the British Shipping (Assistance) Act, 1935, in accordance with decisions reached on proposals submitted in C.P. 161(34), expires on the 31st December next and I have received from the Chamber of Shipping, on behalf of the Tramp Shipowners' Committee of that body, a request for the continuance of the subsidy for a further twelve months.

2. After careful consideration of this request and of the reasons advanced in support of it, I have reached the conclusion that it is well founded. While the subsidy has undoubtedly proved beneficial in its results and satisfactory in its workings, there can be no doubt that the circumstances which led to the grant of the subsidy have not materially changed for the better.

3. It is true that the Chamber of Shipping index of freight rates for October 1935 reached the figure of 86.4 per cent. (on the basis of 1929 = 100), a higher percentage than at any period during the last four years. The indications are, however, that in part this increase was due to temporary political and economic factors and will not be maintained. Notwithstanding the increase in October, the average for the first ten months of 1935 taken together is below the average for the year 1934.

Present Position of the Tramp Industry.

4. There has been no material change in either of the two main factors responsible for the depression in shipping, namely, the decline in world seaborne trade, and the pressure of excess tonnage. The financial position of the tramp industry appears to be still far from satisfactory, and the amount of unemployment...
in shipping and shipbuilding, though showing a slight improvement, is still serious. There has been no change for the better in respect of the heavy subsidies granted by foreign governments to their shipping.

5. The communication which His Majesty's Government addressed to the Governments of the principal foreign maritime powers on the subject of shipping subsidies has, I regret to say, not changed the situation. On the other hand, so far as my information goes, the grant of a subsidy to British tramp shipping has not led any of the non-subsidising countries to embark on a policy of subsidies.

Results of the Tramp Shipping Subsidy.

6. The conditions attached to the grant of the subsidy were:

(a) The shipowners should produce a satisfactory scheme for applying the subsidy and should 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 was also 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.

7. In order to carry out the conditions in (a) above, the tramp shipowners drew up and secured my approval of a scheme of organisation under which they set up a Tramp Shipping Administrative Committee, composed of tramp shipowners and some representative cargo liner owners who undertook the task of
organising co-operation in the industry.

8. The Committee have reported to me the results of the first six months of their working. The Report has been presented to Parliament and published (Cmd. 5004). It shows that the Committee have achieved a remarkable degree of success in carrying out the condition as to organising the industry so as to eliminate domestic competition. They have succeeded in establishing schemes in the principal tramp trades, under which a minimum rate of freight is fixed and restrictions are imposed on the tonnage proceeding unfixed in ballast to the markets concerned. As a result of these schemes, the serious decline in freight rates has been arrested and an upward movement has been initiated. At the same time, the employment of British tramp ships and of British seamen has been stimulated. The schemes have obtained the support not only of British but also of foreign owners, and have largely removed the competitive advantages possessed by subsidised and low-cost foreign vessels in those trades.

9. In the tramp industry the idea of co-operation is new and untried, and it is only by reason of the strong position in which the Administrative Committee have been placed by the subsidy that in a time of acute depression in the industry they have been able to secure the loyal observance of their schemes by British owners and to give the lead to foreign owners. To my mind, the work of the Administrative Committee in establishing co-operation has justified the subsidy.

10. There has, however, been only a few months' experience of these co-operative measures, and they cannot yet be regarded as having surmounted all the difficulties which beset such a novel experiment. Moreover, while the trades in which minimum freight schemes have been established are very important, they do not cover all the ground, and if the Administrative Committee succeed in introducing similar schemes in other trades, the results cannot but be beneficial. If, however, the subsidy terminated
at the end of the present year all this work would be seriously jeopardised, if not brought to an end, and the tramp industry would definitely be in serious danger of reverting to the desperate condition of cut-throat competition and unremunerative employment from which it was the object of the subsidy to rescue it.

11. As regards the conditions set out in paragraph 6 (b), foreign subsidies, as already indicated, have not been reduced and freight rates have not come back to remunerative levels.

12. With regard to the condition relating to the promotion of an international scheme for the rationalisation of shipping tonnage, the British shipowners, through the appropriate international organisation, have set on foot discussions on the question during the past year and various schemes have been prepared and put forward for consideration. The present position is that, following a conference last January, a further international Conference of Shipowners to consider these schemes was proposed for this autumn, but has been deferred owing to the uncertainty in the international situation.

Conclusion.

13. In the light of the foregoing considerations, I suggest that the subsidy should be renewed for a further period of twelve months from 1st January, 1936, on the same general conditions as before. The amount to be made available for the purpose should again be a sum not exceeding £2,000,000, (to include any expenditure incurred by or on behalf of the Board of Trade in connection with the administration of the subsidy). It is and would continue to be provided in the subsidy scheme that the amount of subsidy for the year should be proportionately reduced if the average level of freight rates for the year rose above the level of 92 per cent. of the average of 1929, the subsidy being extinguished if the 1929 level were attained.
14. Accordingly, I ask for authority to have the necessary legislation prepared and to submit it to the Home Affairs Committee with a view to the introduction of a Bill which need not be long. If the subsidy is to be renewed, the necessary legislation must be passed before the 31st March, 1936. The Chancellor of the Exchequer concurs in these proposals.

Board of Trade,
22nd November, 1935. W.R.