

# **British shipping: Charting a new course**

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## **Foreword**

The White Paper on the Future of Transport announced the Government's intention to develop a new shipping policy based on a long-term strategic vision of the importance to Britain of our shipping and wider maritime-related industries.

The Government does not accept that the long decline in the British merchant navy should simply be allowed to continue. It seems inconceivable to me that, as an island nation, we could contemplate abandoning our historic involvement with the sea. Shipping continues to have a special importance for us. We depend on sea transport for our trade and we need to exploit the sustainable environmental benefits which sea transport offers. The British merchant navy continues to play an important role in our national security, and our traditional maritime strength and present day seafaring skills still underpin Britain's leadership in many international businesses. The future offers substantial opportunities for Britain's shipping and the Government is committed to working with the shipping and maritime-related sectors and trades unions to exploit these opportunities to the full.

This paper sets out, for the first time, a long-term and integrated strategy for Britain's shipping industry - integrated not only with our wider economic and industrial aims but also in the way the measures involve the industry, the unions and the Government and support each other in creating a 'virtuous circle' of growth in order to break the historic pattern of decline.

Drawing on the report of the Shipping Working Group which I set up late last year, this paper sets out 33 inter-related actions designed to develop the UK's maritime skills, secure British seafaring employment, enhance the UK's attractiveness to shipping enterprises, and gain safety and environmental benefits. I trust that the Transport Sub-committee of the Environment, Transport & Regional Affairs Committee will find much of relevance and interest in this paper in connection with their Inquiry into the Future of the UK Shipping Industry.

But more than an action plan is required to make this happen. These objectives will be attained - and the maritime economic future of the nation secured - only over time and through a committed and sustained partnership between the Government, the maritime trades unions, the UK shipping industry, 'Maritime London', the ports and the other maritime-related sectors. This paper charts the new course; what is now required is action in deed.

**John Prescott**

## Executive Summary

- This paper sets out the Government's strategy for reviving the shipping industry within the context of the four broad aims of an integrated shipping policy announced in the White Paper on the Future of Transport. It draws on the proposals of the Shipping Working Group set up by the Deputy Prime Minister.
- Shipping has a particular importance to the UK: because of our dependence on sea transport; for the sustainable environmental benefits it offers - and because of the safety and pollution risks if things go wrong; to supply our requirement for maritime skills in many sectors of the economy; and, not least, for our national security.
- Shipping is an expanding global business and the opportunity for Britain's commercially competitive shipping industry to share in this growth offers the UK significant inward investment opportunities and wider economic and environmental benefits.
- The present trend in UK shipping, however, is one of continuing industry erosion - in our registered and owned trading fleets and in the skills pool of qualified British seafarers. The reasons for this decline are complex and include: changes in trade patterns; globalisation; unfair competition from sub-standard and subsidised shipping; labour and regulatory costs; and flag competition from open registers.
- Over the last decade, limited support and deregulatory initiatives have slowed but failed to arrest the decline. Despite the strategic and economic importance of the industry stressed in parliamentary reports, government has been ready to accept such a decline as the inevitable outcome of market forces. This Government considers that acquiescence in the continued erosion of the UK's core maritime capability is not a tenable long-term policy.
- An interventionist policy for UK shipping is considered within the context of the Government's wider industrial policy and the maritime policies of the European Union and the successful initiatives in several European Member States. Elements of a UK shipping policy - including the need for open markets and a strong presence in shipping - are defined as the foundation for a new integrated policy approach.
- A comprehensive strategy to secure the future of UK shipping is mapped out in the form of 33 inter-related measures. These are grouped under four broad headings: increasing skills; encouraging employment; increasing the UK's attractiveness to shipping enterprises; and gaining safety and environmental benefit. This package of measures is summarised at the end of the paper.
- The paper briefly considers next step issues of implementation and monitoring and concludes that a concerted and sustained partnership between British shipowners, the maritime-related industries, the trade unions and government can secure this vital national asset and the UK's maritime economic future.

## Chapter 1: Introduction

### Britain and the Sea Today

1. Britain is an island and a natural maritime nation. Despite a widespread popular view to the contrary, the UK is still a central player in the world's maritime activity:

- 95% of our trade by weight arrives or leaves by sea;
- including those ships flagged or managed here, the UK accounts for 6% of the world's merchant shipping;
- our shipping industry is high-tech and has an unusually diverse fleet with world leaders in most sectors (cruise, ferry, container, tanker and dry bulk, offshore support and other specialist shipping activities); British shipping companies are commercially competitive;
- the UK shipping industry is the fourth or fifth biggest service-sector exporter for the UK - larger than telecommunications, films and television, or computer services;
- through the skills it fosters, the UK shipping industry underpins a wide range of shore-based maritime-related businesses in the City and throughout the country; its own business supports many others;
- these businesses include shipyards, repairers, marine equipment producers and their suppliers - the UK is one of Europe's leading ship repairers and our maritime equipment industry is at the cutting edge of technology;
- financial and other services include marine insurance, protection and indemnity, shipbroking, ship classification, maritime law, and arbitration. The City maritime sector insures 25% of world marine risk; provides the world's only regulated market place for shipbroking; contains the leading classification society; excels in financial and legal services to world shipping; and continues to attract representation from a substantial overseas ship-owning community;
- London is the headquarters of the International Maritime Organisation (IMO), the only United Nations body based in the UK. Britain's strong and respected voice in IMO allows us to play a leading role in work for ship safety and pollution prevention;
- the UK's geographical position and the volume of our trade make our waters some of the busiest for shipping in the world;
- British seafaring skills are highly regarded: a significant proportion of senior British officers are employed by foreign shipping companies, implanting high operational standards far beyond the reach of UK shipping;
- the Royal Fleet Auxiliary (RFA), manned by British merchant seamen, provides crucial support to naval capability.

2. For these reasons the Government attaches great importance to the UK shipping industry and has already taken the first steps towards developing a shipping policy based on a broader, long-term vision of its key role in the future of the nation.

### Tackling the Issues

#### *The Shipping Working Group*

3. In autumn 1997 the Deputy Prime Minister established the Shipping Working Group, a partnership with both sides of industry, with input from key maritime interests and representation from other Government Departments. The Group's terms of reference were to identify actions:

- to enable the maximum economic and environmental benefit to be obtained from shipping;
- to reverse the decline in the UK merchant fleet;
- to increase the employment and training of British seafarers; and
- to encourage shipowners and the wider maritime industry to commit more resources to seafarer training.

4. The Shipping Working Group reported in March 1998 with a range of proposals on seafarer training, employment, the fiscal environment and opportunities for UK shipping. These proposals are listed at Annex A, and this paper draws on this work.

#### ***The White Paper on the Future of Transport***

5. The White Paper on the Future of Transport, published in July 1998, set out the four broad aims of an integrated shipping policy (paragraph 3.181):

- to facilitate shipping as an efficient and environmentally friendly means of carrying our trade;
- to foster the growth of an efficient UK-owned merchant fleet;
- to promote the employment and training of British seafarers in order to keep open a wide range of job opportunities for young people and to maintain the supply of skills and experience vital to the economy;
- to encourage UK ship registration, to increase ship owners' identification with the UK, to improve our regulatory control of shipping using UK ports and waters and to maintain the availability of assets and personnel that may be needed in time of war.

6. The Transport White Paper also announced the Government's intention to make better use of coastal shipping and inland waterways, including the extension of freight facilities grants to coastal and short-sea shipping.

#### ***The Shipping Paper***

7. This Shipping Paper follows from the White Paper on the Future of Transport. It is arranged in 5 sections. Following the introduction in Part 1, Part 2 sets out the maritime background and context for an integrated shipping policy, summarising the peculiar importance of shipping to the UK, identifying the opportunities, examining the current decline in UK shipping, and setting out the governmental response to date. Part 3 examines the case for doing more, setting this in the context of the Government's wider industrial policy, the European maritime experience, and the necessary elements of a UK shipping policy. Part 4 presents the Government's specific proposals and Part 5 notes some key issues for implementation.

## Chapter 2: The Context for a New Shipping Policy

### The Importance of Shipping to the UK

8. Shipping has an importance for the UK which differentiates it from other industries. This importance derives from a number of special considerations relating to the UK's dependence on the sea, environmental and safety considerations, our need for maritime skills and our defence requirements.

#### *Dependence on sea transport*

9. Efficient shipping is vital to our economic well-being: 95% of our external trade by weight (77% by value) and 7% of domestic freight tonnage (but around 25% in terms of tonne kilometres), moves by water. The competitiveness of our exporters and importers requires that international shipping markets are open and not unnecessarily expensive. Ferry services provide public transport domestically and on routes linking the UK with Ireland and the Continent: a total of some 57 million passenger journeys are made each year.

#### *Environmental and safety considerations*

10. The White Paper on the Future of Transport noted that shipping is one of the most environmentally sustainable means of transport: not only is it recognised as being less environmentally damaging than other modes of transport, but it has the additional advantage of being subject to fewer capacity constraints. The UK, as an island nation, therefore has a natural interest in exploiting the potential of shipping on coastal and short-sea routes to relieve pollution and congestion on the roads.

11. Equally, the UK is particularly exposed to the consequences of maritime accidents. In the interests both of the users of our waters and of those whose interests may be damaged by maritime pollution, we need to ensure the safety of all shipping around our coasts. The implementation of recommendations made in the Donaldson report<sup>1</sup>, enhanced port reception facilities for ships' waste and the proposed Marine Operations Code for Ports, outlined in the Transport White Paper (paragraphs 4.146 - 4.150) mark significant contributions to pollution prevention and response. However, much of our continuing ability to raise safety in our waters, and thus reduce the environmental impact of shipping, rests on the influence we exercise over international shipping standards through the IMO and other multi-national bodies.

#### *Requirement for maritime skills*

12. We need to assure ourselves of a continued supply of people with seafaring skills and experience not merely to man our ships but to fill a wide range of jobs in the shore-based maritime-related sectors of the economy. In addition to the military requirement for civilian seafaring support, a study by the University of Wales<sup>2</sup> identified approximately 17,000 jobs in the UK maritime-related sector which employers would prefer to fill with ex-seafarers. For 70% of these, seafaring experience was considered "essential"; most such jobs were filled by former officers with Class 1 certificates (Master or Chief Engineer).

13. The University of Wales study concluded that the merchant navy service provided the most cost-effective training for these shore-based jobs and that a declining shipping industry would deprive the many maritime-related industries of essential skills. This was expected to be particularly damaging to Maritime London, threatening to undermine one of the key factors in its supremacy to date. Neither

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<sup>1</sup> Safer Ships, Cleaner Seas, Report of Lord Donaldson's inquiry into the prevention of pollution from merchant shipping, May 1994.

<sup>2</sup> UK's Requirements for People with Experience of Working at Sea, The University of Wales, 1996.

third party training nor the employment of foreign ex-seafarers (the skills shortage is world-wide) was considered likely to provide a ready remedy to offset the shortage of British seafarers.

### *National security*

**14.** The main defence function of the merchant fleet is to support and supplement Ministry of Defence (MOD) in-house assets and to participate in reinforcement and re-supply operations. To this end, certain categories of British shipping, including roll-on/roll-off vessels ('ro-ros'), product tankers and passenger vessels are designated as "strategic" ships. Whilst the MOD would plan in the first instance to charter shipping on the international market, using existing crews from the ships chartered, they recognise that there may be situations in which it would be necessary to use some British ships and/or British seafarers to undertake particular operational tasks.

**15.** The MOD's future requirements for merchant shipping flow from the Strategic Defence Review (SDR) in which enhancement of in-house strategic lift capabilities and capacity featured large. Decisions made in the light of the conclusions of the review include the acquisition of 4 additional ro-ros to provide the new Joint Rapid Reaction Forces (JRRF) with guaranteed access to strategic sea lift. These ships, together with existing and proposed Service assets, will provide the core surface strategic lift requirements for the JRRF. Requirements for other classes of strategic ships such as product tankers and passenger vessels, and for any breakbulk shipping required for the transportation of ammunition, general stores and follow-on forces, will normally continue to be met by chartering on the open market.

**16.** The MOD consider that the current availability of British seafarers is sufficient to meet present operational requirements. However, the trends are adverse, not only in terms of the continuing fall in numbers (in particular of ratings), but in the increasing average age of British seafarers. Such trends take a long time to reverse and, unless they are reversed, a point will be reached where military operations in defence of our vital interests may be put at risk.

### **The Opportunities**

**17.** Shipping is an expanding, global business which carries most of the world's traded goods; it is relatively free of capacity constraints, and less harmful to the environment than other transport modes. The future offers substantial opportunities for the shipping industry, bringing with them the potential for significant inward investment and wider economic benefits for the UK.

### *Expansion of world seaborne trade*

**18.** According to estimates by the World Bank and others, expansion of world seaborne trade is expected at the rate of 4% a year over the next decade, almost doubling current volumes by the year 2010. Whilst growth in world trade has recently slowed in the face of economic turmoil in Asia and elsewhere, economists generally view this as a temporary set-back, not a fundamental change in the expected pattern of longer term growth. A healthy UK shipping industry, historically strong in the 'cross-trades', has the potential to share in this world-wide trade growth. Moreover, the high quality of UK shipping makes it particularly well positioned to expand its market share as international action to raise shipping standards<sup>3</sup> increasingly bites on sub-standard operators.

### *Coastal and short-sea shipping*

**19.** Greater emphasis, too, is being placed on coastal and short-sea shipping as a sustainable, environmentally friendly alternative to road transport. Research<sup>4</sup> has indicated that there may be

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<sup>3</sup> In particular, IMO's International Safety Management (ISM) Code and Flag State Implementation (FSI) initiative, supported by the European Commission's Quality Shipping campaign.

<sup>4</sup> Roads to Water Research Project, Jonathan Packer and Associates, 1993.

potential to divert up to 3.5% of the UK's road freight traffic to water: this represents considerable further opportunities for UK-based shipping.

### ***Shortage of qualified seafarers***

20. The increasing international shortage of qualified seafarers evidenced in studies by the University of Warwick<sup>5</sup> the University of Wales and London Guildhall University<sup>6</sup> creates great opportunities for well-trained and experienced British seafarers at sea and ashore, both at home and abroad. The effective implementation of the IMO's revised Convention on Standards of Training, Certification and Watchkeeping (STCW 95) will place an even greater premium on these skills as the world's supply of sub-standard and corruptly certified foreign seafarers is progressively reduced.

21. Synopses of the reports of the Universities of Wales and of London Guildhall, studies commissioned jointly by the Government and the industry, are at Annex B.

### ***Youth employment***

22. A career at sea enables youngsters between 17 and 20 to acquire high-value professional skills, in line with the Government's emphasis on youth employment, which will equip them for responsible and fulfilling employment first at sea and then later in related businesses when they come ashore.

## **The Current Decline**

### ***The nature of the decline***

23. The decline in the UK merchant navy is manifest in terms of:

- a significant and continuing reduction in shipping tonnage owned by British companies;
- an even greater and continuing reduction in UK-registered shipping - in absolute terms and as a proportion of UK-owned tonnage;
- a long-term shortfall in the level of recruitment and training against that required even to maintain the status quo at sea or ashore;
- a continuing decline in the pool of qualified British seafarers;
- an ageing population of seafarers.

24. The following paragraphs examine each of these aspects with reference to key trends and characteristics of British shipping and seafarers, illustrated in the accompanying charts. A glossary of terms is at Annex E.

### ***Reduction of the UK-owned trading fleet***

25. The size of the UK-owned trading fleet of vessels of over 500 gross tonnes fell from a peak of around 50.8 million tonnes deadweight (dwt) in 1975 to 10.8 million dwt in 1997 (Chart 1).

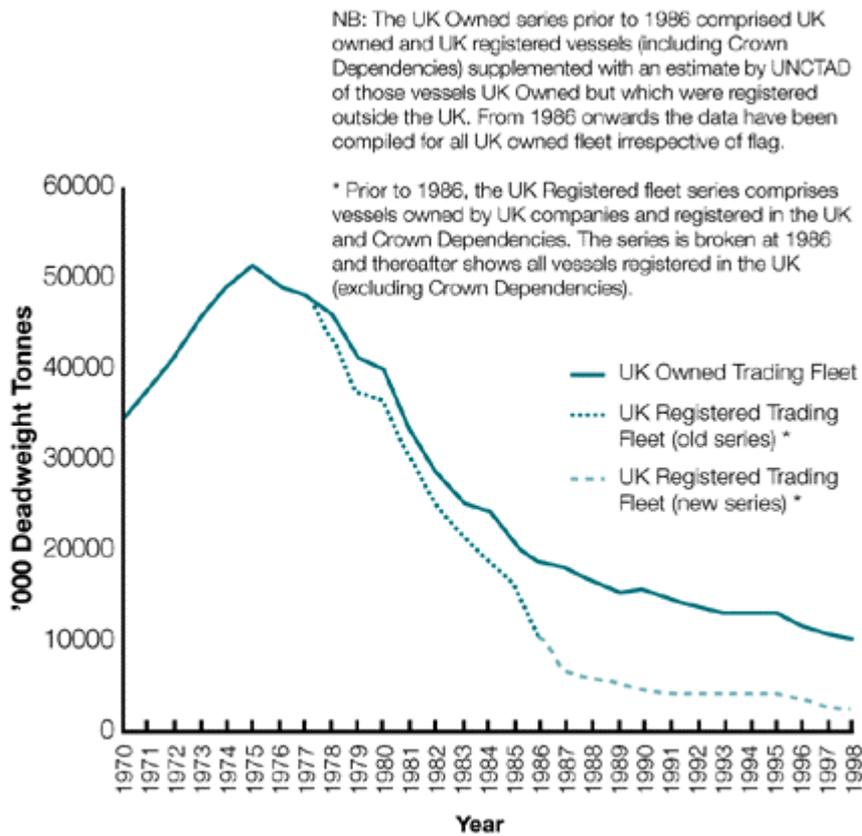
### **Chart 1: The UK Direct Owned and UK Registered Trading Fleets (500gt and over) from end-1970 to 1997**

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<sup>5</sup> BIMCO/ISF 1995 Manpower Update: The World-wide Demand for and Supply of Seafarers, The University of Warwick Institute for Employment Research, 1995

<sup>6</sup> UK Seafarers - An Analysis, The London Guildhall University, 1997.

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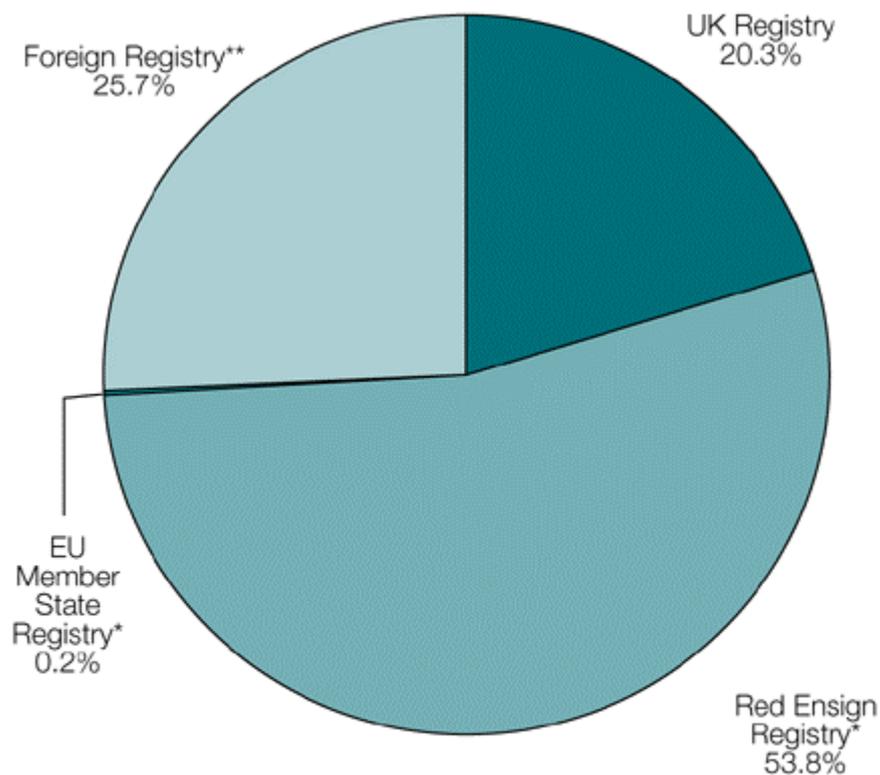
Source: DETR.

### *Reduction of trading fleet registered in the UK*

**26.** The decline in the UK registered fleet has been even more dramatic with the spate of 'flagging out' which has taken place since the late 1970s and most notably during the mid 1980s. The proportion of the UK-owned trading fleet registered in the UK is now only 20%; up to the late 1970s it was almost unknown for UK-owned ships to be registered outside of the UK.

**27.** The UK register and other 'Red Ensign' registries of the Crown Dependencies and UK Overseas Territories (principally the Isle of Man, Bermuda, the Cayman Islands and Gibraltar) together account for just over 74% of UK-owned tonnage. The balance is registered in a variety of other, mainly open registers (Chart 2).

**Chart 2: Deadweight Tonnage of UK Owned Trading Vessels (over 100gt) by Registry at end-December 1997**



\* Excluding UK and Gibraltar.

Source: DETR

### *Reduction in number of British officers and ratings*

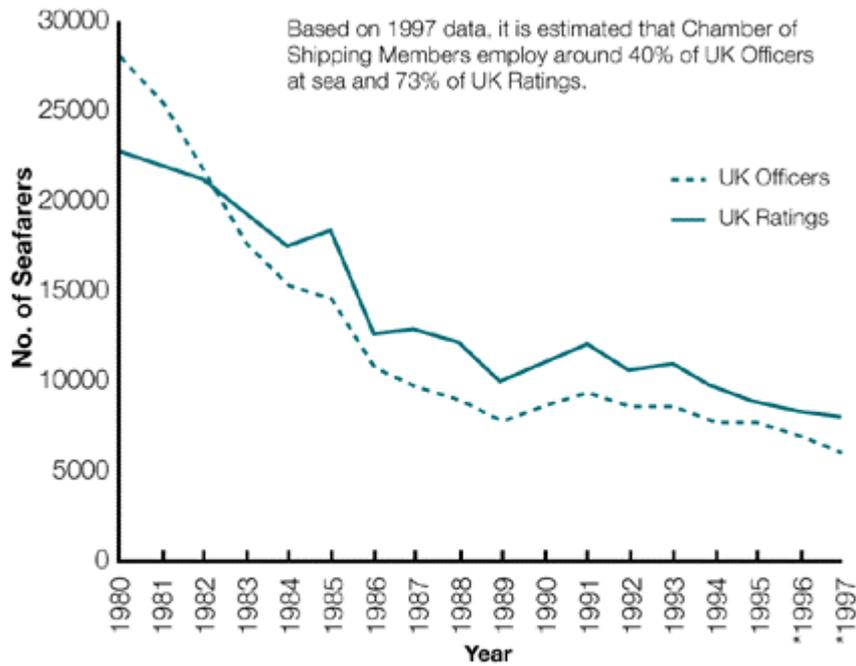
28. Data available for vessels of Chamber of Shipping member companies also show a steep decline in the numbers of British officers and ratings employed during the period since 1980). The decline follows closely the trend in UK-owned tonnage, but also reflects changes in crewing practice and increasing productivity. Between 1980 and 1997, the number of British officers and ratings fell by 78% and 65% respectively<sup>7</sup> (Chart 3).

### **Chart 3: Officers and Ratings serving on board vessels entered with the Chamber of Shipping from 1980 to 1997**

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<sup>7</sup> Whilst the available data do not cover all seafarers, they represent a sizeable proportion of the total seafarer population.

## British shipping: Charting a new course



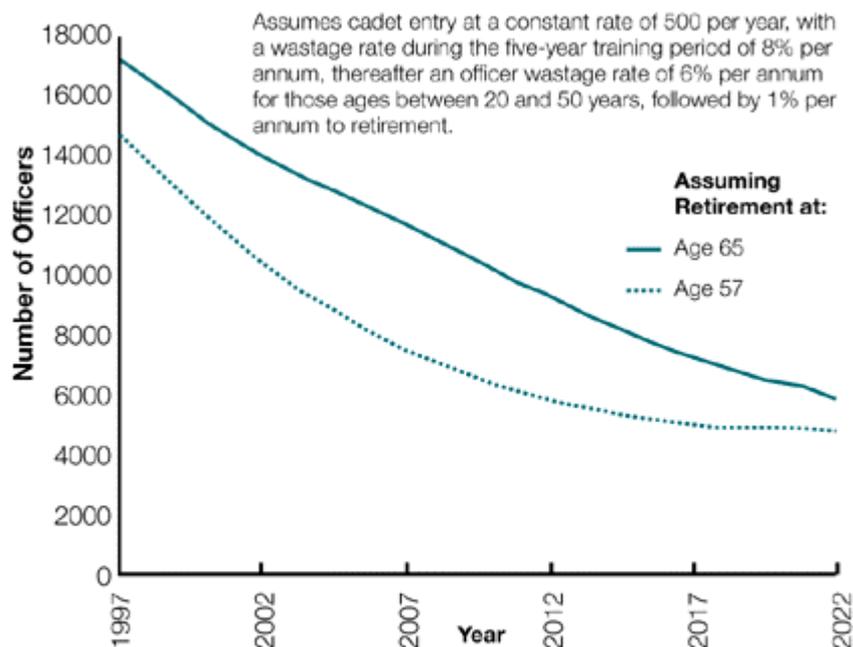
Source: Chamber of Shipping Fleet and Manpower Inquiry data reproduced in Department of Transport Merchant Fleet Statistics, various years

\* Chamber of Shipping Forecasts

**29.** Marked differences exist in the patterns of British officer and rating employment in terms of vessel ownership and registration. Some 45% of all British officers are employed on foreign-owned ships, whilst almost no British ratings serve in this sector. Moreover, over 80% of British ratings employed by Chamber of Shipping member companies work on UK-registered vessels. Thus, unlike officers, British rating employment is not only closely related to UK ownership, but also to the UK flag.

**30.** The projections produced by the London Guildhall University study of future British officer numbers show the extent of the contraction. Assuming recruitment of 500 cadets per annum and a retirement age of 65 years, the number of officers will fall from the present total of about 17,000 to less than 14,000 in 2002 - and to about 9,000 by 2012. The more realistic assumption of an earlier retirement age of 57 would result in the total number of officers falling to near 10,000 in 2002 and under 6,000 by 2012 (Chart 4).

**Chart 4: UK Officer Projection 1997-2022**



Source: J. McConville et al, UK Seafarers – An Analysis 1997

31. Although there has been less research on the supply of ratings than of officers, and available data are much poorer, from initial investigation, it is clear that a similar situation exists - a diminishing and ageing pool of seafaring experience. The industry and Government are to undertake further research to establish an accurate picture of the current supply and skills profile of British ratings.

32. This decline in the numbers of British seafarers is serious enough in itself, but is particularly worrying in view of the international shortage of qualified seafarers identified by the earlier University of Warwick study.

## Reasons for Decline

### *Changes in trade patterns*

33. The reasons for the decline in the UK merchant navy are complex. The growth of the developing and newly industrialised economies has reduced western industrialised nations' share of world shipping, as it has their share of other industries. Changing patterns of world seaborne trade have shifted the geographical focus of growth towards different trading routes, in particular those to, from and within the Far East.

### *Globalisation*

34. The globalisation of the world economy has reinforced the inherent and unique internationalism and fluidity of the shipping industry, while over the same period the industry has become vastly more productive, with very much larger, faster ships and new techniques such as containerisation. Simultaneously, these technical advances have dramatically reduced the numbers of seafarers needed on a ship. They have also led to periods of over-capacity in one sector or another, and in some cases they have reduced the threshold for entry into the industry. As a result, the UK shipping industry has faced growing low-cost competition abroad - especially from fleets of the newly industrialised countries of the Far East and increasingly from ships crewed with both officers and ratings from South East Asia and from the former Soviet bloc.

35. These developments continue to affect shipping in many countries. But the decline in the UK merchant navy has been steeper than in many others, and has accelerated over the last couple of years

while the decline in the fleets of a number of other traditional maritime nations has reversed. There is one clear and continuing factor: shipowners have found it too expensive to continue to operate with British seafarers, on the UK register and under the UK tax regime. Against a background of increasing globalisation, key contributors to this situation are: the impact of unequal competition; labour and regulatory costs; and flag competition.

### ***Unequal competition***

**36.** UK shipping has had to contend with unequal competition from two different sources: sub-standard and subsidised shipping. Sub-standard ships, often operating under 'flags of convenience', with low paid and generally poorly trained crews benefit from the cost advantage of lax safety regulation. Other shipping lines, based in developed countries (including members of the European Community) and operating under their national flags, are crewed by well-trained and relatively highly paid seafarers with good safety standards but benefit from government subsidies and tax concessions provided to compensate them for the extra costs of that.

### ***Labour costs***

**37.** UK shipowners, faced with this cut-price competition, have sought to reduce costs in order to remain competitive in the international market. A trend for flagging-out and replacing British crews with cheaper third country nationals started in the late 1970s and accelerated throughout the 1980s.

**38.** Although there is a tradition of Commonwealth crewing in the British merchant service, the UK maritime trade unions have demonstrated a reluctance to agree to the use of foreign seafarers on UK registered ships. UK companies unable to sustain the costs of British crewing have tended to flag out to open registers, employing foreign seafarers at wage levels indicated by the International Transport Workers' Federation (ITF) in order to avoid the risk of blacklisting by maritime unions affiliated to the ITF. However, in continuing to link changes in crewing with changes of flag, the industry may be overly influenced by outdated perceptions of union attitudes.

### ***Regulatory costs***

**39.** Likewise, the historically detailed requirements and inflexible approach of the UK register and regulatory authorities added to the cost of operating under the UK flag. Considerable work has been done jointly with the industry over recent years but, despite this, the perception remains that the UK authorities are unresponsive to shipowners' legitimate requirements, and are unduly rigid in their attitudes and in the enforcement of standards. Clearly, more remains to be done in improving not only service delivery but also the industry's perception of it - without, of course, impairing safety.

### ***Flag competition***

**40.** UK shipowners were not unique in facing this myriad of problems and, unsurprisingly, a market response developed - in the form of the open register or 'flag of convenience'. Over the last few decades a wide range of such shipping registers has developed and these now compete internationally for business by offering low cost and 'user-friendly' registration and fiscal environments for shipping companies. Many UK shipowners have elected to take advantage of these open registers.

**41.** In other cases, British companies have sought specific tax or financing advantages available in another country which have conditions attached which either require ship registration in that country or are otherwise not compatible with registration in the UK.

**42.** The effect of all of this has been steadily to erode UK owned, registered and crewed shipping.

## **The United Kingdom's Response**

### ***Support measures***

**43.** Over the past decade, the UK has introduced a number of financial support measures for UK shipping. Although these have made a useful contribution to seafarer training and generally slowed

the decline of the UK fleet, they have been insufficient to maintain a stable pool of seafaring experience or to arrest the trend to flagging out to low cost open registers. In part, this stems from an historical lack of a coherent strategy towards the merchant navy and, as a result of this, the piecemeal and unfocused nature of the measures adopted.

**44. Training support:** The Government Assistance for Training (GAFT) scheme (introduced in 1988) and the Development of Certificated Seafarers (DOCS) scheme (introduced in 1993) provided grants for British officer cadet and junior officer training for the first and second certificates of competency (these two schemes have now been superseded by the integrated Support for Maritime Training (SMarT) scheme). The 1999/2000 budget for SMarT is approximately £6.4 million, funded by DETR with a contribution from DfEE in respect of trainees aged 16-17 years.

**45. Support for the use of British crews:** The Crew Relief Costs Scheme (introduced in 1988) provides assistance towards the cost of flying British seafarers to and from ports outside the limited European trading area by contributing 20% of the scheduled airfare. The annual cost of the scheme is currently about £1.5 million, funded by DETR.

**46. Health care:** A reduction of 0.5% is made in employers' National Insurance Contributions in respect of seafarers on ships sailing outside Europe in recognition of the health care provided on board these ships.

**47. Wage cost support:** Foreign Earnings Deduction provides tax relief on earnings to seafarers working mainly overseas. The estimated cost to the Exchequer is £40 million per year.

**48. Investment incentive:** Roll-over tax relief (introduced in 1994) helps shipowners to replace ageing tonnage by riding the cycle of market prices. The cost to the Exchequer<sup>8</sup> varies considerably; £25 million per annum is an indicative average.

### *Deregulation*

**49.** Earlier governments also tried to help the shipping industry by reducing the constraints of the UK regulatory regime (so far as they judged consistent with maintaining safety). For example, the 1990 Joint Working Party, jointly chaired by the then Secretary of State for Transport and the President of the General Council of British Shipping, made recommendations of this kind<sup>9</sup> which were largely implemented over the years that followed. Other deregulatory measures of the 1980s and 1990s included the reorganisation of pilotage and the rewriting of much secondary merchant shipping legislation in a simpler and more accessible format.

**50.** The deregulatory measures went some way to preserve the competitiveness of the remaining UK fleet by reducing the regulatory costs of complying with UK standards. Relaxation of the officer nationality regulations permitted greater employment of non-EU seafarers with the aim of providing more flexibility and lowering crewing costs faced by UK shipowners. However, as the figures show, these measures failed to arrest the decline in UK shipping and employment.

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<sup>8</sup> Roll-over relief does not represent a permanent loss of tax revenue to the Exchequer as the rolled-over balancing charges are retained to be set in due course against the purchase of new ships which will reduce the tax relief given in the form of capital allowances at that time.

<sup>9</sup> The scope of the 1990 review was constrained by the non-involvement of the unions and by the exclusion of fiscal measures from its terms of references.

## Chapter 3: Moving Ahead

### Why Do Anything More?

#### *Parliamentary and other recent reports and recommendations*

51. Since 1990, parliamentary and other political bodies have continued to examine and report on the decline in the UK shipping industry. Notable papers include the Labour Party's **Full Steam Ahead: a Maritime Strategy** (1993) and the **Reports of the Commons Select Committees on Employment** (1994) and on **Defence** (1997).

52. These reports stressed the importance of the merchant navy's strategic and economic contribution to the UK and identified the long term problems being engendered by under-investment in British ships and seafaring skills. They made wide-ranging recommendations including greater support for training, measures to reduce employment costs and incentives to stimulate investment. (Annex C)

53. Past governments largely ignored these recommendations, being willing for the most part to rely on foreign ships and seafarers for the carriage of our trade. And, notwithstanding significant economic distortions in international shipping caused by substandard operators and foreign subsidies, the decline of the UK merchant fleet and the associated loss of British seafaring employment were accepted as the inevitable outcome of market forces.

54. This Government considers that acquiescence in the continued erosion of the UK's core maritime capability is not a tenable policy in the long term - either economically or strategically. The British economy needs environmentally sustainable transport and a continuing maritime skills base to sustain its internationally competitive and high-potential businesses in the shipping and maritime-related sectors. Relying so heavily on foreign supply is too risky. These skills are acquired best - and most cost-effectively - through merchant navy training and experience. This requires the sustained recruitment and employment of British seafarers, which in turn depends heavily on the continued participation and viability of British companies in international shipping.

55. As stated in the White Paper on the Future of Transport, our new shipping policy will be based on this broader, long term vision of Britain's future maritime needs. It is to secure this future that we need to do more.

### The Government's Wider Industrial Policy

#### *Economic and industrial aims*

56. Shipping is an important and integral part of Britain's industry and trade. Policies towards it fall not only within broader transport policy, but also, as with other industrial sectors of the economy, under the umbrella of the Government's wider economic and industrial aims. These have many components, within a central objective of achieving high and stable levels of growth and employment. Some of the pertinent aims may be summarised as follows:

- to promote open and competitive markets at home and internationally;
- to ensure the even and effective working of the European Single Market;
- to foster enterprise and innovation in UK industry, and the use and advancement of new technology ;
- to encourage investment, greater productivity and the pursuit of quality;
- to strengthen the international competitiveness and export potential of UK businesses;
- to promote safety and environmental quality, and the sustainability of economic activity in partnership with employees;

- to encourage the development of a skilled and flexible labour force;
- to foster economic growth and competitiveness in the regions.

57. It can be envisaged that the possible onset of economic recession could threaten many of these objectives, and add an urgency to policies to achieve them.

### *Market distortion*

58. In pursuing these aims, it is an underlying objective that the distortion both of domestic and international markets should be minimised. To this end, policies have sought to take an even-handed approach across industrial sectors, although there have been exceptions. The dominant concern has been to avoid distorting domestic markets, but "the even and effective working of the European Single Market" raises to prominence issues of distortion over Europe as a whole. Within this context (as well as more widely) distortion through tax competition is a relevant policy concern, and this is an issue of particular importance in relation to the shipping industry.

### *Shipping objectives within the wider policy context*

59. The Government's Integrated Transport Policy aims to create a transport system that supports sustainable development, and that supports policies for more jobs, a strong economy and increased prosperity. The White Paper on the Future of Transport described the four broad aims of shipping policy within this broader policy framework (set out in full at paragraph 5 of this paper):

- facilitating shipping as environmentally friendly transport;
- fostering an efficient UK shipping industry;
- maintaining the skills base by promoting employment and training; and,
- encouraging UK ship registration.

60. As an "efficient and environmentally friendly means of carrying our trade", and as a supplier of "skills and experience vital to the economy", a strong shipping sector has the potential to contribute significantly to the wider objectives. The details of these aims reflect the peculiarities of the shipping sector. Although the four shipping aims are closely inter-related, the fourth (UK registration) would contribute largely indirectly to industrial or economic policy outcomes, since it is primarily directed at other objectives. Because the productive assets of the industry (the ships) are not located on shore in the UK, the reference to the "UK-owned merchant fleet" in the second aim is a way of defining the UK shipping industry as a sector of the economy, able to contribute to growth and competitiveness along with other sectors.

### *Achieving shipping objectives*

61. Whilst the aims sit well with wider objectives towards industry, the peculiar nature and circumstances of the shipping industry may require means of achieving these aims which differ from those appropriate for other sectors. The industry has a number of distinctive features, none of which individually is unique to shipping, but which in combination create a unique set of circumstances. These features include the facts that its productive capital consists of discrete and very expensive items which have no fixed land location; that it has an unusual degree of globalisation, and within this, unique freedoms in the employment of labour.

62. In the light of these circumstances, special provision has often been made for shipping - for example in aspects of labour law, and in the investment ceiling applied in measures to encourage small business investment. Conversely, schemes of regional development assistance, used to attract employment to the regions and inward investment to the UK, are inapplicable to inward investment in ships since they are not land located.

## The European Experience

**63.** As noted, shipping is a quintessentially international activity and the factors affecting the British merchant navy have also taken their toll on the shipping interests of other western nations - although the extent of the British industry's dominance and subsequent contraction is, perhaps, exceptional. Many other European countries have long-standing maritime traditions and over the last decade the European Community has developed a comprehensive and active policy approach to maritime affairs.

### *European Community maritime policy*

**64. Safety:** The maritime safety policy of the Community was agreed with the adoption in 1993 of the Communication on a Common Policy on Safe Seas<sup>10</sup>, implemented by a series of Community instruments since then. The underlying premise was that the Community was, to a large extent, dependent on reliable, cost effective and safe shipping services. Its maritime transport policy therefore must ensure that such services were undertaken at a minimum level of risk for all directly or indirectly concerned and for the marine environment.

**65. External relations:** In its external relations policy in maritime transport, the Community has sought to secure free access and fair competitive conditions throughout the global market, including further market liberalisation in areas of existing restrictions. The Community is also striving within the GATS framework for multilateral liberalisation of maritime transport services.

**66. Short-sea shipping:** Policy on the development of European short sea shipping was the subject of a 1995 Communication<sup>11</sup>. This examined the potential contribution of short sea shipping to the achievement of sustainable mobility and set out an action programme covering improvements to the quality and efficiency of short sea shipping services and of ports.

**67. The maritime-related sector:** A Commission Communication of March 1996 entitled "Shaping Europe's Maritime Future"<sup>12</sup>. set out a "general overview and policy approach concerning the status and future of all the maritime industries of Europe" (ie the maritime-related sector). This was seen as complementing the analysis of the Community's revised policy towards sea transport contained in the Commission's parallel paper "Towards a New Maritime Strategy"<sup>13</sup>.

**68. Maritime transport:** The first major step to establish European shipping policy on the economic side was taken in 1986 with a package of measures covering market liberalisation and competition policy. However, by the early 1990s the decline in Europe's 'traditional' shipping registers, seafaring employment and maritime-related industries was sufficiently advanced to call for a reappraisal of the Community's maritime strategy.

### *The European Community's "New Maritime Strategy"*

**69.** The European Commission's response to the decline of European shipping in the face of international structural changes in the industry was set out in a major paper, entitled "Towards a New Maritime Policy", published in March 1996. Within the overarching economic aim of making the Community "fit for global competition", the revised policy objective was:

*"to ensure freedom of access to shipping markets across the world for safe and environmentally friendly ships, preferably registered in EC Member States with Community nationals employed on board".*

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<sup>10</sup> A Common Policy on Safe Seas, COM(93)66, February 1993.

<sup>11</sup> The Development of Short Sea Shipping in Europe: Prospects and Challenges, COM(95) 317, February 1993.

<sup>12</sup> Shaping Europe's Maritime Future: A Contribution to the Competitiveness of Maritime Industries, COM(96) 84, March 1996.

<sup>13</sup> Towards a New Maritime Strategy, COM(96) 81, March 1996.

70. Accordingly, a two-fold strategy was proposed: action to ensure safety and fair competition in international open markets; and a Community framework for enhancing shipping competitiveness. The competitiveness framework encompassed policy on training and employment (to develop and safeguard maritime expertise), research and development, and state aids.

#### *The maritime state aid guidelines*

71. The means by which Member States could intervene in the market to encourage Community ship registration and employment were defined in the Commission's maritime state aid guidelines<sup>14</sup>, published in 1997. These guidelines reflect the Commission's conviction that Member States should take positive action to regenerate European shipping. They establish for the shipping sector a more liberal regime for state aids than exists in any other sector in the European Union. Indeed, they have come to serve almost as a blueprint for national intervention. (A summary of the guidelines is at Annex D)

#### *The Netherlands' maritime initiative*

72. Examples of shipping industry support can be found in most European maritime nations, from the early Norwegian initiative to the German package approved only in 1998. Common elements are fiscal relief measures - such as tonnage-based corporate taxation - and the waiver of social charges for seafarers. Particularly germane is the comprehensive package of measures introduced by the Netherlands, which the Dutch authorities claim has succeeded in creating the conditions in which their maritime industry is now enjoying an economic renaissance.

73. The Dutch Government recognised that the loss of national shipping, maritime skills and maritime-related economic activities, caused by the industry's cost-reduction strategies of moving vessels and ship management offshore, could not be halted by their prior policy of subsidising shipowners. Indeed, these subsidies distorted the market rather than addressed the perceived market failure.

74. The Netherlands' new approach rests on creating an attractive business and investment climate in which shipping is seen as the nucleus of the country's maritime business cluster. Of the shipping industry's added value to the Dutch national economy, 70% was identified as being generated by shore-related activities. The role of government was seen as being to create a framework that would provide maximum flexibility for companies to do business while securing the quality of Dutch registered shipping. The central element of the Netherlands' policy package, reflecting the new focus on Dutch ownership (rather than on the Dutch flagged fleet), is an optional tonnage-based tax regime. Labour cost distortions were addressed by flag-related wage subsidies coupled with increased flexibility in manning rules.

75. The new policy was introduced at the beginning of 1996. Results to date (1998) are claimed to include a 25% increase in the Dutch merchant fleet, full employment of Dutch seafarers, a renewal of shipbuilding in local yards and the return or relocation to the Netherlands of some 40 ship owning or ship management companies.

### **Elements of a UK Shipping Policy**

#### *Open markets*

76. In general - and subject of course to proper safety and environmental regulation - we need to maintain international shipping markets that are open and competitive: only in this way will our exporters and importers be assured of the necessary choice of services at a cost that does not disadvantage them against their competitors. Our ports must therefore remain open to foreign shipping, provided that it meets international standards.

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<sup>14</sup> Community guidelines on State aid to maritime transport, OJ C205/5, July 1997.

### *A strong UK presence in shipping*

77. But we also need to retain a strong UK presence in shipping - and where possible a strong UK registered fleet:

- to assure ourselves of a **continued supply of maritime skills and experience**, in order to nourish Maritime London and other land-based activities where such skills and experience are required; to this end we need to preserve a significant level of UK maritime employment;
- to ensure **safe shipping and unpolluted seas**, for which we need to keep some shipping under our own safety regulation and preserve our influence over international maritime policy;
- to ensure **efficient shipping for our trade**, maximising direct links between the UK and our trading partners;
- to retain some capability to help ourselves in a time of **international crisis or war**, for which we need access to certain types of strategic vessel and crews to operate them under potentially hazardous conditions.

78. Regular services around our coasts and on routes to Ireland and the near Continent merit particular attention:

- some of these services provide **an important source of employment to local communities** (but those on international routes face a loss of profitability through loss of European duty-free);
- because of their frequency and geographical propinquity the safe operation of these services is especially important to the **protection of our coasts and waters**;
- the **safety of ferries** in particular is crucial because of the numbers of passengers they carry;
- as noted above, **coastal and short-sea freight** services may merit special support to the extent that they relieve pollution and congestion on land.

### *An integrated policy approach*

79. The detailed implications of these aims and the means by which they may be achieved are discussed in the next part of the paper, under the following four headings representing broad groups of policy objectives:

- increasing skills;
- encouraging employment;
- increasing the UK's attractiveness to shipping enterprises;
- gaining safety and environmental benefit.

80. The policy measures set out here draw largely on the recommendations of the Shipping Working Group. Where a specific link is required to training or employment or to the use of the UK register, in order to maximise the benefit to the UK, this is indicated. Taken together, these measures represent a comprehensive strategy for a sustainable British shipping industry which is consistent with the Government's wider industrial strategy and with our integrated transport policy.

### **Synergy and partnership**

81. The inter-relationships between the proposed measures, and between the policy objectives they are designed to achieve, are crucial to the working of the strategy. The piecemeal measures taken to date have not succeeded in reversing the present vicious circle of decline because they have not addressed the complexity of the situation. For example, maintenance of the UK maritime skills base required by the shore-based sector of the economy depends on increasing the recruitment and training of British seafarers - a burden which will continue to fall, in the main, on UK shipping companies. Even with

the aid of government grants, these companies will have little incentive to make this investment unless they consider it viable to employ such seafarers. Their ability to do this depends, in turn, on their continued competitiveness in the international shipping market.

**82.** It is evident therefore, that success in creating a 'virtuous circle' of growth rests greatly on the synergy generated by the integrated policy proposals. This can be achieved only by a committed partnership between all the various interests - the shipowners, the maritime-related industries, the maritime unions and government - to ensure full implementation of the 'package'. The industry regards certain fiscal changes, on which decisions cannot yet be taken, as an integral part of the package.

## Chapter 4: A Comprehensive Strategy

### Increasing Skills

#### *The requirement*

**83.** As discussed in Part 2, we need to maintain a pool of people with seafaring skills and experience to fill jobs in the shore-based maritime-related sectors of the economy. While recent cadet intake has been about 400 a year, the University of Wales study found that recruitment by shipping companies of approximately 1200 cadets a year was required to maintain the present status quo at sea and ashore - once the effects of the past two decades of under-recruitment and training have worked themselves out. This not only indicates a need to treble current cadet recruitment levels but, given the long lead times in training to Class 1 level, that the skills shortage will worsen significantly before any initiative starts to bear fruit. (The 'backlog' effect of the ageing seafarer population was quantified in the London Guildhall University research cited earlier.)

**84.** Seafarer training, in addition to funding, requires specialist facilities ashore (with which the UK remains, for the present, well equipped) and, for deck and engineering certification, minimum periods of supervised seetime (ie shipboard learning). For cadets, serving in a supernumerary capacity, this means access to a 'training berth'; for junior officers, employment in a substantive position in which they are able to undertake NVQ training. (Measures to encourage seafarer employment will be considered in a later section of this paper.)

**85.** The following measures, which draw on the proposals made by the Shipping Working Group, are designed to increase the UK skills base, both by increasing seafarer training through meeting the challenges of perception, training promotion, funding and access to training berths; and by optimising available and potential skills.

#### *Changing perceptions; promoting training*

**86.** Some of the smaller British companies currently not training may be prepared to do so if they had better access to information demonstrating that this would be cost-effective. The Merchant Navy Training Board (MNTB) is an appropriate body to take forward such an information initiative. Among other objectives, this might: raise awareness; offer advice about training groups or agencies; provide guidance on setting up training programmes; and develop 'off-the-shelf' systems or training packs to save smaller companies the cost of 'reinventing the wheel'. DfEE grants are available, in principle, to support this type of training promotion.

#### **Action:1**

**The Government accepts the recommendation of the Shipping Working Group (SWG) that the industry should use the Merchant Navy Training Board (MNTB) to develop and operate training promotional initiatives so as to persuade shipping companies to train, and to provide support in setting up training schemes.**

#### *Sharing the cost*

**87.** There is clear evidence of market failure in seafarer training. Because, in the main, the training has to be carried out by shipping companies, whereas the ultimate end-user of seafaring skills is the shore-based maritime-related sector, there is a far greater 'free-rider' effect than in industries where this is simply a function of inter-company poaching. The Government's 'SMarT' scheme is designed to offset some of the cost disincentive in seafarer training, but the wider industry has recognised that it can and must do more if the required expansion in training is to be achieved.

#### **Action:2**

**The Government accepts the SWG recommendation that the industry establish a Maritime Training Trust to provide a single vehicle for the receipt and administration of the wider industry's financial contributions to the cost of seafarer training.**

**88.** The maritime-related sector acknowledges its requirement for seafaring skills and its dependence, in general, on the shipping industry as the source of suitably trained and experienced staff. Key representatives of Maritime London have accepted the need for the shore-based sector to contribute to the cost of seafarer training and committed their organisations to support the proposed Maritime Training Trust.

**Action:3**

**The Government welcomes Maritime London's commitment to the proposed Maritime Training Trust and looks to the entire UK maritime-related sector to contribute likewise to the cost of securing the seafaring skills base on which its organisations depend.**

**89.** Although the imbalance in seafarer demand and supply is untenable, even in the medium to short term, a large number of British shipping companies, particularly the smaller ones, continue to seek (or passively enjoy) short-term competitive cost advantage by opting not to train seafarers. In doing so, they seemingly ignore the question of how they will obtain suitable seafarers in the future in the face of the world shortage. The Chamber of Shipping accepts the need for the involvement and commitment of the shipping industry as a whole to securing its own future manpower resources. A voluntary training levy would provide a way of enabling non-training companies to train seafarers or to contribute to their training.

**Action:4**

**The Government accepts the SWG proposal that the industry establish a voluntary industry training levy to enable all UK shipping companies to contribute to securing the future seafaring skills base on which their businesses depend.**

**90.** A further training deficit arises because nearly half of all serving British officers work for foreign shipping companies which do not contribute to the renewal of the pool of British seafarers. There is scope for the industry to encourage UK manning agents and ship management companies to follow the example set by one of the market leaders in imposing a training levy on foreign owners using British seafarers.

**Action:5**

**The Government accepts the SWG proposal that the industry encourage UK manning agents to develop training levies on foreign owners.**

**91.** Although an increase in recruitment and training of the magnitude envisaged by the University of Wales study cannot be achieved immediately, SMarT made a good start by offering funding support for 643 new cadets in 1998/99. However, the scheme will need to accommodate not only future increases in cadet numbers (under SMarT 1) but, in due course, the increased numbers of new junior officers seeking support for second certificate training (under SMarT 2). The Government recognises the need to provide adequate long term funding to support the required training expansion and to maintain the real value of SMarT grants (noting that inflationary erosion of grant values undermined the effectiveness of the previous GAFT training support scheme). To this end, following completion of the 1998 Comprehensive Spending Review, DETR has allocated £18.6 million to SMarT over the 3 year period 1999-2002.

**Action:6**

**The Government will provide sufficient long-term funding for the SMarT training support scheme to meet forecast demand in key training categories and to maintain the real value of SMarT grants.**

**92.** Under the European Commission's maritime state aid guidelines, where financial contributions are paid for on-board training, the trainee may not, in principle, be an active member of the crew (which is UK practice under NVQ training) but must be supernumerary. Accordingly, junior officer training support under SMarT 2 has been restricted to reimbursing a proportion of the costs incurred during the shore-based training phase and a proportion of the overhead costs incurred by the training provider. The Government will continue to press the European Commission to recognise that sea-time training by substantive crew members is a legitimate part of seafarer VQ training.

**Action:7**

**The Government will seek the removal of restrictions on sea-time VQ training support indicated by the European Commission's current maritime state aid guidelines.**

*Providing access to training berths*

93. The lack of training berths has long been identified as a constraint on the ability even of committed operators to train seafarers. However, to date, this relates to availability rather than to a physical lack of ships and berths. The proposed training expansion - particularly that sponsored by the proposed Maritime Training Trust - will create an increasing need to bring under-utilised berths into training use. In particular, those companies which remain non-trainers should be encouraged to make berths available as part of their contribution to the renewal of the UK seafarer pool. There is also the option of designating specific ships as enhanced training vessels. Specific proposals on how sufficient training berths might best be secured will need to be developed and kept under review by the social partners. The MNTB may be the appropriate organisation to co-ordinate this work.

**Action:8**

**The Government accepts the SWG proposal that the industry devise mechanisms for making berths available on all suitable British owned ships for the use of British seafarers undertaking training.**

94. SMarT, as a scheme funded by the British taxpayer, and in line with EU obligations, puts British flagged and crewed ships first. Nonetheless, the Government recognises the primacy of training objectives and the current prevalence of mixed crewing and flagging in the shipping industry. Subject to safeguards on the quality of the training environment, including the need for appropriate UK certification or equivalent certification of senior officers, SMarT is explicitly liberal in terms both of the nationality of vessels and of their crewing. However, a strong perception exists that the scheme may be administered restrictively in respect of nationality, and the Government accepts that implementation of these provisions should be monitored.

**Action:9**

**The Government will ensure that the SMarT provisions relating to the nationality of ship registration and of senior officers involved in shipboard training delivery are not interpreted over-restrictively in ways which would generally discourage operators of mixed-crewed and mixed flag fleets from training British officers.**

*Optimising available and potential skills*

95. With conventional recruitment patterns and training lead times, regardless of any realistic increase in cadet recruitment levels in the immediate future, the stock of British officers will continue to decline steeply before the trend is reversed. One way of mitigating this short-term crisis, without compromising the quality of certification, would be for the industry to recruit a significant number of suitable graduate entrants who would be able to draw on their prior learning and maturity to obtain their first and second certificates in the minimum time commensurate with full compliance with Merchant Navy Training Board and STCW 95<sup>16</sup> requirements.

96. There may also be longer term benefit in developing and promoting 'fast track' merchant navy graduate recruitment, particularly if this were linked to innovative developments in career paths, perhaps integrating sea service and management roles to the benefit of the individual, the company and, indeed, the nation.

**Action:10**

**The Government supports the SWG proposal that the industry facilitate the development of graduate recruitment and 'fast-track' training programmes.**

97. The pool of British ratings represents a source of existing maritime experience and skills which should be further developed with appropriate training. SMarT 3 provides a vehicle for the support of ratings training, including appropriate sea-time training by ratings signed-on in a supernumerary

capacity (in accordance with the EC guidelines). The Government will consider proposals by the industry for additional training requirements to be included under this scheme.

**Action:11**

**The Government accepts the SWG proposal that the industry identify how the employability and value added by British ratings can be increased by training and development and make proposals for the inclusion of relevant training courses within the SMarT3 ratings training module.**

**Encouraging Employment**

*Shipping as an employer*

**98.** Although modern shipping is a capital intensive industry, the British merchant navy remains a significant source of employment - especially in the relatively more labour intensive passenger sectors in which most British ratings serve. Whilst this employment is not geographically concentrated in the way that occurs in many land-based industries, seafaring is nonetheless still an important source of employment to many local communities. This is threatened by the continuing displacement of British ratings by cheap foreign labour and by the potential loss of employment on ferry services resulting from the abolition of European duty-free.

*Employment and training*

**99.** But seafaring employment is not simply an end in itself. In addition to the military requirement for a pool of reserve civilian capability (discussed in Part 2), it also provides the only effective vehicle for developing the maritime skills and experience needed elsewhere in the economy.

**100.** Whilst the disincentive to training caused by the 'free-rider' problem is addressed by the inter-related funding measures proposed above, the maximum number of seafarers likely to be trained by companies is effectively capped by their employment decisions. If British companies consider that the cost of British seafarers - particularly of ratings and junior officers - is too high compared with that of foreign substitutes, they will not employ them. While some cadet training to the first certificate of competency might be sustained with external funding, vocational training to second and subsequent certificates would not be available because the junior officer positions in which this is undertaken would have been filled by foreign seafarers.

**101.** Although government has no direct influence over private sector employment, it can seek to improve the cost environment, reinforce the regulatory framework or otherwise try to facilitate British seafaring employment.

*Improving the cost environment*

**102.** One significant cost element in European employment is the 'social charge' levied by governments. In the UK, this takes the form of the employers' National Insurance (NI) contribution, which constitutes between 8% and 10% of total employment cost. Reduction (to zero) of employers' social charges in respect of seafarers is permitted under the EU maritime state aid guidelines and many other European countries provide some form of alleviation.

**103.** The UK shipping industry has long sought similar alleviation. The British Government, however, has always taken the view that exception on a sectoral basis is irreconcilable with the principle of universality (of cost and benefit) on which the NI scheme operates. Over the last two or three years, the UK shipping industry has transferred significant numbers of employment contracts offshore in order to avoid employers' NI liability. This has effectively restored UK operators' employment cost competitiveness in this respect. (Employees' entitlements and benefits relate to the payment of employees' Class 1 NI contributions: paragraph 116 refers.)

**104.** The Government does not consider that any potential benefits attaching to formal alleviation would warrant breaching the principles of the NI scheme. However, the Government will publish

clear guidelines for the industry and unions on the applicability and use of offshore contracts for seafarers, and will consider whether any amendment to employment rights legislation is necessary to safeguard the position of British seafarers employed on such contracts.

**Action:12**

**The Government will establish clear guidelines on the use of offshore contracts for seafarers and will determine whether any amendment to employment rights legislation is necessary.**

**105.** European seafarers' employment costs are also affected by personal taxation, which is reflected in gross salary levels. As in many other European countries, the UK provides tax relief for seafarers. In 1991, UK Foreign Earning Deduction (FED) tax exemption for people who work wholly or partly overseas was amended in the case of seafarers better to reflect the industry's work/leave patterns. The Government of the day recognised that there was a strategic case for measures to encourage shipping companies to draw their crews from seafarers in the UK, who would be willing and able to serve in time of war, and to this end relaxed the rules giving tax relief to seafarers working mainly overseas. The Shipping Working Group took the view that, by reducing employment costs, the scheme had encouraged the employment of qualifying British seafarers.

**106.** In very broad terms, the seafarers' FED concession means that the income of anyone employed on a ship is free of UK income tax, provided they spend at least half the days of a qualifying period of at least 365 days outside the UK and not more than 183 consecutive days in the UK during that period. Location (inside or outside the UK) is measured at midnight for each day and a day counts as spent outside the UK if it forms part of a voyage to or from a foreign port.

**107.** The Shipping Working Group noted that many seafarers working in, for example, offshore and coastal services, who live on board ship in the same way as those employed in deep sea trades and form an important part of the British seafaring skills pool, do not qualify for the FED concession. The Group considered that the tax liability facing such seafarers makes it more difficult for companies in these sectors to recruit and retain British seafarers and acts against environmental objectives to encourage short-sea shipping. The Shipping Working Group proposed the geographical extension of the seafarers' FED concession so as to encompass at least all those seafarers who live on board for the qualifying period, whether or not they leave UK waters.

**108.** Subsequent to the Working Group's considerations the Government, in the 1998 Budget, withdrew the FED concession from all classes of employee other than seafarers, for whom it considers prudent, for the time being, to maintain the support. However, the Government does not consider that it would be appropriate to extend the measure.

**109.** The Crew Relief Costs Scheme (CRCS) subsidises the cost of operating with British seafarers by meeting part of the expense of relieving these crews in foreign ports. It applies to both officers and ratings and supports seafarers under training as well as those whose jobs are most at risk because of high repatriation costs. Because of different patterns of service, these costs can be up to three times higher for European seafarers than for those from developing countries. The scheme is one of the few employment assistance measures permitted under the European Commission's maritime state aid guidelines.

**110.** Eligibility for CRCS grant is defined under the empowering legislation in various ways which no longer align closely with current policy objectives. The scheme's geographical limits mean that it cannot support the employment of British seafarers in the important European short sea shipping sector. Nor does it specifically support the UK register. The Government intends to amend the basis of the CRCS so that it contributes to the achievement of both these objectives. Legislation will be brought forward as soon as feasible to expand the CRCS to include seafarers travelling between the UK and other EU Member States whilst limiting the scheme to UK registered ships. The Government will also review the adequacy of current grant levels and will ensure that sufficient funding is provided to meet all valid claims.

**Action:13**

**The Government will revise the Crew Relief Costs Scheme (CRCS) eligibility criteria to align**

**with current shipping policy objectives in support of the UK register and British seafarers employed in the short sea sector, and will ensure appropriate CRCS funding.**

***Reinforcing the regulatory framework***

**111.** The Government has decided to make administrative changes to the present limited protection afforded to British seafaring employment in the waters around the British Isles. The general principle, that seafarers under contract to join ships bound for foreign ports are exempt from the requirement for a work permit, will continue to hold. However, the present rather narrow administrative definition of what constitutes 'domestic' seafaring employment will be reviewed and, where appropriate, extended in order to provide similar employment protection to that afforded to shore-based workers. Examples of services which may be affected by stricter work permit requirements include one-port voyages (eg offshore support vessels based at a UK port) and domestic scheduled freight services.

**112.** The Government recognises that the UK shipping industry should not be exposed to further competitive disadvantage and the changes made will apply to all vessels, regardless of flag or ownership. Non-scheduled coastal vessels, serving foreign as well as UK ports, will continue to be exempt from immigration work permit control to enable British operators to compete on level terms in the open shipping market. Sufficient flexibility will be provided to accommodate exceptional circumstances requiring the short-term chartering-in of a foreign crewed vessel.

**Action:14**

**The Government will amend current immigration arrangements to ensure that an appropriate level of employment protection is provided for seafarers engaged in domestic services.**

**113.** The European Commission's draft Directive on the Manning of Regular Passenger Services on Trades Between Community Ports is designed to protect the employment of Community nationals on regular passenger services between Member States. This sector provides half of the Community's seafaring employment and a very high percentage of UK ratings employment. The Government has consistently supported the measure.

**Action:15**

**The Government will continue to support the early adoption of the European Commission's draft directive on the Manning of Regular Passenger Services on Trades Between Community Ports.**

**114.** The seafaring unions have expressed concern that provisions of the Race Relations Act 1976 which allow foreign seafarers to be paid at their home country rates have had a detrimental effect on British seafaring employment. This Act is currently under review and the Government will consider any evidence submitted in the course of the formal consultation.

**Action:16**

**The Government will consider, in its review of the Race Relations Act 1976, any evidence submitted to it during the formal consultation.**

**115.** Specific concern was also expressed about offshore tug vessels manned by foreign seafarers (who currently are not required to hold employment permits) being utilised for harbour work on an ad hoc or substitute basis. The Government confirms that any alleged infringements notified to the Immigration Service will be investigated and the law upheld.

**Action:17**

**The Government will enforce the law when there is evidence that foreign seafarers are working on domestic operations without work permits.**

***Facilitating British seafaring employment***

**116.** While the Government does not propose to provide alleviation of employers' National Insurance contributions, it will consider, in the context of the present Welfare Reform exercise, the concerns of seafarers about their cover for social security benefits, the constraints these concerns place on

operators' crewing decisions and the case for providing better protection to seafarers under the UK social security scheme.

**Action:18**

**The Government will consider, in the context of the present Welfare Reform exercise, the case for providing better protection under the UK social security scheme to certain seafarers; in particular those British seafarers that work on mixed flagged fleets and are currently denied the ability to make voluntary payment of employees' Class 1 contributions when working on ships not registered in the UK.**

117. There is a lack of information about the demand and supply of ratings in the industry. An initial study has been made using RMT membership records, but a comprehensive ratings data base is required to inform the decision making of employers, employees, trainers, unions and government. The Government will assist the industry in developing the necessary data base.

**Action:19**

**The Government accepts the SWG recommendation that a data base on British ratings should be developed to inform the decision making of employers, employees, trainers, unions and government, and will assist the industry in undertaking this work.**

118. Future employment prospects for ratings are likely to depend on the value added. One approach to developing this would be to extend to other trades the ratings-to-officer (and ratings-to-shore) career paths which already exist in the coastal sector. The Government acknowledges that the absolute number of seafarers following these career paths is likely to remain relatively low. Nonetheless, it encourages the industry to take formal steps to develop the potential in this area. With its considerable expertise, the MNTB may be the appropriate body to take forward such an initiative.

**Action:20**

**The Government supports the SWG recommendation that the industry should develop formal ratings-to-officer and ratings sea-to-shore career paths in each of the shipping sectors.**

119. An important element in the efforts to increase opportunities for UK shipping and British seafarers is the work undertaken by DETR, in close liaison with the Chamber of Shipping and other shipping interests, to ensure the greatest possible access to shipping trades world-wide. This spans work undertaken in conjunction with the European Commission and in wider international bodies such as the Organisation for Economic Co-operation and Development (OECD) and in multi-national fora such as the Consultative Shipping Group. It is a continuing process. Negotiations will resume in 2000 within the World Trade Organisation (WTO), in the context of the General Agreement on Trade in Services (GATS), with a view to reaching agreement on structured liberalisation of international maritime transport services, aimed at consolidating existing market access freedoms and eliminating remaining trade barriers.

**Action:21**

**The Government will continue to maximise the opportunities for UK shipping and seafarers by seeking to open up markets in international shipping.**

120. Studies on the effect of the abolition of duty free shopping on intra-EU routes suggest that this could have considerable impact on cross-Channel ferry services. These ferries currently employ large numbers of seafarers, including a very high proportion of all British ratings. The Government will work with other Member States in considering the implications for the industry and ways of responding to this.

**Action:22**

**The Government will work with other Member States in considering the implications for the industry of the ending of intra-EU duty free sales and ways of responding to this.**

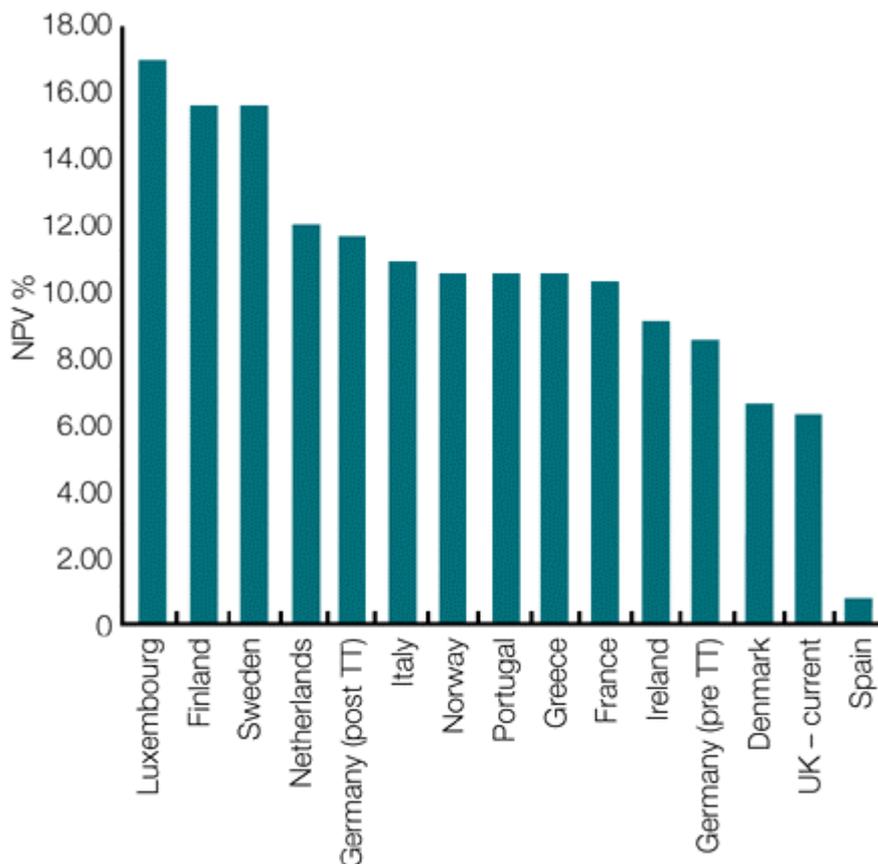
## Increasing the UK's Attractiveness to Shipping Enterprises

### *The influence of the fiscal environment*

**121.** Globalisation, evolving cross-national corporate structures, increasing industry rationalisation and the continual drive for competitiveness have created an environment in which international shipping has ready access to global factor markets and thus broadly similar input costs. In this situation, national fiscal and regulatory regimes can be the main residual cause of cost differentials. Shipping investment therefore tends to be drawn to low tax regimes. Likewise, in international joint ventures, preference is given to partnership vehicles in tax-free regimes, with future investment similarly directed.

**122.** It is now normal for countries, including other European countries, to create a substantially tax-free environment to retain and attract shipping investment. Chart 5 shows, for different European countries, the net present value (as a percentage of capital value) from a standard investment in an identical ship with the same pre-tax rate of return, excluding those cash flow elements common to all countries. The UK's fiscal environment results in the lowest percentage of capital value achieved in any of these countries except Spain. In the industry's process of international rationalisation, it is therefore not surprising that shipping investment, both existing and potential, is slipping away from the UK.

**Chart 5: Comparison of Fiscal Regimes**



\*German NPV shown pre- and post-tonnage tax.

### *Specific UK disincentives to shipping investment*

**123.** Larger UK companies, with a pattern of capital investment which enables them to take full advantage of tax depreciation, may be able to emulate foreign regimes in terms of realised tax levels.

But this is not generally the case for UK companies operating smaller fleets. The industry considers that the tax uncertainty inherent in the UK system, together with the accounting complications regarding the treatment of deferred tax liabilities, tends to deter foreign investors. Because of the incompatibility of the tax structure with foreign tax regimes it also acts as a deterrent to potential joint ventures and cross-border operations. Further difficulties arise in relation to the tax rules relating to Controlled Foreign Companies and to movement between owning and leasing ships.

### *Fiscal support*

**124.** An appropriate fiscal environment is an important element in retaining a significant shipping sector in the UK, which, in turn, underpins the achievement of other objectives: the encouragement of UK registration; an expansion of training to secure the seafaring skills base; strengthening maritime London; and contributing to maritime and related employment.

**125.** Most traditional shipping nations have modified their fiscal regimes in order to attract and retain shipping investment. An approach increasingly adopted (eg by Norway, Greece, the Netherlands and Germany) is to offer shipping companies some form of a tonnage-based system of corporation tax. The Government will discuss fiscal options for shipping, including tonnage based systems of corporation tax, with the shipping industry in the context of the forthcoming pre-Budget consultation and without any commitment on implementation. In the event that the Government were to decide to introduce fiscal changes in support of UK shipping, it would also determine the nature and extent of the investment in the UK seafarer skills base required of shipping companies as a prerequisite of eligibility for such fiscal concessions.

### **Action:23**

**The Government will discuss fiscal options with the shipping industry in the context of the pre-Budget consultation and without any commitment on implementation.**

**126.** The Government recognises the need to exercise vigilance to ensure that its plans and activities on specific issues do not inadvertently damage the shipping and maritime-related industries. For example, shipping attaches considerable importance to the maintenance of beneficial leasing arrangements; and the continued international leadership of Maritime London rests heavily on the fiscal attractiveness of the UK as a place to do business, both for British and foreign shipowners. The specific nature of the shipping industry and its investment means that it has been excluded from cross-industry measures and support, like regional selective assistance, intended to be available across the economy.

### *Facilitating UK ship registration*

**127.** In terms of UK ship registration, whilst it is clear that the maintenance of high professional standards is paramount, it is essential that the administration of the register is efficient, consistent and user-friendly. In the world of international shipping, there are many alternatives which have a reputation both for quality and efficiency.

**128.** Although some changes have been made in recent years, particularly following the 1990 Joint Working Party Report, the industry's view is that further improvement is still necessary. Detailed discussions, which commenced in 1997 between Chamber companies and the Marine Safety Agency, are being continued by its successor, the Maritime and Coastguard Agency, with the objective of resolving outstanding issues and developing the new Agency into an efficient and service-orientated organisation which will actively attract ships to the UK register.

### **Action:24**

**The Maritime and Coastguard Agency (MCA) will work with the industry to maintain the reputation of the UK register as a quality flag and to improve the service provided to British shipping, in such a way as to support the aim of encouraging growth in the number of merchant vessels on the UK flag.**

## **Gaining Safety and Environmental Benefit**

### ***Improving Maritime Safety***

**129.** Although shipping is a relatively safe mode of transport, the UK's geography and dependence on shipping make us particularly exposed to the risks inherent in the industry. Much of our work to secure high levels of safety and prevent pollution necessarily must be carried out in international bodies such as the IMO. But clearly, we also need to maintain a cost-effective national regulatory capability in order to ensure the safety of British registered shipping (including intensively used passenger ferry services); to police the standards of international shipping using our ports; and to provide a fast and effective response to maritime incidents in our waters. The integrated Maritime and Coastguard Agency was established in April 1997 to this end.

#### **Action:25**

**The Government will support the Chief Executive of the Maritime and Coastguard Agency in improving its efficiency and effectiveness as an integrated organisation for maritime safety regulation and emergency response in the UK.**

**130.** As noted, one of the reasons for the decline in British shipping and seafarers is unfair competition from inadequately regulated foreign shipping and inadequately trained and qualified foreign seafarers. Notwithstanding international efforts, championed by the UK, to encourage delinquent Flag State administrations to meet their regulatory responsibilities, Port State Control (PSC) remains a key element in the effective policing and enforcement of international standards. Ensuring that the Maritime and Coastguard Agency (MCA) is adequately funded to achieve PSC objectives is therefore also of direct importance to the future well-being of British shipping and British seafarers.

#### **Action:26**

**The Government will continue to campaign widely against substandard shipping, thereby reducing unfair competition to the benefit of the UK shipping industry; and will ensure that the Maritime and Coastguard Agency is adequately funded fully to discharge its responsibilities both as Flag State Administration and Port State Control Authority.**

### ***Gaining the environmental benefits of shipping***

**131.** In 1995, the European Commission proposed a number of measures to increase the role of short-sea shipping within the Community by fostering competition, improving port efficiency, removing administrative burdens, undertaking new market initiatives, and promoting training, research and development and the use of IT in short sea shipping. At a national level, work is taken forward through round table discussions.

#### **Action:27**

**The Government will continue to be involved in European initiatives to encourage short sea shipping.**

**132.** Better marketing and promotion of short sea shipping and better communication between the various service providers could encourage more shippers and forwarding agents to consider sea freight as a real option. In addition, measures to help shipping overcome some of its disadvantages might include: logistical and technical innovation; research and development programmes to investigate the potential contribution of new shipping designs and technologies; better intermodal connections; innovation and efficiency improvements to reduce handling; and use of high speed ship technology on longer freight routes. The Government will liaise with the industry, through the round table discussions, regarding possible initiatives to encourage the short-sea and coastal shipping sectors where this will provide environmental benefits.

#### **Action:28**

**The Government accepts the SWG proposal that it should promote an initiative with the**

**shipping and ports industries to examine the scope for further measures to encourage waterborne freight.**

133. Shipping suffers a significant cost penalty against road transport. Short-sea and coastal shipping is trying to win business that can be transported by road within the UK at substantially lower cost to the user. Some of this advantage is attributable to road transport not bearing its full costs. As part of the last Budget, the Government announced a wide-ranging review of the system of setting Vehicle Excise Duty rates for lorries to take into account the environmental damage which they cause. The Government will commission further research in this area to assist with this review. This will be discussed in greater detail in the Government's forthcoming paper on Sustainable Distribution.

**Action:29**

**The Government will undertake research into transport 'track costs' and externalities.**

134. The Shipping Working Group expressed concern that the 1994 concession permitting the use of 44 tonne 6 axle lorries for combined road/rail transport in the UK discriminated against the use of shipping, and recommended that there should be no restriction on the use of such lorries. As already announced in the White Paper on the Future of Transport (paragraph 3.168), the Government intends to ask the Commission for Integrated Transport to consider the case for allowing the general use of these vehicles.

**Action:30**

**The Government will ask the Commission for Integrated Transport to consider the case for allowing 44 tonne lorries for general use.**

135. Port costs are the largest element of coastal bulk shipping and can represent some 80% of the total door-to-door cost. The figure can be lower where there are economies of scale, which have produced 'gateway' ports. Whilst it is recognised that UK ports have already made great progress in increasing their efficiency and reducing handling costs, further reduction in port costs would increase the competitiveness of coastal shipping compared with less environmentally-friendly modes.

**Action:31**

**The Government accepts the SWG recommendation that it collaborate with industry in joint case studies on streamlining port handling in any ports that are willing actively to seek short sea/coastal shipping business.**

136. The current Freight Facilities Grant scheme was intended to encourage the transfer of freight from roads to more environmentally friendly modes of transport but applies only to inland waterways, not to coastal/short sea shipping. It also applies only to facilities dedicated to a particular traffic, which is often not the case with port infrastructure. As a result of these factors, the scheme has had very little impact in encouraging waterborne traffic. The Government proposes to review the scheme to determine how it might be made more effective in encouraging the use of coastal and short sea shipping. This decision was announced in the White Paper on the Future of Transport (paragraph 3.184).

**Action:32**

**The Government will extend the Freight Facilities Grant scheme to include coastal and short-sea shipping.**

137. The location of industry, warehousing and distribution centres is crucial in determining which mode(s) will be used to transport freight. Other things being equal, there are clear benefits from siting manufacturing industry near loading docks or ports. As announced in the Transport White Paper (paragraph 4.161) and to be detailed in the Sustainable Distribution paper, the Government's planning policy guidance note on transport (PPG13) is to be updated to encourage local planning authorities to take into account these strategic issues for sustainable integrated transport.

**Action:33**

**The Government will consult on the revision of planning guidance to encourage more freight to**

**be carried by rail and water and to give better protection to sites and routes which could be critical in developing freight infrastructure, including facilities for water transport.**

## **Chapter 5: Implementation and Conclusions**

### **Implementation**

**138.** The measures set out in this paper are designed as a focused, cost-effective strategy to deliver the Government's shipping policy objectives. Many of the proposals, made by the Shipping Working Group and accepted by the Government in this paper, rest on the industry. This is particularly the case in relation to actions designed to increase training and thus the maritime skills base. However, the Government is prepared to act as facilitator to move the process forward from proposal to implementation.

**139.** To this end, the Government proposes to set up and, where appropriate, chair, 'catalyst groups' to identify, for each action point (other than those which are exclusively for government), what needs to be done and the most appropriate body or bodies to undertake the work. Clearly, this process will need to be underpinned by the continuing partnership and commitment of the whole industry, and the Government plans to hold regular meetings with the social partners to facilitate this. In some cases, implementation may be through existing organisations, a number of which are identified in individual action points; elsewhere, ad hoc committees may have to be set up, drawing on relevant expertise in much the same way as the work of the Shipping Working Group was informed by the contribution of experts and leading practitioners.

### **Monitoring and Accountability**

**140.** It is expected that the package of measures will need to be in place for perhaps a decade in order to provide the confidence and stability necessary to reverse the legacy of the long-term decline of this country's merchant navy. Clear targets will need to be agreed and a formal process for systematic monitoring and review be established. Given the importance of partnership in the successful implementation of the integrated package of measures, this review process must involve key interests including the shipowners, maritime-related industries, maritime unions and government.

**141.** It is proposed that a review should be carried out within 36 months of the introduction of the training and employment measures. Fiscal measures should be reviewed after an appropriate period, recognising that there is likely to be greater lag between input and measurable output in respect of these. Decisions on continuation, modification or termination would need to respect the basis on which the measures had been authorised.

### **Conclusion**

**142.** The integrated shipping policy and specific proposals put forward in this paper represent a comprehensive industrial investment strategy designed to build a dynamic maritime industry providing long term benefits to the United Kingdom. The proposed measures constitute an integrated package of actions, consistent with the government's wider industrial strategy and involving a concerted and sustained partnership between British shipowners, the maritime-related industries, the trade unions and government. With the commitment of each of the stakeholders, vital national assets and the maritime economic future of the UK can be secured.

### **Summary of Policy Measures**

**Paragraph numbers refer to numbered action points in the main body of the text.**

#### *Increasing skills*

##### **Changing perceptions; promoting training**

1: The Government accepts the recommendation of the Shipping Working Group (SWG) that the industry should use the Merchant Navy Training Board (MNTB) to develop and operate training

promotional initiatives so as to persuade shipping companies to train, and to provide support in setting up training schemes.

### **Sharing the cost**

2: The Government accepts the SWG recommendation that the industry establish a Maritime Training Trust to provide a single vehicle for the receipt and administration of the wider industry's financial contributions to the cost of seafarer training.

3: The Government welcomes Maritime London's commitment to the proposed Maritime Training Trust and looks to the entire UK maritime-related sector to contribute likewise to the cost of securing the seafaring skills base on which its organisations depend.

4: The Government accepts the SWG proposal that the industry establish a voluntary industry training levy to enable all UK shipping companies to contribute to securing the future seafaring skills base on which their businesses depend.

5: The Government accepts the SWG proposal that the industry encourage UK manning agents to develop training levies on foreign owners.

6: The Government will provide sufficient long-term funding for the SMarT training support scheme to meet forecast demand in key training categories and to maintain the real value of SMarT grants.

7: The Government will seek the removal of restrictions on sea-time VQ training support indicated by the European Commission's current maritime state aid guidelines.

### **Providing access to training berths**

8: The Government accepts the SWG proposal that the industry devise mechanisms for making berths available on all suitable British owned ships for the use of British seafarers undertaking training.

9: The Government will ensure that the SMarT provisions relating to the nationality of ship registration and of senior officers involved in shipboard training delivery are not interpreted over-restrictively in ways which would generally discourage operators of mixed-crewed and mixed flag fleets from training British officers.

### **Optimising available and potential skills**

10: The Government supports the SWG proposal that the industry facilitate the development of graduate recruitment and 'fast-track' training programmes.

11: The Government accepts the SWG proposal that the industry identify how the employability and value added by British ratings can be increased by training and development and make proposals for the inclusion of relevant training courses within the SMarT 3 ratings training module.

### ***Encouraging employment***

#### **Improving the cost environment**

12: The Government will establish clear guidelines on the use of offshore contracts for seafarers and will determine whether any amendment to employment rights legislation is necessary.

13: The Government will revise the Crew Relief Costs Scheme (CRCS) eligibility criteria to align with current shipping policy objectives in support of the UK register and British seafarers employed in the short sea sector, and will ensure appropriate CRCS funding.

#### **Reinforcing the regulatory framework**

14: The Government will amend current immigration arrangements to ensure that an appropriate level of employment protection is provided for seafarers engaged in domestic services.

15: The Government will continue to support the early adoption of the European Commission's draft directive on the Manning of Regular Passenger Services on Trades Between Community Ports.

16: The Government will consider, in its review of the Race Relations Act 1976, any evidence submitted to it during the formal consultation.

17: The Government will enforce the law when there is evidence that foreign seafarers are working on domestic operations without work permits.

#### **Facilitating British seafaring employment**

18: The Government will consider, in the context of the present Welfare Reform exercise, the case for providing better protection under the UK social security scheme to certain seafarers; in particular those British seafarers that work on mixed flagged fleets and are currently denied the ability to make voluntary payment of employees' Class 1 contributions when working on ships not registered in the UK.

19: The Government accepts the SWG recommendation that a data base on British ratings should be developed to inform the decision making of employers, employees, trainers, unions and government, and will assist the industry in undertaking this work.

20: The Government supports the SWG recommendation that the industry should develop formal ratings-to-officer and ratings sea-to-shore career paths in each of the shipping sectors.

21: The Government will continue to maximise the opportunities for UK shipping and seafarers by seeking to open up markets in international shipping.

22: The Government will work with other Member States in considering the implications for the industry of the ending of intra-EU duty free sales and ways of responding to this.

#### ***Increasing the UK's attractiveness to shipping enterprises***

##### **Fiscal support**

23: The Government will discuss fiscal options with the shipping industry in the context of the pre-Budget consultation and without any commitment on implementation.

##### **Facilitating UK ship registration**

24: The Maritime and Coastguard Agency (MCA) will work with the industry to maintain the reputation of the UK register as a quality flag and to improve the service provided to British shipping, in such a way as to support the aim of encouraging growth in the number of merchant vessels on the UK flag.

#### ***Gaining safety and environmental benefit***

##### **Improving Maritime Safety**

25: The Government will support the Chief Executive of the Maritime and Coastguard Agency in improving its efficiency and effectiveness as an integrated organisation for maritime safety regulation and emergency response in the UK.

26: The Government will continue to campaign widely against substandard shipping, thereby reducing unfair competition to the benefit of the UK shipping industry; and will ensure that the Maritime and Coastguard Agency is adequately funded fully to discharge its responsibilities both as Flag State Administration and Port State Control Authority.

##### **Gaining the environmental benefits of shipping**

27: The Government will continue to be involved in European initiatives to encourage short sea shipping.

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28: The Government accepts the SWG proposal that it should promote an initiative with the shipping and ports industries to examine the scope for further measures to encourage waterborne freight.

29: The Government will undertake research into transport 'track costs' and externalities.

30: The Government will ask the Commission for Integrated Transport to consider the case for allowing 44 tonne lorries for general use.

31: The Government accepts the SWG recommendation that it collaborate with industry in joint case studies on streamlining port handling in any ports that are willing actively to seek short sea/coastal shipping business.

32: The Government will extend the Freight Facilities Grant scheme to include coastal and short-sea shipping.

33: The Government will consult on the revision of planning guidance to encourage more freight to be carried by rail and water and to give better protection to sites and routes which could be critical in developing freight infrastructure, including facilities for water transport.

## **Annex A: The Shipping Working Group Summary of Proposals**

1. The Shipping Working Group was set up in late 1997 under the chairmanship of the Director of Shipping and Ports in the Department of the Environment, Transport and the Regions (DETR). Its terms of reference are set out in full in Section 1 of this paper.

2. The Group's membership comprised representatives from the Chamber of Shipping, the maritime trade unions (the National Union of Maritime Aviation and Shipping Transport (NUMAST), the National Union of Rail, Maritime and Transport Workers (RMT) and the Transport and General Workers Union (T&G)) and of a number of other government departments with related policy interests (the Department for Education and Employment (DfEE), the Department of Social Security (DSS), the Department for Trade and Industry (DTI), the Foreign and Commonwealth Office (FCO) and the Ministry of Defence (MOD)). Experts from other government departments and from the maritime-related sectors were invited to provide specialist advice and greatly facilitated the work of the Group.

3. The Shipping Working Group reported to the Deputy Prime Minister in March 1998, offering a menu of 37 proposals spanning employment and training issues, the fiscal environment and new opportunities for British shipping. Given the range of interests represented in the Group a diversity of views existed as to approaches and priorities. However the Group was unanimous that all options discussed should be offered for consideration by Ministers and there was general agreement that urgent action was required.

4. The proposals were tabled under 9 headings: funding training; facilitating training; adding value to British ratings; improving the employment environment; regulating to enhance UK/EU seafarer employment prospects; safeguarding the employment rights of British seafarers; improving the fiscal environment; opening up new opportunities for UK shipping; and the operation of the UK Shipping Register.

### ***Funding Training***

*Note: Proposals 1, 2 and 3 for industry-funded training support schemes were seen as complementary and it was recommended that a single Maritime Trust was established to manage the funds so raised.*

Establish a Maritime Training Trust, sponsored by the shore-based maritime-related sector (including the ports), to help secure the seafaring skills base on which their organisations depend.

Encourage British manning agents to develop training levies on foreign owners using British seafarers who do not otherwise contribute to the renewal of the pool of British seafarers.

Develop a voluntary industry training levy, operated collectively by the British shipping industry, as a means of contributing to securing the future seafaring skills base on which their businesses depend.

Increase SMarT grant rates to cover 100% of the cost of training allowable within EU rules.

### ***Facilitating Training***

Seek the removal of restrictions on sea-time VQ training support imposed by the European Commission's current maritime state aid guidelines.

Ensure that operators of mixed-manned and mixed flag fleets are not discouraged from training British officers by over-restrictive interpretation of SMarT nationality requirements.

Devise industry mechanisms for making berths available on all suitable British owned ships for the use of British seafarers undertaking training.

Use the Merchant Navy Training Board (MNTB) to develop and operate training promotional initiatives to persuade shipping companies to train, and to provide support in setting up training schemes.

Facilitate the development of graduate fast-track training programmes.

### ***Adding Value to British Ratings***

Create a data-base on British ratings to inform the decision-making of employers, employees, trainers, unions and government.

Develop formal ratings-to-officer and ratings sea-to-shore career paths in each of the shipping sectors.

Identify how the employability and value added by British ratings can be increased by training and development.

### ***Improving the Employment Environment***

Introduce employers' National Insurance contributions alleviation for the shipping industry either directly or by grant.

Amend the rules of the National Insurance contributions regulations to permit voluntary payment of employees' Class 1 contributions by certain UK domiciled/resident seafarers employed on foreign flagged ships.

Expand the Crew Relief Costs Scheme but limit eligibility to companies which meet a minimum training commitment.

Extend the geographical scope of existing seafarers' income tax exemption so that it is available at least to all those seafarers who live on board for the qualifying period.

### ***Regulating To Enhance UK Seafarer Employment Prospects***

Amend current immigration arrangements to allow increased employment opportunities for British seafarers.

Examine what might be done within the context of EC legislation to encourage the manning by Community nationals of regular passenger services on trades between Community Ports.

Ensure that the Maritime and Coastguard Agency is adequately funded fully to discharge its responsibilities both as Flag State Administration and as Port State Control Authority.

Consider extending to vessels under 500 grt the requirement to hold a Safe Manning Document and any other relevant regulations.

### ***Safeguarding the Employment Rights of British Seafarers***

Amend employment rights legislation, as required, to safeguard for British seafarers employed by British shipping companies on offshore contracts the full rights, entitlements and protection normally afforded by UK legislation to seafarers employed on UK contracts.

Determine the facts of the reported use by UK shipping companies of offshore contracts for British seafarers employed on domestic services, and determine the legitimacy of such arrangements.

Examine the reported use on domestic operations of foreign seafarers lacking work permits, and take measures to enforce the law.

Review the Race Relations Act 1976 to determine the effect on British seafarer employment of the exemption made in the legislation which allows foreign seafarers to be paid at rates related to their home countries.

### ***Improving the Fiscal Environment***

Introduce the option of tonnage-based corporation tax for UK tax resident companies, or UK branches of non-resident companies, primarily involved in the operation of seagoing shipping services.

Introduce an enhancement to the rate of depreciation allowance within the orthodox corporation tax regime, for ship operating companies so that they can choose between this and the tonnage-based regime according to their particular circumstances.

Safeguard a generally attractive tax climate by, in addition to proposals 25 and 26, ensuring:

- a. continuation of beneficial leasing arrangements;
- b. the continuing attraction of the UK as a place to do business for both UK and foreign shipowners;
- c. that cross-industry support does not have features that exclude shipping.

### ***Opening up New Opportunities for UK Shipping***

Protect existing waterside sites in ports and along waterways where there is a potential for developments facilitating or generating waterborne transport.

Institute a positive planning policy to encourage the waterside location of industrial projects which are likely to be major consumers or generators of raw and bulk materials.

Ensure users of each transport mode face costs which properly reflect full infrastructure and environmental costs, thereby ensuring that transport markets are not artificially distorted, each finding its own level based on a full recovery of costs.

Undertake joint case studies on streamlining port handling in any ports that are willing actively to seek short sea/coastal shipping business.

Ensure that there is no discrimination between shipping and other transport modes; in particular extend the current 44 tonne lorry concession to all traffic.

Explore what form of grant would be most effective in encouraging the carriage of freight by waterborne transport.

Promote an initiative with the shipping and ports industries to examine the scope for further measures to encourage waterborne freight.

Increase the UK's involvement in European initiatives to encourage short sea shipping.

Continue to maximise opportunities for UK shipping and seafarers by seeking to open markets in international shipping.

### ***Operation of the UK Register***

Ensure that the Maritime and Coastguard Agency (MCA) works with the industry to maintain the reputation of the UK register as a quality flag, in such a way as to support the aim of encouraging growth in the number of merchant vessels on the flag.

## **Annex B: Synopses of the Reports of the Universities of Wales and London Guildhall**

### ***The UK's Requirements for People with Experience of Working at Sea 1996 (The University of Wales Study)***

- Traditionally, many key vacancies in the UK's shore-based, maritime-related sector have been filled by ex-Merchant Navy personnel. This 'natural' process is now endangered by the reduction in Britain's merchant fleet and its manpower.
- Almost 17,000 jobs were identified in more than 25 shore-based sectors which employers would prefer to fill with ex-seafarers. For 70% of these, seafaring experience was considered 'essential'. Most of these jobs (87%) were filled by former officers with Class 1 certificates - Masters and Chief Engineers.
- While demand and supply for the movement of ex-seafarers ashore are roughly in balance at present, the forecast reduction in supply will result in an increasing shortfall, reaching approximately 275 per year by 2004/5.
- Merchant Navy service still provides the most cost-effective training for these jobs. Neither third-party training nor the employment of foreign ex-seafarers is likely to provide a ready remedy to offset this shortage of UK officers. Reliance on non-seafarers, where that is possible, would lead to quality loss.
- Recruitment by shipping companies of approximately 1,200 cadets a year is required to maintain the present status quo at sea and ashore, once the effects of under-recruitment since 1981/82 have worked themselves through. Current intake is about 450 a year.
- The market response to the shortfall will be an increase in salaries in relevant shore-based jobs. This will increase seafarer waste rates, causing shipping companies to reduce training of UK cadets, thus further reducing the future pool of UK seafarers.
- Those shore-based businesses which are sufficiently flexible may relocate relevant activities abroad to obtain the required ex-seafaring staff. The long-term effect of this may be a considerable erosion of London's maritime-related sector.
- The required expansion in Merchant Navy training and jobs at sea - to meet the demand for ex-seafarers of both the shore-based, marine-related sector and the shipping industry itself - will require intervention in the form of external financing, by the 'end user' and /or the taxpayer.

### ***UK Seafarers - An Analysis 1997 (The London Guildhall University Study)***

- This study made as accurate an assessment as possible of the size and major characteristics of the active UK seagoing labour force. The objective was to identify, and project forward, the number of officers, cadets and ratings as at 30 June 1997, assuming retirement ages of (1) 65 years for all seafarers and (2) a combination of 57 years for officers (which has been suggested by the major employers of UK officers and by the unions as more realistic) and 65 years for ratings.
- The analysis showed an ageing workforce which in the immediate term brings stability to the industry. If current trends were allowed to persist, the long-term cost would be a dwindling resource of highly skilled seafarers.
- On the assumption of a 65 year retirement age, the total number of active seafarers was 28,000, of whom 11,140 were officers. This included 9,150 deck officers, 7,990 engineer officers, approximately 4,800 deck and engine-room ratings with a further 6,060 other ratings. It was estimated that there were in addition 1,130 officer cadets (trainees) undergoing training. While the figures for officers can be regarded with confidence, those for ratings were estimated and therefore less reliable.

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- Taking a 57-year officer retirement age, the total number of active seafarers was 25,460, of whom 14,600 were officers. This included 7,690 deck officers and 6,910 engineer officers, with the rating and cadet numbers unchanged.
- Not all certificated officers are necessarily employed at sea. It has been estimated that 9% of the active officer stock is shore-based, revalidating their certificates for other reasons (such as working in shipping and kindred industries ashore). If this factor is taken into account, the total numbers of active seafarers at sea can be taken as 26,460 and 24,150 respectively, plus the cadets.
- 71% of officers, and 53% of ratings, were aged between 40 and 65. This compares with an estimate of 43% for the total UK male workforce in 1991 (the most recent census date).
- 66% of deck officers held Class 1 certificates. The distribution of engineer officer grades is bi-modal with 43% being Class 1 and 31% Class 4. This analysis is based on motor certificates. 194 engineer officers hold only steam certificates.
- It was estimated that the number of officers would only recover if the cadet entry rate averaged 1,000 a year. The intake in the year April 1997/98 was approximately 450. On the basis of the most likely set of assumptions for cadet wastage rates (8% per year) and officer wastage rates (6% per year between 20 and 50 years of age and 1% thereafter), the number of officers is projected to decline further by 19% over the next five years - from 17,140 in 1997 to 13,900 in 2002. With an officer retirement age of 57, the decline is almost 30% - from 14,600 to 10,300. This decline was forecast to continue over the medium to long-term.
- The primary data sources were: for officers, the Register of Shipping and Seamen at Cardiff (a computerised database of officers re-validating certificates has now been established so as to ensure the maintenance of up to date records); for cadets, the Chamber of Shipping, which holds information on the Government Assistance for Training Scheme (GAFT); for ratings, the National Union of Rail and Maritime Transport Workers.

## **Annex C: Recommendations from other Reports into the Shipping Industry**

### ***Training & Employment***

- We recognise that the decline in employment in UK merchant shipping is symptomatic of a wider decline in the shipping industry world-wide. We are concerned that merchant shipping in the UK will continue to decline over the next decade. When the world needs more mariners in 10 years' time the supply of experienced officers and ratings from this country will have almost completely stopped unless urgent action is taken to halt the fall in employment in the industry. [Employment Select Committee, 1994]
- On the basis of the evidence which we have been given, it is clear that the decline in the number of cadets undertaking maritime skills training has fallen to alarming levels. Britain is not training enough officers to meet either future demand or the needs of related industries. [Employment Select Committee, 1994]
- The Committee recognises the valuable contribution made by merchant shipping and maritime industries to the UK's level of invisible earnings. London's pre-eminence in shipping services grew out of Britain's historical position as the world's leading maritime nation. We are convinced that there is a close relationship between the performance of maritime industries and the size of the UK merchant fleet in view of the need for staff with sea experience in shore jobs. The decline in Britain's leading position and in the numbers of people with relevant skills will have a serious impact on maritime related industries which may subsequently be forced to recruit abroad. This can only undermine the central position that the UK occupies in maritime related industry and financial services. [Employment Select Committee, 1994]
- A strong and active fleet and well trained seafaring personnel are vital complements to the UK's armed services. Despite the optimism of the Ministry of Defence, we are concerned that in the event of war Britain could be vulnerable as a result of the decline in the UK fleet and the fall in the employment of British seafarers. Any further decline in the number of ships or trained sailors at the disposal of HM Government may have a marked and detrimental effect on the UK's ability to defend itself. [Employment Select Committee, 1994]
- We believe that the GAFT scheme should be extended in order to improve the employment opportunities for junior officers by enabling them to obtain the training necessary for the Class 1 certificate. [Employment Select Committee, 1994]
- Examine how to expand the intake of seafarers (officers and ratings) into the British merchant navy via the Government Assistance for Training (GAFT). [Full Steam Ahead, Labour Party, 1993]

### ***Fiscal Measures***

- We welcome the modest support that the taxation system currently provides to the shipping industry, but we believe that measures to encourage investment in ships and reduce employment costs are essential to safeguard the future interests of the merchant navy, of related industry, of our national defence and of those young people seeking a career in shipping. We recommend action to reduce the employment costs of British crews by waiving the employer's social security contributions. We further recommend that the Government create a climate in which the UK industry can invest in new ships by reversing its decision taken in 1984 to remove the 100% first year allowance. [Employment Select Committee, 1994]
- Look into the advantages of a 100% first year tax allowance for the depreciation of ships to encourage investment in new and secondhand shipping tonnage. [Full Steam Ahead. Labour Party, 1993]

- Abolish the BES and replace it with the Growing Business Initiative and make the case for higher limits for each rights issue in the case of shipping. [Full Steam Ahead, Labour Party, 1993]
- Seek ways of providing financial aid in the form of an income tax and national insurance credit scheme for the employment of British seafarers. [Full Steam Ahead, Labour Party, 1993]
- In principle, operating aid should be exceptional, temporary and degressive. In the case of maritime transport, however, the problem of the competitiveness of the EC fleet on the world market is a structural one, deriving in large part from external factors. As the immediate prospects of resolving this cost gap problem do not appear good, the need for aid measures to allow shipowners to operate Community-registered ships competitively in the global markets is not likely to be short term. [European Commission Maritime State Aid Guidelines, Section 1.4 paragraph 7.]
- Many third countries have developed significant shipping registers, sometimes supported by an efficient international services infrastructure, attracting shipowners with a fiscal climate, which is considerably milder than within EC Member States. The low tax environment has resulted in there being an incentive for companies not only to flag out their vessels but also to consider corporate relocation. It should be emphasised that there are no effective international rules at present to curb such tax competition and few administrative, legal or technical barriers to moving a ship's registration from a Member State's register. This leaves all Member States having significant fleets with a common problem: the creation of conditions which allow fair competition with flags of convenience seems the best way forward. [European Commission Maritime State Aid Guidelines, Section 3.1 paragraph 2.]
- Such [fiscal] measures have been shown to safeguard high quality employment in the on-shore maritime sector, such as management directly related to shipping and also in associated activities (insurance, brokerage and finance). In view of the importance of such activities to the economy of the Community and in support of the earlier state objectives, these types of fiscal incentive can generally be endorsed. Further, safeguarding quality employment and stimulating a competitive shipping industry established in a Member State through fiscal incentives taken together with other initiatives on training and enhancement of safety will facilitate the development of Community shipping in the global market. [European Commission Maritime State Aid Guidelines, Section 3.1, paragraph 6.]

### ***UK Register***

- We recommend that the Government give serious consideration to ways of discouraging British owned ships from leaving the UK register and to means of guaranteeing, where appropriate, some level of crisis availability from those that do. [House of Commons Defence Committee Report "Heavy Lift", 1997]

### ***Coastal Shipping***

- Encourage the carriage of freight further inland by maritime rather than road transport and develop the use of the River Thames as a major transport artery. [Full Steam Ahead, Labour Party, 1993]
- To increase the proportion of tonne kilometres carried by water from 25% in 1993 to 30% by 2000, and at least maintain that share thereafter. [The 18th Report of the Royal Commission on Environmental Pollution, 1994]

### ***Maritime Labour***

- In our opinion the Government must play a full and constructive role in the EC EUROS initiatives by recognising that EC shipping needs protection against cheap non-EC labour. Every effort must be to ensure that no compromise be allowed on safety measures. [Employment Select Committee Report 1994]

## British shipping: Charting a new course

- Ensure that seafarers are fully protected by all relevant UK Employment law provisions, including Labour's proposed National Minimum Wage, in accordance with the European Social Charter. [Full Steam Ahead, Labour Party, 1993]
- Seek to ensure that foreign flag ships trading permanently in UK waters meet UK and EC employment standards. [Full Steam Ahead, Labour Party, 1993]

## **Annex D: Summary of the European Commission Maritime State Aid Guidelines**

### ***Objectives***

1. The European Commission's maritime state aid guidelines were designed to set the parameters within which state aid in the maritime sector would be approved. [Section 2]
2. The general objectives of such aid were defined as being:
  - to safeguard EC employment (both on board and ashore);
  - to preserve maritime know-how in the Community and develop maritime skills; and,
  - to improve safety. [Section 2.2]
3. To these ends, support measures for the maritime sector should aim primarily at reducing fiscal and other costs and burdens borne by EC shipowners and EC seafarers towards levels in line with world norms. [Section 3.2]

### ***Flag limitations***

4. Whilst state aid may generally be granted only in respect of ships entered in Member States' registers (which are defined to include Gibraltar), in certain exceptional cases this may be extended to other registers including the Red Ensign Group Category 1 registers of Bermuda, Cayman and the Isle of Man. Additionally, flag-neutral measures may be approved in certain exceptional cases where a benefit to the Community is clearly demonstrated. [Section 2.2]

### ***Fiscal treatment of shipowning companies***

5. Special measures taken by Member States to improve the fiscal climate for shipowning companies were endorsed on the basis that they had been shown to safeguard high quality employment in the economically important on-shore maritime sector. Such measures included accelerated depreciation on investment in ships or the right to reserve profits made on the sale of ships for a number of years on a tax-free basis (provided that these profits were reinvested in ships), and the replacement of the normal corporate tax system by a tonnage tax.
6. Fiscal alleviation schemes should, as a rule, require a link with a Community flag. However, they may also, exceptionally, be approved where they apply to the entire fleet operated by a shipowner company established within a Member State's territory liable to corporate tax, provided that it is demonstrated that the strategic and commercial management of all ships concerned is effectively carried out from within the territory and that this activity contributes substantially to economic activity and employment within the Community. The fiscal advantages provided must be restricted to a company's shipping activities. [Section 3.1]

### ***Labour-related costs***

7. While labour cost alleviation directed towards specific sectors is generally discouraged because of the risk of upsetting the proper functioning of the internal market (and thus detrimental to the competitiveness of Community industry and long-term job creation), the Commission accepted that maritime transport presented a special case. Aid supporting employment of skilled Community seafarers should not be discouraged on this basis.
8. Accordingly, aid in the field of social security and seafarers' income taxation, tending to reduce the burden borne by shipping companies without reducing the level of social security for the seafarers, should be allowed for EC shipping. A maximum reduction of such liabilities to zero (in line with world norms) may be permitted. However, no subsidy on the net wages of EC seafarers may be

granted as this might lead to a distortion of competitive conditions between Member States. [Section 3.2]

### ***Crew relief***

9. The cost of repatriation of EC seafarers working on board ships entered in Member States' registers may be reimbursed in full. [Section 4]

### ***Investment aid***

10. Investment for new ships must comply with Community legislation. In certain restricted circumstances aid may be given to improve safety and environmental standards of Community registered ships. [Section 5]

### ***Training***

11. Many training schemes followed by EC seafarers are not considered to be state aid because they are of a general nature (whether vocational or academic). Where they are so considered (eg on-board training with the benefit received by the training organisation, cadet, seafarer or shipowner) aid will be approved provided it meets the Commission's general criteria. Exceptionally, training onboard non-Community vessels may be supported where justified by objective criteria such as the lack of available places on vessels in a Member State's register.

12. Where financial contributions are paid for on-board training, the trainee may not, in principle, be an active member of the crew but must be supernumerary. This provision is to ensure that net wage subsidies cannot be paid for seafarers occupied in normal crewing activities. [Section 7]

### ***Limits to aid***

13. As with other state aids, maritime aids should not be at the expense of other Member States' economies and must not distort competition between Member States to an extent contrary to the common interest. They must be restricted to what is necessary to achieve the purpose and be granted in a transparent manner. [Section 2]

14. The total amount of aid in the form of direct payments under fiscal, labour-related, crew relief, investment and regional shipping aid measures should not exceed the total amount of taxes and social contributions collected from shipping activities and seafarers. [Section 10]

## **Annex E: Glossary of Terms**

### ***Registry***

**United Kingdom** - Great Britain and Northern Ireland.

**Crown Dependencies** - Isle of Man and the Channel Islands.

**UK Overseas Territories (in which British ships are registered)** - Anguilla, Bermuda, British Virgin Islands, Cayman Islands, Falkland Islands, Gibraltar, Montserrat, St Helena, Turks and Caicos Islands.

**Red Ensign Group (REG)** - The UK shipping register together with those of the UK Overseas Territories and the Crown Dependencies comprise the "Red Ensign Group". The UK represents the UKOT/CD registers at the International Maritime Organisation (IMO) and the UK Secretary of State for the Environment, Transport & the Regions has ultimate responsibility for ensuring that they comply with the international conventions which the UK has extended to them.

**Open registers** - Registers which have a loose interpretation of the link between a ship and the state whose flag it flies and which, accordingly, hold themselves "open" to ships from any country. Open registers (including "flags of convenience" - see below) are subject to the same international rules as all flag states. These registers may also offer beneficial tax arrangements. Standards of safety and environmental protection vary and are often subject to less rigorous control than under traditional national registers.

**Flags of convenience** - A colloquial term often used by ITF and others to refer to open registers where there is no effective national link between the flag state and the ships on its register.

**Flagging out** - Process of transferring the registration of a vessel from a national to an open register. This has taken place since the 1970s, but most notably during the mid 1980s.

### ***Units of measurement***

**Gross tonnage (gt)** - A measurement of the size of a ship based on the total volume of all the enclosed spaces in the ship.

**Deadweight tonnes (dwt)** - A measurement of the size of a ship based on the weight of cargo, stores, fuel, passengers and crew carried by the ship when loaded to her maximum summer loadline.

**Trading vessel** - Vessels which carry cargo or passengers for commercial purposes.

### ***Defence***

**Royal Fleet Auxiliary (RFA)** - The Ministry of Defence's in-house merchant fleet which supports UK defence objectives.

**Strategic Defence Review** - The Government's 1998 foreign policy-led strategic defence review which reassessed Britain's security interests and defence needs and consideration of how the roles, missions and capabilities of the Armed Forces should be adjusted to meet the new strategic realities.

### ***Organisations***

**International Maritime Organisation (IMO)** - The UN specialised agency dealing with maritime matters. It is principally concerned with the development of international technical standards - generally in the form of conventions to improve safety at sea and prevent pollution from ships.

**International Transport Workers Federation (ITF)** - An international alliance of more than 500 unions representing seafarers, dock workers and other transport workers throughout the world.

**Chamber of Shipping** - The trade association and employers' association for British shipowners and shipmanagers and for foreign owners with relevant UK links.

### *Sectors*

**Coastal shipping** - Vessels operating between two or more points of the United Kingdom.

**Short sea shipping** - Vessels operating between the United Kingdom and the Continent or the Republic of Ireland.

**Deep sea trades** - Vessels operating beyond or outside of Europe.

### *Safety*

**Flag state control** - The control which a state may exercise over vessels of its own nationality (on its register and flying its flag). It is the responsibility of each flag state to ensure that ships on its register comply with the international convention standards to which it is party; the IMO itself does not enforce conventions.

**Port state control** - International law allows the UK to check the safety standards of foreign ships calling at UK ports - this is known as port state control. Port state control has been conducted in Europe since 1982 on a voluntary basis; it became mandatory following adoption of a 1995 EC Directive. In the UK, the Maritime and Coastguard Agency (MCA) has a target to inspect between 25 and 30 per cent of foreign shipping visiting UK ports each year.

**Sub-standard shipping** - Sub-standard ships are those which do not comply with international safety and pollution prevention conventions. They pose a danger to the lives of seafarers and passengers who sail on them and are a threat to the marine environment.

**Classification Societies** - Independent organisations, staffed by marine surveyors, which develop and monitor standards of design, construction and maintenance for the assistance of shipowners and underwriters.

**STCW 95 (The Standard of Training, Certification and Watchkeeping Convention)** - The STCW Convention is the principal international treaty on the matters specified in its title and forms the basis of national standards worldwide. The 1995 revision ("STCW 95") established uniform standards of competence in particular maritime skills, and placed specific responsibilities on shipping companies for ensuring that the seafarers they employ meet minimum international standards of competence and undergo familiarisation on their ships. It also placed a requirement on governments to report to IMO on compliance with the revised Convention.

### *Training*

**Support for Maritime Training (SMarT) scheme** - The Government financial support scheme for merchant navy training, which began on 1 April 1998, to facilitate an adequate supply of UK maritime expertise to meet the UK's economic and strategic requirements.

**Certificate of Competency** - A certificate issued by a flag administration confirming that the holder has attained the level of competence required by national and international legislation for service in a certificated capacity on board a merchant or fishing vessel.

**Training berth** - A training placement on board a suitable vessel to accommodate the sea phases of an approved training programme.

**Vocational Qualification (VQ)** - A national competency-based qualification, developed by the Qualifications and Curriculum Authority, based on an assessment of practical skills and underpinning knowledge rather than on academic achievement.

**Merchant Navy Training Board** - A forum comprising the Maritime & Coastguard Agency, nautical colleges, seafarer trade unions, shipowners and other relevant organisations which determines broad seafaring competency requirements.

**General**

**Master** - Person having command of a ship.

**Officers** - Members of crew, other than the Master, holding a Certificate of Competency - including Deck and Engineer Officers.

**Ratings** - Non-officer crew, including deck, engineering and catering crew.

**Maritime London** - The cluster of maritime-related service industries concentrated in the City of London and including: arbitration, banking, broking, chartering, classification, consultancy, insurance, law, loss adjusting and protection and indemnity.

**Freight Facilities Grant** - UK government grants designed to encourage companies to take heavy lorries off roads by helping them to invest in rail or inland waterways freight facilities.

**Offshore employment contracts** - The recent phenomenon of shipping companies transferring their employees' employment contracts to offshore companies, primarily to avoid paying employers' National Insurance contributions.