



House of Commons  
Transport Committee

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**Tonnage Tax**

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**Second Report of Session 2004–05**

*Report, together with formal minutes, oral and written evidence*

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## The Transport Committee

The Transport Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Transport and its associated public bodies.

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## Summary

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The United Kingdom is a maritime nation; 95% of our trade by tonnage arrives or leaves by sea. The shipping sector contributes over £1 billion per annum in overseas earnings. In addition, shipping supports significant land-based activities: London is the world's most important maritime services centre, contributing another £1 billion per annum to the balance of payments. Maintaining the UK's prominence in world shipping depends on having a sizeable merchant fleet and trained personnel both for the merchant navy and for the shore-based maritime industries that depend on people who have had experience of working at sea.

Tonnage tax was introduced in 2000 to try and achieve both these aims: to boost the UK fleet and to increase the training of seafarers. It has considerably increased the UK registered merchant fleet and the training commitment in tonnage tax has led to an increase in the number of cadets. The Committee welcomes this success. But tonnage tax has not created the number of jobs for UK seafarers that had been expected, and there are fears that too few officers are moving from training to employment to meet Britain's future needs.

The Treasury and Department of Transport have recently published a review of the tax regime, which proposes measures which are likely to be taken forward in this year's Finance Bill. The Committee welcomes the attempts by the Government to ensure that legislative changes required by the revised EU maritime state aid guidelines do not lessen the effectiveness of tonnage tax. But the more difficult questions about training and employment have been remitted for consideration by a sub-group of the Shipping Task Force. This must not be an excuse for indefinite delay. We recognise that the first intake of cadets is only now reaching the end of initial training and that ideally further changes to the regime should be reached through consensus. However it is clear that shipping companies have gained real benefits from the tonnage tax regime; we believe it should be possible to extend its role in ensuring the United Kingdom has the trained seafarers it needs. It is reasonable to seek an opinion from the Shipping Task Force, but there should be a deadline for its work. The Government should be prepared to take difficult decisions once that work has been done.



# 1 Introduction

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1. The UK is a maritime nation but it is extremely easy to forget it: 95% of our trade is carried by sea and the shipping sector contributes more than £1 billion to the economy. But it is not just about shipping. A recent survey conducted on behalf of Maritime London, the promotional body for London's maritime services industry, found that London remains the global centre of the maritime services industry.<sup>1</sup> It identified 1,750 companies or organisations participating in maritime activities in London.

2. The long term decline of the shipping industry was accordingly a real threat to our prosperity. Tonnage tax was introduced in the Finance Act 2000 to try and revive the UK shipping industry and increase the number of UK-based seafarers. It is an alternative tax regime for shipping companies; rather than paying corporation tax on the actual commercial profits made in the year, a notional profit is computed on the basis of the number and size of the ships operated.

3. The new tax regime had widespread support. In May 1999, our predecessor committee, the Transport sub-committee of the Environment, Transport and Regional Affairs Select Committee, recommended the introduction of a tonnage tax with measures to boost the training of British seafarers, in the report of its inquiry into the future of UK shipping.<sup>2</sup> It was introduced following this report, recommendations of the Shipping Working Group, (a forum which contained representatives from the industry, trade unions and Government), and an inquiry into tonnage tax, conducted by Lord Alexander.<sup>3</sup>

4. As four years had elapsed since the introduction of tonnage tax the Committee decided that it was timely to examine the effect of the regime on the UK shipping register and the training and employment of UK-based seafarers.

5. On 23 June 2004 we took oral evidence from the Chamber of Shipping, the National Union of Marine Aviation and Shipping Transport Officers (NUMAST), the National Union of Rail, Maritime and Transport Workers (RMT), David Jamieson MP, Parliamentary Under-Secretary of State for Transport, the Department for Transport. (DfT), Ms Theresa Crossley, Divisional Manager, Shipping Policy, Department for Transport and Mr Philip Donlan, Business Tax Group, International Division, Inland Revenue. We also received 8 written memoranda of evidence. We are grateful to our Specialist Adviser, Professor James McConville, and all our witnesses for their help.

6. The key features of the tonnage tax regime introduced in the Finance Act 2000 were the following:

- *Eligibility:* Qualifying ships must be seagoing and of at least 100 gross tons. Companies must be strategically and commercially managed within the UK.

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1 Maritime London, Fisher Associates, *The Future of London's Maritime Services Cluster: A Call for Action*, August 2004

2 Environment, Transport and Regional Affairs Committee Twelfth Report 1998-99, *The Future of the UK Shipping Industry*, 1998-99 HC 172-i para 78

3 *The Shipping Working Group set up in 1997*; Lord Alexander of Weedon QC, Independent inquiry into tonnage tax, August 1999, Library deposited paper 99/1555

- *Option to elect*: Companies can choose to participate or remain in the standard corporation tax regime.
- *Window of entry*: Elections to join the regime had to be made within 12 months of Royal Assent to the Finance Act 2000.
- *10 year election*: Companies are normally expected to remain in the regime for at least 10 years.
- *Exiting the regime*: Companies are discouraged from leaving the regime before their election expires.
- *Flag neutrality*: Ships in tonnage tax do not have to be on the register of an EU member state.
- *Training*: Companies in tonnage tax have a training obligation for cadets of UK or EEA nationality ordinarily resident in the UK.
- *Employment*: Participating companies have to give consideration to employment and training opportunities for ratings.

7. When the new tax regime was introduced, the Government promised to review its effectiveness. The Treasury and the Department for Transport announced a joint review of the tonnage tax towards the end of 2002. Shortly after announcing the review the Government became aware that the EU maritime state aid guidelines were likely to be changed. When we took evidence we were told that the review was not expected until mid 2005, and was likely to be completed in stages.<sup>4</sup> It was, in fact, completed and published in December 2004.<sup>5</sup> It is hard to castigate the Government for completing its work ahead of schedule, but this inability to estimate the time needed for the review has been unhelpful.

8. The review considered the costs and benefits of the regime, the technical functioning of the regime, and the future of the regime, taking into account the new state aid guidelines.<sup>6</sup> The review proposes changes to the regime in response to new EU guidelines on state aid, which the Government intends to bring forward in the Finance Bill later this year. It also considers changes to the training requirement, including the possibility of introducing a requirement to employ cadets after their initial qualification. However, the Government makes no proposals for any such change and has asked the Shipping Task Force to consider the issue further.

## The decline of the UK shipping industry

9. The steady decline of the UK shipping industry had been a source of concern long before the *Independent inquiry into tonnage tax*. The decline was highlighted in a series of reports in the late 1980s and 1990s warning of the adverse effects of the forecast demise of the

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4 Q 199

5 Inland Revenue, Department for Transport, *Post Implementation Review of Tonnage Tax: A Report by the Inland Revenue and Department for Transport*, December 2004

6 Ibid.



shipping industry and the loss of skilled UK seafarers.<sup>7</sup> Over the years former governments introduced measures to assist the shipping industry:

- *Wage cost support*: Foreign earnings deduction for seafarers in the 1970s provided tax relief to seafarers working mainly overseas.
- *Training support*: The government assistance for training (GAFT) scheme was introduced in 1988 and the Development of Certificated Seafarers (DOCS) scheme was introduced in 1993. These two schemes together were superseded by the Support for Maritime Training (SMarT) scheme in 1998/99.
- *Investment incentive*: Roll-over tax relief, introduced in 1994, helped ship owners replace ageing tonnage.

Other deregulatory measures were taken including the reorganisation of pilotage and the rewriting of much secondary shipping legislation in a more accessible format.

10. Although these measures slowed the decline of the UK fleet they were insufficient to maintain a stable pool of UK seafarers or to arrest the trend to flag out to low cost shipping registers. In 1997 the new Government set up a Shipping Working Group to examine ways to arrest this decline and promote UK shipping. The Government drew on the report of this group for its December 1998 shipping White Paper, *British Shipping: Charting a new course*.

11. The White Paper summarised the decline of the UK shipping industry. It made grim reading. The size of the UK-owned trading fleet, of vessels of over 500 gross tonnes, had fallen from a peak of 50.8 million tonnes deadweight (dwt) in 1975 to 10.8 million dwt in 1997. The proportion of the UK-owned trading fleet registered in the UK was only 20%: until the 1970s it had been almost unknown for UK-owned ships to be registered outside the UK. Between 1980 and 1997 the number of British officers and ratings had fallen by 78% and 65% respectively.

## The need for UK shipping and UK-based officers

12. The White Paper was clear that the UK needed its shipping industry and associated maritime skills for a number of reasons:

- trade;
- the sustainable environment which sea transport offered;
- national security; and
- support for the UK's leadership in many associated international businesses.

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<sup>7</sup> Transport Committee First Report 1987-88, *Decline in the UK-Registered Merchant Fleet*, HC 303; Employment Committee Third Report 1992-93, *The Future of Maritime Skills and Employment in the UK*, HC 924; Defence Committee Sixth Report 1994-95, *Defence Use of Civilian Transport Assets and Personnel*, HC 86; Cardiff University, *A study of the UK economy's requirements for people with experience of working at sea*, July 1996 Library Deposited Paper No 3867(3s)

13. It was not simply that the United Kingdom needed a merchant fleet; shore-based industries also needed personnel with skills acquired through training at sea in the merchant navy.<sup>8</sup> Neither third-party training nor the employment of foreign ex-seafarers was considered likely to offset the shortage of British seafarers to fill the shore-based jobs in the UK maritime-related sector which needed seafaring experience. The shortage of maritime skills was expected to be particularly damaging to London's standing as a centre for marine insurance, protection and indemnity; ship broking; ship classification; and maritime law and arbitration.

### Costs to the Treasury and benefits to ship owners

14. Lord Alexander said that “the tonnage rate is generally set so that notional profits, and hence actual corporation tax paid, are minimal.”<sup>9</sup> As tonnage tax is optional a shipping company or group could choose to remain within the normal corporation tax regime or elect into tonnage tax, depending on which best suited its interests. According to Trinity House, the value to a ship owner of tonnage tax compared to the alternative fiscal regime is impossible to assess.<sup>10</sup> The tax circumstances of tonnage tax companies vary considerably and in the case of multi-national companies may be spread over several countries. However they were of the opinion that the impressive number of ships entered into the tonnage tax regime indicated a significant financial benefit to the ship owner.

15. The Treasury Review gave the latest estimates of the Exchequer cost of tonnage tax as follows:<sup>11</sup>

	<b>£m</b>
2000–01 (Actual)	4.5
2001–02 (Actual)	37.8
2002–03 (Actual)	9.1
2003–04 (Actual)	10.0

The estimates compare the actual corporation tax yield under tonnage tax with an estimate of the tax yield which would have arisen had the tonnage tax not been introduced. We were assured by Mr Philip Donlan, Business Tax Group, International Division, Inland Revenue, that the costs of the scheme to the Inland Revenue were as anticipated when it was introduced.<sup>12</sup>

16. The Chamber of Shipping said that an assessment of the impact on UK shipping turnover and the balance of payments was not yet possible as up-to-date figures were not

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8 *UK's Requirements for People with Experience of Working at Sea*, The University of Wales, 1996.

9 *Independent Inquiry into tonnage tax*, para 27

10 Ev 37

11 para 9

12 Q 201

yet available.<sup>13</sup> But there had been benefits to “corporate UK” in the form of enhanced shore-based establishments of existing UK shipping companies and new offices opened up by companies coming into the UK. David Jamieson MP, Parliamentary Under-Secretary of State for Transport, the Department for Transport. (DfT), also emphasised the benefits of having shipping companies based in the UK, but was unable to put a value on it:

“Those companies will then have a predisposition generally to buy British, if you like, to be buying the other services within the United Kingdom, but that is very difficult to put a yardstick against. The general feeling is that in fact in cost terms it has been very beneficial.”<sup>14</sup>

17. The consensus is that the tonnage tax has helped shipping companies: the challenge is to ensure that changes to the regime bring the widest benefits possible to the United Kingdom as a whole.

### Implications of revised EU maritime state aid guidelines

18. 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. Tonnage tax schemes require EU state aid approval because they are schemes for financial intervention in a single, commercial market. The United Kingdom scheme was approved in July 2000 under the EU maritime state aid guidelines published in 1997. The Commission published revised maritime state aid guidelines in January 2004 with which EU Member States have to comply by 30 June 2005. Mr Donlan thought that the Government would only have to “tinker at the margins” of the tonnage tax as a result of the new guidelines.<sup>15</sup> However the revised guidelines make two changes which have a direct bearing on the UK tonnage tax scheme; the strengthening of the flag link and changes to the eligibility of certain vessels.

19. The Regulatory Impact Assessment suggested there were two possible approaches to the revised guidelines.<sup>16</sup> The first option was to introduce the minimum changes needed to comply with the revised guidelines:

- Excluding port towage activities from the scope of the tonnage tax regime;
- Ensuring that companies maintain the proportion of their fleet under the EU flag;
- Requiring companies operating non EU flagged ships in tonnage tax to provide evidence of compliance with Community and international standards of health, safety and the environment, or working conditions.

20. The second would combine changes required to comply with the new guidelines with other alterations to the regime, including the extension of tonnage tax to include aggregate carriers and North Sea specialist vessels. Option 1 would generate a tax yield for the Exchequer of £5 million after three years. Option 2 would have benefits to shipping

13 Ev 43

14 Q 202

15 Q 163

16 Regulatory Impact Assessment (RIA), *Tonnage Tax – Implementation of revised Community guidelines on State aid to maritime transport* (2004/C 13/03), December 2004, para 9

companies entering tonnage tax for the first time arising from a reduction of tax (matching a cost to the Exchequer) of £5 million per annum. The Government proposes to pursue Option 2. It is however regrettable that the RIA asserts that Option 2 could deliver more social benefits by suggesting that the inclusion of dredgers and North Sea vessels would lead to more cadet training. This benefit is likely to be marginal given that these sectors already offer substantial employment to UK officers and ratings.<sup>17</sup>

## Flag neutrality

21. The UK currently has a derogation from the general principle that a ship operator granted state aid should be linked to the EU flag.<sup>18</sup> The new state aid guidelines impose conditions on retaining any state aid scheme which is not linked to EU flagging.<sup>19</sup> We heard that the new guidelines were likely to impose conditions of monitoring and a commitment not to exceed the current proportions of ships in the tonnage tax regime which are not flagged in the EU.<sup>20</sup> The Treasury Review outlined the circumstances under which a link will be required with a flag of a member state in new legislation:

With effect from the financial year starting on 1 April 2006, when a shipping operator within the tonnage tax adds a vessel to its fleet, that vessel must be flagged as a vessel of a Member State if all of the following conditions are met for tonnage tax benefits to be granted to that vessel:

- The financial year must be specified as a period when the flagging requirements apply. The Government will specify a financial year if, in the preceding three calendar years, the proportion of vessels within the tonnage tax regime registered in any EU Member State has reduced.
- Less than 60 per cent of the tonnage of the operator's fleet is already flagged under a Member State register.
- The operator's fleet contains a lower proportion of EU Member State registered tonnage than during the first period when it entered tonnage tax.<sup>21</sup>

The Government assumed that the UK derogation on flagging would remain in place for the next six years until the end of the initial ten year tonnage tax regime, because the state aid guidelines were not due to be reviewed again for another six years.<sup>22</sup>

## Aggregate carriers

22. Aggregate carriers were excluded from the original tonnage tax regime because the EU state aid guidelines for maritime transport did not allow them to be included; the new guidelines allow for their inclusion. The Department for Transport told us that the Inland

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17 Ev 45

18 Q 165

19 Q 164

20 Ibid.

21 *Post Implementation Review of Tonnage Tax*, para 44

22 Qq 166, 167

Revenue would be advising Ministers on measures that would be needed to bring such vessels into tonnage tax.<sup>23</sup> The review confirmed that the Government will introduce legislation to allow self-propelled dredgers, possessing their own cargo hold and transporting extracted materials at sea, to be included in tonnage tax from 1 July 2005.<sup>24</sup> These vessels however must be flagged in an EU member state.<sup>25</sup>

## Offshore specialist vessels

23. Currently offshore specialist vessels such as emergency response and rescue vessels, seismic survey and diving vessels are excluded from tonnage tax. The Government has received representations supporting the inclusion of these vessels in the regime. Mr Donlan said that the Inland Revenue was doing additional research into the costs and benefits of bringing these vessels into the tonnage tax regime.<sup>26</sup> The sector represents about 100 ships.<sup>27</sup> The majority of these ships are already on the UK register but are not able to benefit from the competitive advantages of the tonnage tax regime. The Committee was told that this sector offered a high level of employment to UK officers and ratings.<sup>28</sup> The Treasury Review states that the Government is persuaded that there is a case for relaxing the current restrictions imposed on ships operating within the North Sea oil sector from entering the tonnage tax regime. The Government intends therefore to legislate to allow emergency response and rescue vessels, and a number of multi-function vessels to enter tonnage tax.

**24. It would be possible to bring the tonnage tax regime into compliance with the new state aid guidelines by making only minimal changes, which would benefit the Exchequer. It would be wrong to do so. We support the Government's approach, which will allow a wider range of vessels to qualify for the regime, and look forward to the inclusion of these changes in the next Finance Bill.**

## Tugs

25. As the result of a case in the European Court of Justice, the new EU maritime state aid guidelines provide that tugs will only be allowed to enter tonnage tax if more than 50% of their towage activity during a given year constitutes 'maritime transport'.<sup>29</sup> Seagoing harbour tugs can therefore no longer be included in such schemes. This is a blow for some one hundred tugs which are operating within UK tonnage tax. They are nearly all on the UK register, have all-UK crews and about 60 cadets in training.<sup>30</sup> The British Tugowners Association (BTA) is afraid that there will be a reduction in training places and that some

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23 Ev 61

24 *Post Implementation Review of Tonnage Tax*, para 53

25 *Ibid.* para 20

26 Q 160

27 Q 159

28 Ev 45

29 Ev 61

30 Ev 62

of the tugs currently under tonnage tax will explore alternative economies in the operation of the fleet, such as flagging out.<sup>31</sup>

26. The BTA has been assured that the Government will seek legislative changes that will minimise damage to the industry. The Government has recognised that “there needs to be fair and appropriate arrangements for operators within tonnage tax that will be affected by the new rules for towage”.<sup>32</sup> **We welcome the Government’s decision to ensure that the penalty for early exits from tonnage tax does not apply to tug operators who no longer qualify for inclusion in the tax.**

## Government support for shipping

27. It emerged during the evidence that some EU countries offer different support to their shipping industry within the state aid guidelines. For example it was suggested that some member states reduced national insurance contributions for seafarers.<sup>33</sup> We were told that in the Netherlands most of the training for the shipping industry took place within the state system.<sup>34</sup>

28. **We were surprised that the Inland Revenue had not investigated how other Member States interpreted the state aid guidelines to provide support to their shipping industries<sup>35</sup> and that it had not carried out such an investigation during the course of the review. We recommend it does so now.**

29. The Chamber of Shipping pointed out that the Government had not implemented or developed the “central issues” relating to seafarers’ employment costs put to it jointly by the Chamber, NUMAST and RMT in the late 1990s.<sup>36</sup> We understand from NUMAST that these include the introduction of an employment grant in the short sea sector and simplification of the seafarers’ foreign earnings deduction scheme.<sup>37</sup> We were told that some shipping companies lose all their cadets, once trained, because they go into the deep sea sector to take advantage of the foreign earnings deduction scheme.<sup>38</sup> **Our predecessor Committee recommended in 1999 that the Government should consider as a matter of urgency “how to end the anomaly concerning the non-application of Foreign Earnings Deduction to British seafarers engaged in the short-sea and coastal trades”.<sup>39</sup> It is vital that the UK maximises its support for the shipping industry within EU rules.**

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31 Ibid.

32 *Post Implementation Review of Tonnage Tax*, para 52

33 Q 177

34 Q 70

35 Q 171

36 Ev 44

37 Ev 31

38 Ev 44

39 Environment, Transport and Regional Affairs Committee Twelfth Report 1998-99, *The Future of the UK Shipping Industry*, 1998-99 HC 172-i para 86

## 2 Effect of tonnage tax on the UK shipping register and the UK-owned fleet

30. There was agreement among all parts of the shipping industry that the Government's maritime policies had had a welcome impact in reversing what seemed to be the terminal decline of the UK merchant fleet.<sup>40</sup> Mr Michael Parker, President of the Chamber of Shipping, said that the tonnage tax had attracted a lot of companies to "grow their businesses here or move into this country to set up operating bases to own and operate ships."<sup>41</sup> Mr Jamieson told us that although the tonnage tax was flag neutral, it had undoubtedly played a part in an increase in the UK merchant fleet as 53% of the tonnage tax vessels were on the UK register.<sup>42</sup>

31. Flag neutrality means that there is no requirement for ships in tonnage tax to be linked to any particular flag. However they must be 'strategically and commercially' managed in the UK. The Department for Transport explained that there is no standard guidance on the meaning of this term but that the Government adopts a common sense interpretation, "taking into account the various different strands of management activity that can be carried out in respect of a ship." Companies must demonstrate elements of both 'strategic' and 'commercial' types of UK-based management.<sup>43</sup>

32. The increase in the number of ships on the UK register since the introduction of the tonnage tax was illustrated by figures produced by the Chamber of Shipping. Table 1 shows that the number of trading vessels on the UK register increased by 54.9% between 1999 and 2003, from 379 to 587.<sup>44</sup> There was also a small increase in the number of UK-owned trading vessels of 5.2%, from 617 to 649.

Table 1

<b>Total trading fleet on UK Register (vessels of 100 gt and over)</b>				
	<b>End Year</b>	<b>Number</b>	<b>000 gt</b>	<b>000 dwt</b>
	<b>1999</b>	<b>379</b>	3,200	<b>2,740</b>
	<b>2000</b>	<b>417</b>	4,579	<b>3,757</b>
	<b>2001</b>	<b>427</b>	5,035	<b>4,269</b>
	<b>2002</b>	<b>497</b>	7,114	<b>6,686</b>
	<b>2003</b>	<b>587</b>	9,971	<b>9,830</b>
% change to 1999 to 2003		<b>54.9</b>	211.6	<b>258.8</b>

40 Ev 25, Ev 42, Ev 54

41 Q 37

42 Q 145

43 Ev 58

44 Ev 46

<b>Total UK-owned trading fleet (vessels of 100 gt and over)</b>				
	<b>End year</b>	<b>Number</b>	<b>000 gt</b>	<b>000 dwt</b>
	<b>1999</b>	<b>617</b>	6,530	<b>7,196</b>
	<b>2000</b>	<b>624</b>	8,536	<b>10,499</b>
	<b>2001</b>	<b>594</b>	9,480	<b>12,013</b>
	<b>2002</b>	<b>590</b>	9,752	<b>12,273</b>
	<b>2003</b>	<b>649</b>	12,654	<b>14,972</b>
% change 1999 to 2003		<b>5.2</b>	93.8	<b>108.1</b>

33. Dr Heather Leggate of the Centre for International Transport Management (CITM) at London Metropolitan University (LMU) provided figures for the number of ships entered into the tonnage tax scheme and the proportion of these on the UK register:<sup>45</sup>

**Table 2: Tonnage Tax Vessels 2000-2004**

<b>Year</b>	<b>No. of tonnage tax vessels</b>	<b>Of which UK Register</b>	<b>% UK Register</b>
2000-01	187		0%
2001-01	522	300	57%
2002-03	718	337	47%
2003-04	490	263	54%

*Note that the 2003-04 figures are based on returns from 49 out of the 64 companies registered in that year.*

Figures in the Treasury Review showed that by the end of September 2004 there were 816 ships in tonnage tax but did not identify the number of these on the UK register; although 57% were flagged either in the UK or another EU member state.<sup>46</sup>

34. The Chamber of Shipping acknowledged that the number of ships in the UK-owned fleet appeared to show only a small increase over this period; but it suggested that the increase in the number of ships might actually have been larger. The Register in Cardiff had reviewed all ships on the register over the last five years and removed a substantial number it found were no longer in operation, suggesting that the earlier figures were an overestimate.<sup>47</sup> Nevertheless as table 1 shows, the increase in deadweight tonnage (dwt) has been much larger than the increase in the number of ships; an increase of dwt of 258.8% on the UK register and an increase of 108.1% in UK owned dwt. Mr Parker explained that this was because new ships were much larger.<sup>48</sup> It should be pointed out that the basic criteria

45 Ev 33

46 *Post implementation Review of Tonnage Tax*, para 4

47 Ev 43

48 Q 79



for employment is number of vessels, as each trading vessel will employ similar crew numbers virtually regardless of the ship size (cruise vessels being the obvious exception). Larger ships do not have a correspondingly higher number of officers. This is significant in the context of the scope for cadet training, considered in chapter 3, because the number of cadet trainees is directly related to the numbers of officers in tonnage tax companies.

## Scope for increase in the tonnage tax fleet

### *Window of entry into tonnage tax*

35. Although elections to join the tonnage tax regime for already eligible companies or groups had to be made within 12 months of Royal Assent of the Finance Act 2000, shipping companies who only qualified later (such as foreign companies setting up in the UK or new start-up companies) could enter tonnage tax on qualification. The Government has decided that all shipping companies should be able to reassess whether they should elect into tonnage tax and intends to create a further window of opportunity for new elections into the regime. This opportunity is expected to be between 1 July 2005 and 31 March 2006.<sup>49</sup> **The draft clauses for the Finance Bill give the Treasury the power to make regulations prescribing periods within which companies may make an election to tonnage tax. We support this. The tonnage tax has been successful so far; there may well be scope for allowing further elections at some point after 2006.**

## Scope for increase in the UK register

36. Mr Parker was confident that the tonnage tax would continue to increase its impact as companies already in the tonnage tax regime would add further ships to their fleet.<sup>50</sup> He also thought that the proportion of the tonnage tax fleet on the UK register would grow as shipping companies were reassured about the usability of the British flag:

“A huge change has taken place in the last few years in parallel with the tonnage tax, which was part of the Government policy, and I think the fact that we have got 65 per cent now of the tonnage that is controlled in the UK, two-thirds effectively, on the British flag is actually a remarkably good achievement and I think that proportion will grow as people grow in confidence in the improvements that have been made with the British flag.”<sup>51</sup>

37. The Chamber of Shipping suggested that more could be done to increase the size of the fleet; it contended that there was a strong demand from couples to get married on board ship and that there should be legal recognition for marriages performed on ships registered in the UK.<sup>52</sup> Current legislation in England and Wales does not recognise marriages celebrated on board ship.<sup>53</sup> P&O has placed their Grand class ships, which were built with wedding chapels, on the Bermudan rather than the UK register because marriages on

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49 *Post Implementation Review of Tonnage Tax*, para 58

50 Q 78

51 Q 37

52 Ev 53

53 This contrasts with Scottish law which recognises a marriage performed on a ship moored in a Scottish port.

Bermudan registered ships are legally recognised. The Chamber thought that the ability to offer onboard weddings would also be of value to operators of shorter-haul ferries and locally-operating cruise boats. They were, however, unable to give an estimate of the number of ships which might be attracted to the UK register as a result of this change and we doubt that this would attract a significant number. Even though we are not convinced that legal recognition of marriages celebrated on United Kingdom ships would have a significant effect on the size of the register, we support a change in the law. **Couples now have more freedom to marry where they wish. It seems illogical to exclude ship board weddings from the general relaxation of the law relating to places of marriage and we recommend that such weddings should be legally recognised.**

### 3 Effect of tonnage tax on the training and employment of UK seafarers

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38. Although shipping companies have a tax incentive to enter tonnage tax, the UK tonnage tax regime carries with it a minimum training obligation on companies entering the scheme. Companies must recruit one cadet (officer trainee) per year for every 15 officer posts in the company's officer complement and give consideration to employment and training opportunities for ratings. To be eligible to count against the training commitment a trainee must be ordinarily resident in the UK and either a UK national, a national of another EEA State or a British citizen from the Channel Islands or the Isle of Man. The UK tonnage tax regime is unusual in imposing a minimum training obligation on companies entering the scheme.

39. The training commitment was adopted to try to ensure an increase in UK-based seafarers to meet both current needs at sea and future jobs onshore in the maritime services sector. Several of our witnesses emphasised the importance of the UK's maritime services sector and the associated demand for skilled former seafarers. NUMAST told us that the turnover of the UK's maritime services generates £1.1 billion in overseas earnings.<sup>54</sup> Former officers fill posts in areas such as classification societies, port services, marine insurance and law and maritime training. NUMAST drew our attention to the most recent report from the University of Wales on the demand for people with seafaring experience in the UK economy. This survey identified 15,700 jobs which employers would prefer to fill with former seafarers and of these, 8,800 jobs where employers consider it to be essential to employ former ships' officers.<sup>55</sup> Of these, some 6,650 are jobs currently filled by former UK merchant officers. The survey identified an annual shortfall of officers to fill shore-based jobs of between 65 and 112. Mr Michael Hassing, Chief Executive of Maersk Company, told us that London was a world-class maritime cluster and therefore needed a source of UK resident officers:

“95 per cent of our trade is going via water and maritime London is actually a world-class maritime cluster employing, I think, 450,000 people in the industry and we really need to have a source of British nationals with residence in Great Britain as

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54 Ev 29

55 *The UK economy's requirements for people with experience of working at sea*

officers, that is from the cadet programme to the junior officers and all the way up through the ranks, and that needs to be supported by the state.”<sup>56</sup>

The two highest ranked measures, which respondents to the Maritime London survey (see paragraph 1) thought would maintain London’s pre-eminence in the maritime services sector, related to skills and training:

- Greater attention to competence, skills and knowledge
- Promotion of maritime careers to attract young people

40. The shipping sector has in the past shouldered the burden for providing sea-going training, both for its own needs and the future needs of the shore-based maritime sector. This was recognised by the Shipping Working Group which recommended that a Maritime Training Trust (MTT) should be established and sponsored by the shore-based maritime sector (including the ports) to help secure the seafaring skills base on which their organisations depended. Maritime London provided figures for its contributions to the MTT for cadet training over the last five years:

Year	£
2000	98,000
2001	104,000
2002	103,000
2003	51,000
2004	83,000

41. Assuming the costs of training a cadet of £24,000 over three years, provided by Trinity House, this contribution will provide training for only around 11 cadets a year. Maritime London said in the introduction to the recent survey (see paragraph 1) that only 100 companies, out of the 1,750 companies estimated to be involved in the maritime services sector, are actually members of Maritime London. It is not surprising therefore that its contribution to the MTT is miserly. **The Committee considers that the shore-based maritime sector should do much more to support training for its future manpower requirements.**

### Number of cadets

42. The number of cadets entering training has increased significantly since the tonnage tax was introduced in 2000. This increase is illustrated by the table below provided by Dr David Glen of the Centre for International Transport Management (CITM) at London Metropolitan University (LMU).

Table 3 Summary of UK Seafarer numbers, 1997–2003

Calendar year	Cadets		Officers	Ratings	Total active seafarers
	Total in training	Annual intake	Actual	Total	
1997	1,130	450	17,620	10,860	29,610
1998	1,158	544	17,356	10,795	29,309
1999	1,127	425	15,897	11,409	28,085
2000	1,031	480	16,464	10,331	27,826
2001	1,086	468	14,395	9,707	25,188
2002	1,175	631	15,125	10,360	26,660
2003	1,045	603	17,126	10,037	28,208
Average		514			
% change (1997=100)	-7.52		-2.80	-7.58	-4.73

Source: Derived from UK Seafarers Analysis, 1997–2003

43. An annual intake of 600 however is however considerably lower than the annual intake of 1,000 which LMU estimates is needed to maintain officer numbers at their current level.<sup>57</sup> The latest projections for officer numbers to 2018, made in *UK Seafarers Analysis 2003*, were also presented to us by Dr Glen.<sup>58</sup> These assume a cadet entry rate of 600 per year and wastage rates of 8% cent per year during training and 6% per year during the ages of 20-30 as officers. Taking a retirement age of 65 years, UK officers numbers are predicted to decline from 17,126 in 2003 to 9,817 in 2018. With a more realistic retirement age of 57, numbers of UK officers would fall from 14,312 in 2003 to 6,650 in 2018.<sup>59</sup>

44. The Government itself agrees that this number of trainees is not enough. Mr Jamieson said:

“We do recognise that we are still short of the number of cadets that has been estimated as necessary to meet the current needs both at sea and on shore.”<sup>60</sup>

NUMAST said that cadet recruitment since the launch of the scheme had been disappointing. They told us that it had been recognised at the outset of tonnage tax that 1 in 15 was not a sufficient ratio to produce the number of cadets needed and the Chamber of Shipping had given a “best endeavours” commitment to achieve a total increase in cadet training numbers of 25% year on year.<sup>61</sup>

57 Q 98

58 Ev 40

59 These projections are for all certificated officers. An estimate of 9% was to allow for numbers of shore-based workers with STCW'95 certificates of competency

60 Q 145

61 Ev 26

### Capacity for trainees

45. NUMAST suspected that one reason why the annual intake of cadets had not increased to 1,000 or over was that some companies had actually reduced their training levels. They told us that there were many companies new to UK shipping entering the tonnage tax regime and training UK-based cadets for the first time. Simple arithmetic suggested that as the total number of cadets in training had not increased in direct proportion, this meant that other companies must have cut back on their cadet intake.<sup>62</sup> Some companies who previously used to train, for example, in the ratio 1 cadet for 10 officers might have reduced this to 1:15, the minimum required for the tonnage tax training commitment. NUMAST's contention was that they had done this in the belief that they would be able to poach newly qualified officers who had been trained by other tonnage tax companies who had no plans to employ them as junior officers when their training was completed. This contention may be supported by the fact that Trinity House will reduce its cadet scholarship scheme next year because it is finding it increasingly difficult to place newly trained cadets in junior officer berths.

46. If a company is not able to train enough cadets to meet its Core Training Commitment (CTC), it has to make Payments in Lieu of Training (PILOT) to the Maritime Training Trust (MTT). The MTT allocates the money received from PILOT to promote UK-based seafarer training. If a company has failed to achieve 50% of its CTC during a year, any PILOT payments during the next year are subject to a surcharge.<sup>63</sup> The tonnage tax training penalty currently stands at £7,000 per annum or £24,000 per cadet placement.<sup>64</sup>

47. Planned PILOT by tonnage tax companies, who cannot take on cadets, has to be approved by the Department for Transport. This is currently around 1-1½ per cent of the training months which tonnage tax companies should undertake under their training commitment.<sup>65</sup> However NUMAST told us that there was an unplanned PILOT rate of 16 per cent., which it attributes to the tonnage tax companies not replacing wastage.<sup>66</sup> The Chamber of Shipping explained that unplanned PILOT was caused by unexpected developments such as wastage or trainees leaving and the company having to wait for the next college course cycle to begin.<sup>67</sup>

48. It is clear that the shortage of trainees is not due to the shortage of funds. The funds paid into the MTT are supposed to be used for training which cannot be or is not being provided by certain shipping companies. Trinity House told us that there was more than £10 million in the MTT fund and that the trustees of the MTT were finding it difficult to find genuine outlets for the fund under current rules.<sup>68</sup>

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62 Q 130

63 Ev 59

64 Ev 38

65 Ev 43

66 Q130

67 Ev 43

68 Ev 38

49. We are extremely concerned that the level of unplanned payments in lieu of training suggests a high drop out rate among cadets. DfT must establish some hard facts about the training carried out by tonnage tax companies. We need to know:

- The effect of tonnage tax on the number of trainees on UK registered vessels;
- What proportion of tonnage tax funded cadets really do fail to complete their training;
- The reasons why cadets fail to complete training;
- How the MTT fund can be used most effectively.

### Employment of UK officers

50. Figures submitted by Dr Leggate show that the proportion of UK officers employed on tonnage tax ships has declined since 2001-01 despite a large overall increase in the employment of officers generally.<sup>69</sup>

Table 4: Seafarers employed on tonnage tax vessels

Year	UK	Other EEA	Other	Total	UK	Other EEA	Other	Total
2000-01	896	40	187	1,123	449	19	455	923
2001-02	3,204	212	1,201	4,617	1,681	176	2,909	4,766
2002-03	2,858	533	1,444	4,835	1,977	632	3,578	6,187
2003-04	2,265	490	2,589	5,343	1,870	263	3,858	5,991

The figures in table 4, based on DfT analyses of the crews of tonnage tax ships, do not differentiate between UK-registered and other flag ships and do not break down figures by rank and nationality. The only available data on the nationalities of the officer corps of UK-flagged ships is drawn from the 2002 global survey of crew composition by the Seafarers International Research Centre (SIRC) at Cardiff University.<sup>70</sup> The 2002 analysis found that only 48% of officers aboard UK-flag ships are of British nationality. While some 70% of masters on British-registered ships are UK nationals, the proportion falls to 54% for chief engineer officers, 37% for chief officers and less than 33% for second officers. NUMAST said that the increasing use of foreign nationals as junior officers on ships that used to have 100% UK officer manning was illustrated by the numbers of Certificates of Equivalent Competency (CECs)<sup>71</sup> issued by the MCA. They told us that these rose from 37 in 1997 to more than 2,000 in 2002.<sup>72</sup>

69 Ev 34

70 Ev 27

71 Under the 1978 Standards of Training, Certification and Watchkeeping Convention, as amended, Flag States are required to endorse third party Certificates of Competency (CoC) of officers serving onboard their ships. The UK does this by issuing Certificates of Equivalent Competency (CEC) to those officers whose certificates are issued by administrations that have been inspected and approved by the UK.

72 Ev 27

51. The Chamber of Shipping told us that the cost premium represented by the employment of British crews is likely to represent an additional 15-20%. This was supported by the following table of comparative wage costs, which they provided:<sup>73</sup>

**Comparative wage costs (US\$ per month) 2003**

	<b>Complement</b>	<b>US\$ per month</b>
British Officers/Filipino Ratings	9/10	78,000
Chinese Officers/Ratings	9/10	37,000
Indian Officers/Ratings	9/9	47,000
Filipino Officers/Ratings	9/9	47,000
Polish Officers/Ratings	9/9	48,000

Source : *Precious Associates*

### **Employment of UK junior officers**

52. Although there is agreement that the current intake of cadets is not enough to replace the cadre of retiring UK officers, there is some anecdotal evidence that the system cannot cope with the number of junior officers that the tonnage tax regime is producing. The reaction of some shipping companies in reducing their training levels may be a logical reaction to the fact that there are not enough junior officer posts at UK rates of pay for cadets at the end of their training.

53. Reports in the media on the difficulties British junior officers had in finding employment had prompted Trinity House to seek information from Clyde Marine, the UK's largest training company and recruiter for the industry.<sup>74</sup> Clyde Marine reported that over a three year period an average of 60 to 80 junior officer positions which they were required to fill had fallen to no junior officer posts today. Trinity House thought that the problem for junior officers would increase as it was only now that the first generation of 'tonnage tax' cadets was obtaining its professional certificates. The extra costs described above seem to contribute to the difficulty. Clyde Marine had told Trinity House that shipping companies could employ a Third Officer from Eastern Europe or the Pacific Rim at a salary of £13,000 per annum compared with a UK rate of £21,000.

54. NUMAST acknowledged that there were examples of 'best practice operators' who were making a commitment to long-term training and employment for UK-based officers. Both Mr Maurice Storey, Chief Executive of Hatsu Marine Limited, and Mr Hassing, said that their companies planned to employ all the cadets they had trained.<sup>75</sup> Mr Parker told us that "some cadets will move of their own volition from one employer to another. One employer may be able to offer all the jobs that he has got cadets for, but others have a deficit."<sup>76</sup> But he admitted to a lack of information on what was happening to cadets:

"We need to measure whether this flow of cadets which is now starting to come through the training system because of tonnage tax, to see if it is actually working out as we think it is. That is why we have agreed in principle with NUMAST to have this

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73 Ev 48

74 Ev 37

75 Q 52

76 Q 40

study. So we would like some facts before we start planning whether there should be any further changes or modifications.”<sup>77</sup>

55. Just as there is a lack of data on training, there is a lack of data on the employment of UK-based junior officers. NUMAST and the Chamber of Shipping have agreed to start a research project on the employment prospects of newly trained cadets. The DfT admitted that although the training commitment of tonnage tax companies is monitored, the employment of cadets after they have completed training is not monitored.<sup>78</sup> They told us in June that the Shipping Task Force would be looking into this over the next few months.. **The Government was responsible for introducing the tonnage tax scheme and including a commitment to training. It must now monitor the effectiveness of this link in ensuring that the UK has the skills it needs. It cannot delegate responsibility for commissioning such research to others. The first tonnage tax cadets are just completing their training. The DfT must, as a matter of urgency, put in place mechanisms to find out how they are employed once trained.**

### An employment link?

56. NUMAST, RMT, Trinity House and Dr Heather Leggate, all favoured the introduction of some kind of employment obligation for companies participating in the tonnage tax regime. Trinity House told us that with the benefit of hindsight there should have been a requirement for a ship owner to continue training from first qualifying certificate level to senior certificate level.<sup>79</sup> Dr Leggate said that:

“If the legislation is seriously aimed at the increase in UK based seafarers, there is clearly a case for establishing a method whereby these cadets are able to secure stable employment within the UK fleet.”<sup>80</sup>

NUMAST stressed that this employment obligation should be aimed at those tonnage tax companies that do not employ any UK officers at all.

57. The Chamber of Shipping is strongly opposed to an employment obligation, foreseeing the removal of a substantial number of fleets from the UK flag and companies from the UK as a base: although it is not against trying to find a remedy of a voluntary nature.<sup>81</sup> Mr Jamieson voiced the Government’s concern about companies leaving the UK register if any financial penalties for ship owners were introduced when he said that ship owners could move from one flag to another in 15 minutes if they wanted to.<sup>82</sup> The recent Treasury Review states that:

Ministers have agreed that consideration of proposals to improve the employment environment, including the possibility of including a mandatory employment link,

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77 Ibid.

78 Ev 61

79 Ev 36

80 Ev 35

81 Ev 45

82 Q 184



should be taken forward by a sub group of the Shipping Task Force and have agreed expanded Terms of Reference for the group to facilitate this.<sup>83</sup>

58. Trinity House contended that it would be difficult for the Government to introduce legislation to introduce an employment link into the tonnage tax three years into the arrangement without the consent of tonnage tax companies.<sup>84</sup> **The Committee agrees that the Government should not unilaterally alter the terms of the tonnage tax, which is a ten year contract. Nonetheless, it should be possible to make changes as new companies come into the regime.**

59. Trinity House outlined a possible approach by which an employment link could be introduced without a financial penalty for the tonnage tax company.<sup>85</sup> They suggested that the training obligation under tonnage tax rules could be reduced temporarily to say one cadet per 30 officers in a tonnage tax company. This cost saving to a ship owner could be paid into a compensation fund to that ship owner to employ a junior officer at UK rates. Trinity House pointed out that the cost to a ship owner of training a cadet is about £24,000 over three years, when Government assistance towards training costs is taken into account. £24,000 would fund the difference between employing a UK-based junior officer instead of an East European or Pacific Rim national for three years at £8,000 (£21,000 - £13,000) per annum. This would bring junior officers up to Chief Mate or second Engineer certification.

60. At senior officer level UK and EEA nationals are able to compete in the international market place.<sup>86</sup> There is ample evidence of a worldwide shortage of senior officers. NUMAST quoted the most recent interim BIMCO<sup>87</sup>/International Shipping Federation (ISF) survey which estimated a shortfall of 16,000 officers in 2003. In the same survey 83% of ISF members reported serious or moderate shortages in the current supply of officers.<sup>88</sup>

61. Mr Jamieson indicated that the Government was sympathetic to the idea of an employment link:

“Speaking from the heart, if you like, I am attracted to that idea, the idea that we personally put the link in, we have the training there, and then I would like to see those people then employed aboard the ships, but we have to tread extremely carefully.”<sup>89</sup>

**62. The Committee believes that it should not be beyond the industry and Government to devise an employment link which is acceptable to both sides. If it becomes apparent that tonnage tax companies are not offering positions as junior officers to their cadets we recommend that the Government consider refining the scheme so that participation in the tonnage tax regime is linked to providing employment and training to higher certificate level. The surplus in the training funds suggest that this could be done in a**

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83 para 42

84 Ev 38

85 Ibid.

86 Ev 33

87 the world's largest international shipping association with 2,500 members in 123 countries

88 Ev 30

89 Q 227

**way which imposes no extra costs to the shipping industry, but we should not forget that tonnage tax offers real financial advantages to shipping companies.**

## Ratings

63. Although the tonnage tax regime includes a Minimum Training Commitment for ratings, it was difficult to establish what precisely this involved. Mr Jamieson told us that “there is the sort of best endeavours the companies have to show to employ ratings and that is checked on a regular basis whether they are taking on those best endeavours”.<sup>90</sup> Ms Theresa Crossley, Divisional Manager, Shipping Policy, Department for Transport, explained best endeavours as follows:

“Every year the companies under tonnage tax have to make a return to provide evidence that they have considered at least one of four particular things, which are to employ more British or EEA ratings, to employ more highly trained British or EEA ratings in some technical posts, to recruit British or EEA ratings in a planned stream towards officer qualifications and to assist existing British or EEA ratings to advance towards officer qualifications and posts, and they are obliged to make a return to the Department annually to provide some sort of evidence that they are positively considering those.”<sup>91</sup>

64. The Chamber of Shipping told us that £600,000 had been allocated by the Maritime Training Trust to the John Slater fund for the training of ratings on ratings-to-officer conversion courses.<sup>92</sup> The RMT accepts that tonnage tax has generated opportunities for those who wish to train to become officers,<sup>93</sup> but considers that the other three routes towards increasing the employment of ratings have been largely ignored by the companies entering the tonnage tax regime.

65. There is little training taking place to replenish the existing ratings complement. The RMT said that figures disclosed at the Shipping Task Force indicated that some 50 new ratings were currently being trained every year.<sup>94</sup> That is fewer than the 200 which the Chamber of Shipping had told them were being trained annually at the time of discussions on the tonnage tax.

66. There was some disagreement about the effects of tonnage tax on the employment of ratings. RMT told us that the tonnage tax had not produced any jobs at all for ratings.<sup>95</sup> The Chamber of Shipping said that many UK ratings were still employed in the ferry and short sea sectors; but the RMT pointed out that 350 jobs for UK ratings had been lost on the Dover short sea routes and that jobs for UK ratings were being lost in the Irish and North Seas.<sup>96</sup> The number of UK ratings fell by nearly 8% between 1997 and 2003 (see Table 3 in

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90 Q 206

91 Q 208

92 Ev 49

93 Ev 56

94 Ibid.

95 Q 99

96 Q100

paragraph 42); we conclude that “best endeavours” to increase the number of ratings in employment seems to have been a largely meaningless exercise.

67. The RMT also complained about the lack of information on ratings’ employment arising from the tonnage tax and the fact that it was never reported at meetings of the Shipping Task Force.<sup>97</sup> **We welcome the decision by the DfT to publish a comprehensive annual list of the number of active UK seafarers.**<sup>98</sup>

68. **We welcome the Government’s decision to include the consideration of proposals for a training commitment for ratings in the expanded Terms of Reference of the Shipping Task Force.**<sup>99</sup> **The Committee considers that there is a pressing need for information on what companies in the tonnage tax regime are doing to honour their commitment to ratings. Without this it is difficult to disagree with the RMT conclusion that “the vague commitments to review the numbers of ratings employed and employ more highly trained ratings in technical posts has unfortunately amounted to virtually nothing in terms of industry commitment.”**<sup>100</sup>

## 4 Conclusion

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69. The tonnage tax regime has led to an increase in the number of ships on the UK register and a small increase in the UK owned fleet. It has also brought foreign shipping companies to the UK and persuaded UK companies to remain here who might have been tempted to leave. The training obligation for shipping companies, who opt into the tonnage tax regime, has resulted in an increase in the number of UK-based cadets being trained. To this extent it is an extremely welcome success.

70. However, although we recognise that shipping is an international industry and incentives and obligations must be carefully balanced, we believe the Government could be more ambitious in exploring changes which might ensure the regime produced greater benefits for Britain, while still remaining attractive to industry. Tonnage tax has improved the situation of British shipping; it has not solved all its problems. The number of cadets being trained appears too low to increase the number of officers or produce the trained personnel needed to supply shore-based maritime industries. There is no system for monitoring what happens to cadets once they leave their initial training. There has been no increase in the employment of UK ratings.

71. The Government has asked the Shipping Task Force to look at employment and training. This is entirely appropriate, but ultimately, the Government is responsible for considering whether changes to the regime would be desirable and effective. Remitting difficult questions to the Shipping Task Force should not be used as a way to ensure they need never be answered. The Task Force must be given a deadline for its work, and, once it has been completed, the Government must consider whether changes can be made to

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97 Ev 55

98 Ev 61

99 *Post Implementation Review of Tonnage Tax*, para 42

100 Ev 58

increase the effectiveness of the tonnage tax regime in supplying Britain with the trained personnel it needs, and report back to the House.

## Conclusions and recommendations

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1. It would be possible to bring the tonnage tax regime into compliance with the new state aid guidelines by making only minimal changes, which would benefit the Exchequer. It would be wrong to do so. We support the Government's approach, which will allow a wider range of vessels to qualify for the regime, and look forward to the inclusion of these changes in the next Finance Bill. (Paragraph 24)
2. We welcome the Government's decision to ensure that the penalty for early exits from tonnage tax does not apply to tug operators who no longer qualify for inclusion in the tax. (Paragraph 26)
3. We were surprised that the Inland Revenue had not investigated how other Member States interpreted the state aid guidelines to provide support to their shipping industries (Paragraph 28) and that it had not carried out such an investigation during the course of the review. We recommend it does so now. (Paragraph 28)
4. Our predecessor Committee recommended in 1999 that the Government should consider as a matter of urgency "how to end the anomaly concerning the non-application of Foreign Earnings Deduction to British seafarers engaged in the short-sea and coastal trades". It is vital that the UK maximises its support for the shipping industry within EU rules. (Paragraph 29)
5. The draft clauses for the Finance Bill give the Treasury the power to make regulations prescribing periods within which companies may make an election to tonnage tax. We support this. The tonnage tax has been successful so far; there may well be scope for allowing further elections at some point after 2006. (Paragraph 35)
6. Couples now have more freedom to marry where they wish. It seems illogical to exclude ship board weddings from the general relaxation of the law relating to places of marriage and we recommend that such weddings should be legally recognised. (Paragraph 37)
7. The Committee considers that the shore-based maritime sector should do much more to support training for its future manpower requirements. (Paragraph 41)
8. We are extremely concerned that the level of unplanned payments in lieu of training suggests a high drop out rate among cadets. DfT must establish some hard facts about the training carried out by tonnage tax companies. We need to know: (Paragraph 49)
  - The effect of tonnage tax on the number of trainees on UK registered vessels;
  - What proportion of tonnage tax funded cadets really do fail to complete their training;
  - The reasons why cadets fail to complete training;
  - How the MTT fund can be used most effectively.

9. The Government was responsible for introducing the tonnage tax scheme and including a commitment to training. It must now monitor the effectiveness of this link in ensuring that the UK has the skills it needs. It cannot delegate responsibility for commissioning such research to others. The first tonnage tax cadets are just completing their training. The DfT must, as a matter of urgency, put in place mechanisms to find out how they are employed once trained. (Paragraph 55)
10. The Committee agrees that the Government should not unilaterally alter the terms of the tonnage tax, which is a ten year contract. Nonetheless, it should be possible to make changes as new companies come into the regime. (Paragraph 58)
11. The Committee believes that it should not be beyond the industry and Government to devise an employment link which is acceptable to both sides. If it becomes apparent that tonnage tax companies are not offering positions as junior officers to their cadets we recommend that the Government consider refining the scheme so that participation in the tonnage tax regime is linked to providing employment and training to higher certificate level. The surplus in the training funds suggest that this could be done in a way which imposes no extra costs to the shipping industry, but we should not forget that tonnage tax offers real financial advantages to shipping companies. (Paragraph 62)
12. We welcome the decision by the DfT to publish a comprehensive annual list of the number of active UK seafarers. (Paragraph 67)
13. We welcome the Government's decision to include the consideration of proposals for a training commitment for ratings in the expanded Terms of Reference of the Shipping Task Force. The Committee considers that there is a pressing need for information on what companies in the tonnage tax regime are doing to honour their commitment to ratings. Without this it is difficult to disagree with the RMT conclusion that "the vague commitments to review the numbers of ratings employed and employ more highly trained ratings in technical posts has unfortunately amounted to virtually nothing in terms of industry commitment." (Paragraph 68)

## Formal minutes

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*The following Declarations of Interest were made:*

Mrs Gwyneth Dunwoody, Member, Associated Society of Locomotive Engineers and Firemen

Mr Brian H. Donohoe, Clive Efford, and Mrs Louise Ellman, Members of Transport and General Workers' Union

Ian Lucas, Member of Amicus

Miss Anne McIntosh, Eurotunnel

### Wednesday 2 February 2005

Members present:

Mrs Gwyneth Dunwoody, in the Chair

Mr Jeffrey M. Donaldson

Mr Brian H. Donohoe

Clive Efford

Mrs Louise Ellman

Ian Lucas

Miss Anne McIntosh

The Committee deliberated.

Draft Report (*Tonnage Tax*), proposed by the Chairman, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 71 read and agreed to.

*Resolved*, That the Report be the Second Report of the Committee to the House.

*Ordered*, That the Chairman do make the Report to the House.

*Ordered*, That the Appendices to the Minutes of Evidence taken before the Committee be reported to the House.

[Adjourned till Wednesday 9 February at 2.30 pm]

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# Oral evidence

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## Taken before the Transport Committee

on Wednesday 23 June 2004

Members present:

Mrs Gwyneth Dunwoody, in the Chair

Mr Brian H Donohoe  
Clive Efford  
Ian Lucas

Miss Anne McIntosh  
Mr John Randall  
Mr Graham Stringer

*Witnesses:* **Mr Michael Parker**, President, **Mr Mark Brownrigg**, Director General, **Mr Edmund Brookes**, Deputy Director, **Mr Michael Hassing**, MAERSK Company, and **Mr Maurice Storey CB**, Hatsu Marine Limited, Chamber of Shipping, examined.

**Chairman:** Good afternoon, gentlemen. I apologise for making you wait but I am afraid I do not control what goes on in the House of Commons. A small piece of housekeeping first. Members having an interest to declare.

**Clive Efford:** Member of the Transport and General Workers' Union.

**Miss McIntosh:** I think the only interest I can think of is Eurotunnel.

**Chairman:** Only one! Are you sure you are feeling well, Miss McIntosh? Gwyneth Dunwoody, ASLEF.

**Mr Donohoe:** Transport and General Workers' Union.

**Mr Stringer:** Graham Stringer, Amicus and a director of the Centre for Local Economic Strategies.

**Q1 Chairman:** Gentlemen, thank you very much for coming and, as I say, I do apologise. Could I ask you firstly to identify yourselves for the record. Shall we start in the middle.

**Mr Parker:** Thank you, Madam Chairman. Good afternoon. My name is Michael Parker. I am the President of the Chamber of Shipping and I also have two other interests. I am the Chairman of Andrew Weir Shipping, a British shipping company, and I am also Chairman of CMACGM (UK), which is the British subsidiary of a French shipping company.

**Mr Brownrigg:** Mark Brownrigg, Director General of the Chamber of Shipping.

**Mr Brookes:** Edmund Brookes, Deputy Director General of Chamber of Shipping.

**Mr Hassing:** Michael Hassing, member of the Chamber of Shipping and Chief Executive of MAERSK Company Limited here in the UK.

**Mr Storey:** Maurice Storey, Chairman of Hatsu Marine Limited, a UK subsidiary of Evergreen, and non-executive director of James Fisher plc.

**Q2 Chairman:** Did any of you have anything you wanted to say before we begin? Mr Parker?

**Mr Parker:** Madam Chairman, I was just going to say a few words but I know time is short. Let me just say we have made our submission. We believe some

considerable success has been achieved over the last few years with the new Government policy, but we do think the situation is still fragile and we need to be very careful as we go forward. But beyond that, I think we are really here to answer any questions you may have.

**Q3 Chairman:** Well, Mr Parker, that of course is the reason why we are doing this particular examination at the moment. It is urgent and it is important. Is the shipping industry as a whole doing enough to ensure it has got the skilled people it needs in the future?

**Mr Parker:** We believe we are. As you will have seen from our submission, the number of cadets has increased, the tonnage is up and we are pretty confident that we are moving in the right direction but it is still early days; there is a lot further to go.

**Q4 Chairman:** I do not think we disagree with you on that. Why does the United Kingdom need to increase the size of its fleet?

**Mr Parker:** I think the best answer to that is that we have had a long run down over many years, and if it had continued we would have vanished as an industry. We have to have a respectable size fleet here if we are going to maintain a maritime centre in this country. We have an enormous wealth of talent seaborne and on the land side.

**Q5 Chairman:** What about the number of officers?

**Mr Brownrigg:** We do need a strong resource of British officers for their professionalism and for their skills and for the quality that they bring to our operations both at sea and at shore, and we are committed to that.

**Q6 Chairman:** Quality and skills. Anything else?

**Mr Brownrigg:** They are particularly relevant also and important contributors to the wider maritime cluster that Mike Parker has just mentioned.

**Q7 Chairman:** Is the revised EU state aid set of guidelines going to affect the operation of the tonnage tax?

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**Mr Brownrigg:** There will be changes, but we are working closely with the Inland Revenue to minimise any adverse effects. By and large, we do not believe that the guidelines will affect the basic structure and content of the tonnage tax.

**Q8 Chairman:** In what way will they change the guidelines?

**Mr Brownrigg:** Well, there is an increased emphasis on monitoring of the effects of any state aid, including the tonnage tax. It is a change which is basically one of emphasis and that has to do with the degree of emphasis on flag operations.

**Q9 Chairman:** Do you think that they are going to therefore threaten the recovery of the UK fleet, which we have talked about as being very fragile?

**Mr Brownrigg:** I do not think the state aid guidelines do. They should not, in our judgment. If anything, in some areas they allow the tonnage tax to be extended to new sectors of shipping, for example, aggregate carriers, and if that is put in place that will help both fleet and—

**Q10 Chairman:** So what precise alteration are you looking for with the Inland Revenue?

**Mr Brownrigg:** There are tax technical issues, which we are still looking at together with them. They might relate to foreign earnings dividends, for example, and possibly the level of the lease cap. They are specific issues, but we have not yet gone into detail with them.

**Q11 Chairman:** Well, if we are seeking to persuade the Treasury of the efficacy of this tax we have to have some very specific answers. Do you feel these are things which can materially affect the numbers?

**Mr Brownrigg:** The basic structure is fine. As I say, we have yet to work on that, but we would happily put further evidence in if that would help.

**Q12 Chairman:** What about the increased emphasis on flag operations? Is that going to bring more vessels on?

**Mr Brownrigg:** It is more a challenge if we lose. We are at a period when the flag has increased hugely, as you know, and there is, for example, within the state aid guidelines, to give you a specific, a query over when the monitoring process will apply from.

**Q13 Chairman:** Only the date? If they insist on a direct link with the flag, is that going to have an effect?

**Mr Brownrigg:** Well, the direction is to have a link to the flag, but they allow extensive exceptions, as they did under the older guidelines, and that is continuing. So that should not create a difficulty in itself.

**Q14 Mr Donohoe:** What are your members doing to increase the employment of the UK ratings on board?

**Mr Parker:** This is probably one of the more difficult areas because certainly as far as the deep sea ships are concerned it is very difficult for British or indeed European ratings (not just British ratings) to be cost-competitive and this unfortunately is what it is all about. There are certain sectors in the short sea where they have better opportunities and there are some specific sections like the Royal Fleet Auxiliary and the company I am involved in, AWSR, which has a contract with the Ministry of Defence, but they are rather specialised areas. Overall, one has to be frank and say it is quite difficult.

**Q15 Mr Donohoe:** So even within the ones that come under the tonnage tax vessels, that figure in terms of the numbers of ratings employed has fallen since the introduction of the tax itself. What do you put that down to, just exactly the same thing?

**Mr Brookes:** You have correctly identified one of the areas in the reduction in ratings, particularly in the deep sea. We are still strong in ratings in the ferry sector and in the short sea sector, but again that is potentially threatened if other costs measures do not work because they are expensive to employ compared with other people. We are engaged in a dialogue with RMT to look at ways in which ratings employment can be increased and also our members have encouraged the ratings to go forward to officer training and therefore move through the system.

**Q16 Mr Donohoe:** But in real terms it is not an attraction, is it, to have this? It is almost overcoming the problems as with the problems we had with Flags of Convenience, is it not, in terms of the fact that you are still able to employ foreign ratings rather than employing UK citizens?

**Mr Brookes:** Correct.

**Q17 Mr Donohoe:** What is the advantage then for us, given the incentives, to have the ships flagged with the ensign?

**Mr Brookes:** At the end of the day you have to look at the total cost equation for operating in the international environment and I identified the short sea, the ferry sector, where we are competing with mostly European states. In the deep sea sector we are competing with any country—China, India, the Philippines—as owners. We have to have a cost base which enables us to compete. If we cannot compete—

**Q18 Chairman:** Mr Brookes, is that not mildly unrealistic? Without being difficult, it is going to be a long time before even in this country you get down to the rate that is paid to Chinese ratings, is it not?

**Mr Brookes:** I am not suggesting we get down to the rate paid to Chinese ratings.

**Q19 Chairman:** Who does the overall costing of these vessels and how much of it is actually represented by the wages paid to the ratings? Mr Storey, you know all about these things.

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**Mr Storey:** I would not say I know all about them, Madam Chairman. I think in running ships, 70% of the costs of running ships are usually the crew wages, the total wages.

**Q20 Chairman:** 70%?

**Mr Storey:** Up to 70% on some ships.

**Q21 Chairman:** On those small things that are blocking up every channel way between us and everybody else?

**Mr Storey:** I am afraid so.

**Q22 Chairman:** Have they suddenly got an enormous wage increase? I had not noticed.

**Mr Storey:** No, but if you look at the total running costs of a modern ship of today that is the sort of figure that has come out. Therefore, we are faced with a competitive situation internationally and rates of pay are dictated by the ship that you are competing against and if you cannot compete internationally then—

**Q23 Chairman:** You could give us actually a note with those costs, could you, specified in relation to the British fleet, 70% wage costs?

**Mr Storey:** We can give you the costs breakdown of the running costs of the British ships.

**Chairman:** And the gold plating they have got on the cabin doors, yes.

**Q24 Mr Donohoe:** But you are running down a situation and the Chamber of Shipping has said that it is unrealistic to expect the UK to have the ratings employed on deep sea foreign ships. We have seen that and the Chamber of Shipping has said that, and if one looks at the distribution of the seafarers by nationality it has dropped from 2001 from 80% to 2003–04 to 42%. It does not give any indication of confidence that there should be in British citizens getting the jobs as ratings. On the basis of what we said earlier, it does not seem also that you are giving the careers structure that would attract people to come in as ratings and move on. That is the difficulty.

**Mr Parker:** Could I just come back on that. I do not make any bones about the fact that finding satisfactory employment for ratings is difficult. There are opportunities, as we have outlined, in the short sea and so on, but in the big deep sea ships it is very difficult. The tonnage tax has had considerable success with the increase in the number of cadets and what we are also seeing, and we must not lose sight of, is the big increase in the land-based jobs that comes with companies setting up here for tonnage tax.

**Q25 Chairman:** It was because of the drop in land-based jobs, as you know, Mr Parker, that all of this was done because of the knock-on effect of losing the skills. So those were the points being made by your own Chamber.

**Mr Parker:** Yes, and that is working through. It is the cadets who will make the officers, who will take some of the land-based jobs but there are also land-based jobs that do not come directly from the seafaring skills but are still important for employment in this country.

**Q26 Mr Donohoe:** Is the Chamber of Shipping concerned about the erosion, even on what you say is the way to maintain employment, on the ferries, for instance, that operate short range? There has been a drop there and yet you have been saying to the RMT, for instance, that that is the way to overcome this problem. Yet if you look at even that sector there is a fairly marked drop in that level of employing British citizens.

**Mr Brownrigg:** If I may answer that. I think you have to look at each sector and its own merits in context. When you are looking at the deep sea sector, shipping is not alone. There have been many examples of other industries and other sectors which have had to move whole operating bases abroad in order to obtain the advantage of lower labour costs, if you think of Doc Martins, Raleigh, Dyson and so on in the last three years alone. When you look at the ferry sector in particular, that too has got specific circumstances and the competitive position in which that sector has found itself has changed radically in the last five to ten years.

**Q27 Mr Donohoe:** If I take it to its natural conclusion, as one must, then in terms of the costs being at 70%, today it is the ratings, tomorrow it will be the officers who are being employed from outwith the United Kingdom and in these circumstances we have to ask ourselves the question as to why it was that we did what we did with the tonnage tax. What advantages do we get accruing to UK plc in the circumstances that your industry is employing in the first instance ratings with foreign nationalities being the mainstay today and perhaps tomorrow having the officers employed on the same basis, from foreign nationalities?

**Mr Brownrigg:** Perhaps I can leave the advantages specifically to Michael Parker in a moment.

**Q28 Chairman:** Mr Brownrigg, do you agree on the 70% of the costs?

**Mr Brownrigg:** It will differ from sector to sector, but in some sectors it can definitely be that.

**Q29 Chairman:** You think it is as high as that?

**Mr Brownrigg:** But that is overall.

**Q30 Chairman:** So what is the balance between operating and capital costs?

**Mr Parker:** Well, this will depend on the ship. I think maybe it would be a good idea if we gave you some examples.

**Q31 Chairman:** Yes, cost depreciation.

**Mr Parker:** The capital cost will vary very much depending on whether it is a new ship or an old ship.

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**Q32 Chairman:** Obviously, but we have just been told definitively that 70% of the costs are on wages, so presumably Mr Storey is speaking from his experience of a wide range of ships of all ages and size.

**Mr Storey:** Of operating costs, Madam Chairman, I said.

**Q33 Chairman:** Only of operating costs?

**Mr Storey:** Only operating costs.

**Q34 Chairman:** Well, I still think we would like to have a note on the difference between the operating and the capital costs and we would also like to know about depreciation.

**Mr Parker:** I do not know if you would like to hear from Michael Hassing, who has an international view as MAERSK on the costs.

**Q35 Chairman:** Yes. Mr Hassing, do tell us what happens with MAERSK.

**Mr Hassing:** Specifically on the costs item, I think we have to be specific there on whether we are talking short sea, deep sea or ferries and then I think we would have to come with the facts because on the deep sea container ships and tanker ships, etc., it is not 70%, it is lower. But to come back to the question that was brought up, I would suggest that the focus is put on the highly skilled personnel of the shipping industry, and that is not the ratings. I think on the ratings, from the competitive point of view the game has been lost already, as has been explained and as you very well put it. But I think as far as officers are concerned, the cadet programme, the junior officers and the senior officers, that is where we as a nation have to win because we are an island nation. 95% of our trade is going via water and maritime London is actually a world-class maritime cluster employing, I think, 450,000 people in the industry and we really need to have a source of British nationals with residence in Great Britain as officers, that is from the cadet programme to the junior officers and all the way up through the ranks, and that needs to be supported by the state. There I would prefer to look at simply being competitive with the rest of the countries in Europe, and I do not think we are. The focus should be there because there is no reason why we are not competitive because we have a world-class maritime cluster and we have incredible good records with quality officers.

**Q36 Chairman:** If it is such a good quality, why are so many Flags of Convenience vessels still around and why is it that a number of ships are still on foreign registers?

**Mr Parker:** If I can answer that. We should not be too depressed by the statistics that come out.

**Q37 Chairman:** Well, I am not easily depressed, Mr Parker. I just want a reason.

**Mr Parker:** I think what we have done with tonnage tax, and we should be pleased and proud about it as a country, is that we have attracted a lot of companies either to grow their businesses here or to

move into this country to set up operating bases to own and operate ships. A lot of those companies that have come in have used other flags around the world and are comfortable with them. They need to gain experience and comfort of working with the British flag. It is true to say, as I think we all know, years ago the British flag had a poor reputation in terms of its usability from a shipping line point of view. A huge change has taken place in the last few years in parallel with the tonnage tax, which was part of the Government policy, and I think the fact that we have got 65% now of the tonnage that is controlled in the UK, two-thirds effectively, on the British flag is actually a remarkably good achievement and I think that proportion will grow as people grow in confidence in the improvements that have been made with the British flag.

**Q38 Chairman:** So you would not agree with the figure that says at the start of 2004 it was 38% of total trading tonnage on the register, which is an improvement from the 29% at the start of 2001 and 24% at 1999 but not as startling as the figures you have just given?

**Mr Parker:** I have not got them in front of me now, but I was looking at the deadweight tonnage, which is what is between the low point in 1999 up to now, and if one looks at that against the proportion on the British flag it is two-thirds. We should actually be rather pleased because what we have actually done is provide a system through tonnage tax which is not flag-linked, which we felt as the Chamber was very important, not to frighten people away. We have given people that flexibility and two-thirds of the tonnage is on the British flag now and I think it will grow.

**Q39 Miss McIntosh:** What is the percentage of UK trained officers on UK flag ships as opposed to foreign trained officers?

**Mr Parker:** Probably quite small. I do not know whether we have any numbers, but we have got to face the fact that in the run-down over the 25 years the number of British officers declined, which was one of the worries when tonnage tax was introduced. The only way we can get more British officers is to start training them and that was the reason why we had the cadet requirement in the tonnage tax. That is working. We have got a 40% increase in cadets and they will work through, but the fact is there are not that many British officers to go round at the moment and any of us here involved in the industry know that if you want to recruit people to come ashore to help maintain ships and so on you have to look jolly hard. We want to see more of these cadets coming through. They are coming through the system but it is a slow process. You do not reverse a gap of 20, 25 years in three or four years. In fact we are only just beginning to see a significant number of cadets coming through.

**Mr Hassing:** If I could just add some comments to that question, because I brought my own figures. For our company, we are having 800 officers and 514 of those are British and we are training 140 cadets.



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Going back to the earlier comment, just to support the President, when the UK tonnage tax was introduced it was at the forefront competitive-wise in the international arena and a benchmark to other European countries. It is no longer and that is part of the reply. So other European states have caught up and they have improved further. So we need to be sure that we are narrowing that gap in order to stay competitive, in order to employ the seafarers that you want to employ.

**Q40 Miss McIntosh:** So the Chamber sees no reason to have an employment link between those people trained as cadets under the tonnage tax and those who will be UK—

**Mr Parker:** The short answer is, no. Our view is still the same as when tonnage tax came in. We think it will just simply frighten people away. We believe that there is sufficient intent in most of the employers to offer jobs to cadets. We know of some employers who would actually like to employ more. There will undoubtedly be some who cannot or will not but what we have established in principle now with NUMAST is that we do a joint study on the employment prospects of the cadets coming through so we actually have some facts to see what is happening, because one would expect mobility. Some will move of their own volition from one employer to another. One employer may not be able to offer all the jobs that he has got cadets for, but others have a deficit. We need to measure whether this flow of cadets, which is now starting to come through the training system because of tonnage tax, to see if it is actually working out as we think it is. That is why we have agreed in principle with NUMAST to have this study. So we would like some facts before we start planning whether there should be any further changes or modifications.

**Q41 Miss McIntosh:** In your submission to the Select Committee you have mentioned that there are two exclusions you would like to see rectified. One is the exclusion of aggregate carriers and the contribution they have made to coastal shipping and the other is offshore specialist vessels. Could you just tell us how confident you are that these exclusions will be included and what benefit it will bring the Chamber if they are included?

**Mr Brownrigg:** I have already referred to aggregate carriers. The Government, as far as we know, is inside with that. We have been told that that is just a matter of time now that the EU has approved the extension of tonnage tax to that. The other area is the specialist vessels in the North Sea and last time around these were left out. I think there potentially was a conflict between transport and energy policy, but it meant that while platform supply vessels (normal supply vessels in the North Sea) and anchor handlers were included, specialist vessels such as dive support vessels and research, seismic and so on, particularly what are called stand-by ships or emergency response and rescue vessels, were left out. In both cases this is particularly unfortunate since they have been traditional employers of officers and

ratings and in some cases quite substantial. Certainly in the North Sea you are talking about something like between 1,500 and 2,000 ratings and about 1,500 officers. I may be slightly out there, but it is in that order. So you are talking about two modest but important areas of the fleet to which it would be beneficial to extend tonnage tax.

**Q42 Clive Efford:** Mr Parker, you said earlier on that we should be pleased with the amount of tonnage that is being shifted under the UK flag. Apart from the tonnage tax, what other factors do you think have played a part in increasing that amount of tonnage?

**Mr Parker:** Oh, undoubtedly the improvements to the MCA. Without those, it would not have happened. How you weight them I do not know because tonnage tax and the improvements to the MCA came through in parallel, but the two were absolutely crucial.

**Q43 Clive Efford:** Do you think there are other changes, perhaps to the tonnage tax or other factors that could be altered in the future to improve the situation?

**Mr Parker:** Unless my colleagues have any thoughts, I do not, particularly. I think what we need to maintain the confidence of those who are investing here in shipping through tonnage tax, particularly the overseas investors, is to maintain the system and to give them comfort that the 10 year promise they had to make is going to be honoured, i.e. it is not a system that is going to be messed around with every year or two and therefore their long term planning is going to be undermined. Certainly some of the press comments recently around some of the subjects here have prompted some of them to ask what is going on in the UK, and certainly we as the Chamber and I as the President are saying to them, "Remain calm. I believe the British Government will maintain the tonnage tax as it is and your ten year planning is real and realistic." I hope I am right.

**Q44 Clive Efford:** Moving on slightly, has the increase in the number of ships on the UK register resulted in a lower standard of employment rights?

**Mr Parker:** No, not at all. In fact, one of the nice things about this expansion of the fleet is that what we are getting, as you can see from the statistics, is a much greater increase of tonnage, the numbers of ships, and this is because the new ships are much bigger ships. They are the modern, efficient ships, so they offer very good accommodation on board and we have the nice position that whereas before tonnage tax we had a national fleet that was older than the international average, we now have a fleet which is younger, and I think that is something we should be proud of.

**Q45 Clive Efford:** Do you have any comments on the remarks of the outgoing IMO Secretary General, who specifically referred to concerns about the lowering of standards under the UK flag?

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**Mr Parker:** Well, I am concerned with anything the Secretary General of the IMO says, but we are not worrying about that at the moment. It is something we would watch. We are very keen as the Chamber that we have a high-class quality fleet in the UK.

**Q46 Clive Efford:** If you are concerned about what he has got to say, surely you would react to a comment like that from an outgoing official who says he is concerned about lowering standards of employment conditions under the UK flag? Surely you would have a concern about that, would you not?

**Mr Parker:** We do not believe there is a lowering of standards.

**Q47 Clive Efford:** And the fact that RMT and NUMAST are expressing similar concerns, do you have any comments on that?

**Mr Parker:** Well, that is something we are always happy to discuss with them, and we do. There may be exceptional things which need to be addressed, but in the generality we do not believe standards are.

**Q48 Clive Efford:** I am not involved in the industry, as you might guess, but I think you are displaying an astonishing degree of complacency if people in those positions have gone so far as to express their concerns to that degree and you do not seem to have any comment or any response other than to say, "We're prepared to talk about it and of course their comments would cause us concern."

**Mr Parker:** I certainly do not want to appear to be negative. Perhaps Maurice Storey would have another angle on this because he is very close to this situation.

**Mr Storey:** I think the comment from the Secretary General, Bill O'Neil, was that he said that the UK was taking Taiwanese ships on their register and that brought the standards down. Was that not the case? Was that not the exact quotation?

**Q49 Clive Efford:** The quotation that I am referring to is just that there is a lowering of standards which the Secretary General has referred to. I would expect you to be aware of his comments.

**Mr Storey:** He did refer to the Taiwanese situation and the point that I made to him at a meeting after he expressed that opinion was that the people who come on the ships of the UK flag, whatever nationality they are they all have to meet the standards of Trading Certification and Watch-Keeping, which is the IMO international standard. There is a worldwide standard now and no officer can carry a certificate without holding that standard. We believe, this group, that the British officers are the best. They are the leaders in the world, always have been and they are always looked up to, as the red ensign is always looked up to as far as quality is concerned and I think we want to see that maintained. But I do not think, from the job I have got at the present time and from my previous role, we have seen bad quality people operating British

flag ships. You have only got to look at the port state control records for the British flag to prove that we are flying much higher than most other flags.

**Q50 Chairman:** So you would not agree, for example, that ships are not on our UK register there is no control requirement over the qualification or the nationality of the officers on the vessel, which in turn leads to problems in their appointment as training officers for cadets?

**Mr Storey:** I think, Madam Chairman, if you have an officer who is correctly qualified he should be able to train. It is better, of course, if you have a British officer training a British worker.

**Q51 Chairman:** That was not actually the question, Mr Storey. If you are serving on a vessel where all senior officers are of different nationality and culture and have been trained under quite different regimes to that established in the UK, how do you control the level of training that is being handed out to the cadets?

**Mr Storey:** By ensuring that the officers—I have that exact situation in one of the companies I represent, where we have foreign officers training British cadets, but the foreign officers have full British certificates of competency and they are trained and able to train the cadets and the records from the cadets who have been on the ships that I am talking about are very high records. I have shared this information with NUMAST to prove the situation.

**Q52 Chairman:** Is it the case that tonnage tax companies are not willing to employ junior officers once they are trained?

**Mr Storey:** No, that is not the case. Certainly my company has said it will employ the officers, give the officers employment that we have trained, and I know Mr Hassing is in a similar situation.

**Q53 Chairman:** So who is right when NUMAST says that between October 2001 and March 2004 there were 719 confirmed officer job losses? You do not notice that? You do not feel that that is the case?

**Mr Parker:** Could I perhaps come in on this one, Madam Chairman? Yes, there have been some redundancies of officers.

**Q54 Chairman:** A fairly hefty one in a not very large workforce, 719, is it not?

**Mr Parker:** I agree, and any redundancy is regrettable, but I do not think those are actually cadets. They are officers where—

**Q55 Chairman:** Yes, confirmed officer losses. But if you lose just over 700 officer posts you are not going to replace those with cadets, are you?

**Mr Parker:** No, and what I was going to say was that many of those officers, although they have lost their jobs with a particular employer, they have found jobs elsewhere in the industry. So they are not job losses, they are job transfers, if you like, in many cases. I do not think there are 700 idle officers from that unfortunate redundancy.

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**Q56 Chairman:** Are you doing anything to encourage your members to take on more cadets?

**Mr Parker:** Yes.

**Mr Hassing:** I would just like to add that we do offer all our cadets a position as a junior officer and most of them stay.

**Q57 Chairman:** All of them?

**Mr Hassing:** All of them.

**Q58 Chairman:** How many did you train last year?

**Mr Hassing:** That will be about the same number. We have around 140 on the programme.

**Q59 Chairman:** And you would expect to absorb the number of people that you train each year?

**Mr Hassing:** We would expect to have absorbed all of them. That is how we plan it, but it is long term planning. We have done it in the past and we are hoping that we will also do it in the future, but I will have to add that they have to be competitive internationally. The training and the employment costs of the junior officers and the senior officers—

**Q60 Chairman:** Are they at the moment?

**Mr Hassing:** No, they are not. They are no longer. They were but they are no longer.

**Q61 Chairman:** What degree of change is there?

**Mr Hassing:** It is the tonnage tax, which it seems in other European countries—I am not even talking about Asia—they have caught up with the UK tonnage tax scheme and there are other benefits and incentives which makes them more competitive than ours.

**Q62 Chairman:** So you could actually calculate that?

**Mr Hassing:** We can calculate that, yes. So we do have a number of specific issues where we know that we are no longer cost-competitive. We do have some sister companies that operate ships under the Danish flag and the Dutch flag and the Singaporean flag.

**Q63 Chairman:** So you could give us a note just from your own company point of view?

**Mr Hassing:** Yes, just to give an impression. So if Denmark, for example, is costing 100 then the UK would be 106, 107 for our particular ships and Singapore would be 80, and most other European countries that we are competing with will be on the same level as Denmark but the UK is on the high level. It is issues like training, that the state supports the training of cadets, but also the training of junior officers, onshore training and training that is required for them to be promoted to chief engineers and masters.

**Q64 Chairman:** Yes. It is a little difficult to give extra training to cadets if the companies concerned are not showing the slightest desire to employ them anyway?

**Mr Hassing:** We employ them but at a higher cost and I am just suggesting that if this continues for the next many years I can see why some companies will have difficulties with this if they are not cost-competitive with other nations.

**Q65 Clive Efford:** Is that not affected by EU state aid provision? You are competing against, I think you mentioned Danish companies, who are more competitive because they are receiving government aid for training, is that right? Is that affected by EU state aid?

**Mr Brownrigg:** It is affected by EU state aid guidelines, but the other European regimes fall within the state aid guidelines in regard to employment costs. Perhaps I could come back to this whole issue on the basis that really this is quite an early stage in the overall process to take any definitive conclusions about the success or otherwise of tonnage tax on employment because the tonnage tax has been in place for three and a half years. The first year and a half of that was taken up with people joining and the training commitments beginning to bite. That means that the full flow of tonnage tax in training commitment terms is only just now and over the last year occurring. So that is one point. The second point is that there is a number of companies, not just MAERSK, who have offered and are as a matter of company policy employing their newly-qualified cadets; indeed that is what we would hope all would do. It is not always possible, according to individual company circumstances, and there were one or two quite highly publicised instances of that. But the generality, we believe, still have that intention, but we do not know. That is why we have commissioned this research to find out the current employment situation and to look forward to find the best solution.

**Q66 Mr Donohoe:** Mr Brownrigg, you seem almost to be arguing against your colleague Mr Hassing in that respect, in that you are indicating that the tonnage tax at this stage is only now starting to have an effect. He is indicating that in a European-wide context the rest of the competition are catching up because they have introduced some other schemes. There does seem to be a bit of discrepancy in that.

**Mr Brownrigg:** I do not think there is any difference in that. We already saw a change in the size of the UK fleet before the UK tonnage tax came into place because of the confidence inspired by the Government's decision to introduce it. So I think the fact that people can see new tonnage regimes elsewhere in other countries emerging gives them confidence to take the opportunity to take a decision against that background.

**Q67 Mr Donohoe:** What is the next stage in this process then to be maintaining a position to be ahead of the competition in the rest of Europe?

**Mr Brownrigg:** I think the fundamental point is that this country, having made a tremendous advance with the UK tonnage tax and other thoughts at that time, has turned around a 25 year period of decline

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and without that turn-around we would now be, frankly, a third division player. That is the reality. That has happened. The essential thing is that we do not lose that shift upwards.

**Q68 Mr Donohoe:** So what do we introduce not to lose it and at what stage?

**Mr Brownrigg:** Well, we ensure that we do not introduce new restrictions which are going to chase people away or drive people away, either from the UK as a shipping base or from the flag, and we ensure that we have a positive and practical fiscal and employment cost environment in this country.

**Q69 Mr Donohoe:** But I come back to the point—and this is what Mr Hassing is saying, he is indicating that the competition is now catching up?

**Mr Brownrigg:** Yes.

**Q70 Mr Donohoe:** What we need to then look at is the potential for being able to improve the situation beyond today, otherwise we are going to once again be in a position of being at the back instead of being at the front?

**Mr Brownrigg:** Could I give an example. In the discussions around the time of charting a new course and the last round of debates on this there were a number of employment cost measures which were put to Government jointly by the industry (meaning ourselves, NUMAST and RMT). None of those has actually been introduced. Some were in debate at the time and some were accepted, and so there are elements of unfinished business on the whole question of employment costs. In addition to that, you have heard from Michael Hassing the suggestion that our training costs are uncompetitive and our training arrangements are uncompetitive with our continental counterparts. In the Netherlands, for example, most of the training takes place within the state system at no cost to the industry. In this country we have an apprenticeship arrangement, which puts a large amount of cost on the shipping industry. We would like to move more, not necessarily to exactly the same arrangement, but we would certainly like to see training assistance as part of the employment cost package that we have been looking at.

**Q71 Chairman:** It is a little bit difficult to realise why there should be this difference between states which are supposed to be operating under the same legislation, is it not?

**Mr Parker:** I think not. They interpret it in different ways. They are all variants on a theme. I have mentioned that I am involved with a French company which is entering tonnage tax here. There are differences between the French and the British system.

**Q72 Chairman:** I think that point has been generally taken on board, yes. You have repeated again that it is unrealistic to expect UK ratings to be employed on deep sea foreign-going ships and that we should focus on short sea ferry routes. Is that your view still?

**Mr Parker:** As far as ratings are concerned, I think partly. But also, as I think Mr Brownrigg was saying, there are opportunities in these closer to shore activities like the dredgers and so on, and therefore tonnage tax in those areas would be a help.

**Q73** But from the point of view of Her Majesty's Government these concessions were made with two specific objects in view; one was employment, the second was training and I suppose we could also say there was a third, which was the overall management of the British tonnage. At this point what we are very anxious to be able to assure Her Majesty's Government is that those objectives have been achieved, because otherwise, not surprisingly, the Exchequer are going to say, "Is this value for the taxpayers' money?" Certainly when they have got a ten year commitment I do not think that is a difficulty, but if you want a long term commitment and you want to demonstrate that there is some purpose in the tax you had better be able to produce the facts and figures that go along with it. Firstly, you are telling us that there is not a level assessment across the European nations, there are different ways in which what you kindly call "interpretation" is being used to ensure a certain degree of state subsidy to some companies. That is number one. So the Exchequer might think that is odd. There is very clear evidence that certainly in terms of ratings we are not employing the same number of ratings, and we are told that the real hazard is the cost of British seafarers. Is this your view and how would you justify, therefore, the continuance of a tax of this kind to the Exchequer?

**Mr Parker:** I personally do not have any concerns that it is a justifiable thing to do. Without it, we will not have a British merchant marine. That is very clear in my mind and the industry has only just been rescued in the nick of time four years ago, and without it we do not have this maritime cluster that we have referred to here in London, which so much else in terms of jobs and taxation lives off. So from an Exchequer point of view, I think that is a real plus. The companies that are here because of tonnage tax (and would go if tonnage tax was unattractive) employ people here, they pay salaries which pay income tax, they spend money, they pay VAT, etcetera. There is a financial benefit and there are the jobs which are coming through in the cadets and the officers to give us the maritime experience for the future. I do not think we as a Chamber ever indicated at the time of tonnage tax that there was a huge opportunity for ratings. It is sad but it is a very difficult market.

**Q74 Chairman:** How many of your members are paying a levy in lieu of taking on cadets?

**Mr Parker:** Very few.

**Q75 Chairman:** How many is "very few"?

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**Mr Brownrigg:** I think the Department for Transport's assessment is that planned "PILOT" (which is what this is called) is applicable in less than 2% of cases and I think probably few in our membership. Could I revert to the earlier—

**Q76 Chairman:** Before we get to that, if ratings are in effect a lost cause, which is what you are suggesting, how are you going to encourage your members to take on more cadets?

**Mr Brownrigg:** The cadets are for the officers.

**Q77 Chairman:** You believe that you can actually expand those numbers?

**Mr Parker:** Yes. The number of cadets has expanded by 40%.

**Q78 Chairman:** Well, only because it had gone down very consistently.

**Mr Parker:** Absolutely, but it goes with the ships. If we do not have the ships, we do not have the cadets, and what I think we will see, because we have not reached a plateau yet in terms of the impact of tonnage tax, is that the companies that are here in the UK now will add further ships to their fleets—and some of my colleagues here can talk about their own company plans and I can certainly talk about mine—and every time there is a new ship there will be more cadets.

**Q79 Chairman:** Yes, but you have just explained to us the reason why we have fewer ships is that they are getting bigger.

**Mr Parker:** We cannot avoid that. That is modern technology.

**Q80 Chairman:** So we have to take your promises of more ships with a certain degree of, dare I say it, salt?

**Mr Parker:** I think the proof of the pudding, as they say, will be in the eating.

**Q81 Chairman:** Ah, a salty pudding!

**Mr Parker:** There are still more companies looking to come into the UK as well. That is why we are so keen—

**Q82 Chairman:** So in spite of the difficulties that we have been talking about, there are still more people anxious to come on our register?

**Mr Parker:** Yes.

**Q83 Chairman:** Although some of them have not done so since the tonnage tax has been introduced?

**Mr Brownrigg:** Here you are talking about inward locating companies, who will be growing their fleets.

**Q84 Chairman:** So anyway they would want to take advantage of British legislation is what you are saying and they have taken a commercial decision to come here?

**Mr Brownrigg:** Yes, exactly, because of the quality of the UK as a base for shipping.

**Q85 Chairman:** I see. You were going to make another point?

**Mr Brownrigg:** Some of them have been taken, but I was going to say it really is very early in the process, as I have said, to take a definitive judgment on the employment situation. As the President said, without a ship there is certainly no training, so no fleet, no training, and that is why the emphasis has been on (i) the fleet, but (ii) on replenishing and rebuilding skilled employment and hence the increase from what was a long period of low recruitment. It was not just a dip down, it was a long period of about 15 years when the average was around 400, 450 cadets a year and dipped at one stage below 200, and it is now 625, I think, for two years running. So that is a positive development.

**Q86 Miss McIntosh:** For the record, does the MAERSK scheme work because it is voluntary and the Chamber does not want to have a compulsory scheme of employment link imposed on them because you believe that would be anti-competitive?

**Mr Parker:** Yes. Our concern is that it will frighten people away. They are making a commitment now for three years for cadet training. If one asks them to make an employment commitment for four, five, six years, they cannot see that far ahead. They do not know what their business is going to be like. They cannot do that with their shore staff and do not do it with their shore staff, but we do believe that the members we have—and we talk to them regularly and several of them are sitting here—will be offering their cadets jobs because they want them. They need good officers. But it is one thing to employ people; it is another to have a long term legal obligation because nobody knows what the business climate is going to be like in five or six years' time.

**Q87 Miss McIntosh:** If you look at the competitor market, had Denmark gone down the path of the tonnage tax or has it gone down the path of social security, because I recall we were trying to get a similar situation for seafarers as with offshore oil workers, which I believe is the path Denmark went down. Has Denmark gone down a tonnage tax path or have they gone down a social security reduction?

**Mr Hassing:** I am not sure about that. There is a Danish international ships register, but—

**Mr Brownrigg:** They are not exclusive. They have a net wage system for their seafarers and they have also adopted a tonnage tax. Both are within their—

**Q88 Miss McIntosh:** But my point is that if we are trying to compete with Dutch and presumably Norwegians and others, who have both the tonnage tax and a very preferential social security regime, then we are on the back foot from day one and following Mr Lucas's question, how do they get it through state aid and we feel that we could not?

**Mr Brownrigg:** I think what is happening in practice is that as a result of the EU state aid guidelines the different Member States' arrangements are evolving

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in their own national context but in the same sort of direction. Now, the precise details differ but by and large they are compatible one with another.

**Q89 Chairman:** So we can take it generally that although there may be differences at the moment, this is not going to be a long term problem?

**Mr Brownrigg:** Not totally, because training is outside that.

**Chairman:** Mr Efford, finally.

**Q90 Clive Efford:** You specifically mentioned that because marriages on board ships are not recognised under British law this is a disincentive for ships to register in the UK. Could you explain what you mean?

**Mr Brownrigg:** Yes, I can. Basically, you cannot perform a public marriage on a means of transport which is not tied up alongside or stationary. That means that our cruise ships, which are registered in this country, cannot offer the facility of getting married as part of a cruise package, and equally a company which has a substantial income from weddings cannot then register in the UK. That is the precise picture. There are six ships on the Bermuda register, for example, that cannot come to this country—

**Q91 Clive Efford:** So how many ships in all are affected by this, because it seems that not many ships would be affected by something like this? Is it something that we need to be enlightened on?

**Mr Brownrigg:** Well, they are large and high earning ships. The Carnival Group, I think—I stand to be corrected by the audience—has at least 12 sizeable cruise vessels under the UK register. Now, if that is the case they cannot take advantage of the wedding market.

**Q92 Clive Efford:** So it is a niche market but it is a big one?

**Mr Brownrigg:** This could apply to ferries, for example, on scenic routes.

**Q93 Chairman:** It is going to be rather rough if you are getting married on a ferry! I know people make enough mistakes! Perhaps you could do a supermarket marriage, in on door and out the other!

**Mr Brownrigg:** I was thinking of some of the more picturesque CalMac routes, for example.

**Q94 Chairman:** Mr Brownrigg, I think if we were to take this suggestion seriously we would definitely need to know what is the size of this, whether this is a serious suggestion.

**Mr Brownrigg:** It is a serious one and we will present a paper to you.

**Chairman:** May I say, gentlemen, if you are going to have any influence it has to be a very rapid presentation back, very rapid indeed. But if there are indeed many millions of couples rushing on the cruise ships to get married, all I can say is it is a very good reason not to go on a cruise! Thank you very much indeed, gentlemen. You have been very helpful.

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*Witnesses:* Mr Brian Orrell, General Secretary, Mr Mark Dickinson, Assistant General Secretary, Mr Andrew Linington, Head of Campaigns and Communications, NUMAST, Mr Bob Crow, General Secretary, and Mr Steve Todd, National Secretary, RMT, examined.

**Q95 Chairman:** Good afternoon, gentlemen. It is always nice to have people from the shipping industry. It proves to me conclusively what an equal opportunities group you are. Would you like to identify yourselves for the record, please, starting with my left.

**Mr Todd:** Steve Todd, RMT National Secretary.

**Mr Crow:** Bob Crow, General Secretary, RMT.

**Mr Orrell:** Brian Orrell, General Secretary, NUMAST.

**Mr Dickinson:** Mark Dickinson, Assistant General Secretary, NUMAST.

**Mr Linington:** Andrew Linington, Head of Communications, NUMAST.

**Q96 Chairman:** Thank you very much. Did either of you gentlemen want to say something before you begin?

**Mr Orrell:** Yes, I would, if I may. We first of all would like to thank the Committee for holding the inquiry. It is much needed. NUMAST values the work of the Committee, and indeed we believe that its report in 1999 was a very significant contribution to the introduction of the Government's shipping policy. Indeed, this Government has, more than

many others, introduced a shipping policy of some coherence for the industry. The tonnage tax actually was described as a jewel in the crown at the time and with the other aspects of the Government's policy it was intended to reverse the decline of our fleet and regenerate training and employment of seafarers. NUMAST is more than worried that the objectives have not been achieved as we had hoped. Whilst ships have increased in number, increases in cadet training have been more than disappointing. UK officer employment has declined by 14% and that is just not from retirement, from an ageing population, it is through job losses and redundancies. There has been a steady increase of foreign officers used and we believe that the Government through the MCA has assisted this by issuing certificates of equivalent competency like confetti over the period. NUMAST believes that the Government must follow through its initiatives and objectives and actually provide what we would regard as a modest and pragmatic officer employment linked to the tonnage tax. We believe that this should be obligatory through regulations or through collective bargaining agreements and we have submitted a proposal on this to the Secretary of State for Transport. We

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believe the Government should also accept and discharge a responsibility for the social conditions on board, and by that I mean the terms and conditions of employment and the conditions of work. NUMAST is quite tired of receiving the comment from Government ministers that the Government does not involve itself in the decisions on who crews its ships and we believe that is a green light for the foreign officers that are increasing on our ships.

**Q97 Chairman:** That is quite helpful. Do you have any idea of the number of UK officers and ratings that would be required for ship and shore work?

**Mr Orrell:** Well, we know what the bank of officers is now and we know what we will need to replace that bank. We do not know how many ships you will need and how many officers you will need.

**Q98 Chairman:** No, I am thinking particularly of the officers and the ratings.

**Mr Orrell:** With the officers, when we started off this exercise we worked on the basis that to replace the officer bank that we had back in 1998 we would need 1,250 cadets per year. That would be the number of cadets that would flow through into officers and then flow ashore into the maritime skills where currently there is a demand for 132,000 such people, 12% of which are preferred officers and 6.5% ashore are essential for the officers. That has changed through the years since. Because of the reducing officer population obviously the number of people needed to replace them goes down. It currently stands, I think, from the latest report of London Metropolitan University at 1,000 cadets that we need per year to replace that bank of officers.

**Q99 Chairman:** Are there differences in the needs for officers and ratings?

**Mr Orrell:** I think Mr Crow can probably speak on the ratings.

**Mr Crow:** Yes, there is, Chairman. In 1980 there were 30,000 ratings and according to a report by the Cardiff University the UK's economy requirements for people with experience of working at sea in 2003 estimated there was a total of 15,700 jobs ashore, which employs a third of ex-seafarers and the reason they have commented, Chairman, is that in our report we have no doubt whatsoever that the tonnage tax has been beneficial to the shipowners and there is no argument at all that there are more ships using British ports now in the last 20 years than ever before. The fact is that it has not produced any ratings jobs whatsoever.

**Q100 Chairman:** What do you say to the argument that there are still ratings jobs on short sea routes but not on long sea routes?

**Mr Crow:** Well, Steve deals on a day to day basis with our national shipping office.

**Mr Todd:** There are less and less opportunities for ratings as we speak. By the day we are losing more and more jobs and most recently we lost somewhere in the region of 350 jobs down in Dover, most

recently on the short sea routes, and we are losing many in the Irish Sea and in the northern North Sea, where we fail to offer opportunities for ratings.

**Q101 Chairman:** When we are told that 70% of the operating costs are wages, do you think that is a likely figure?

**Mr Todd:** Well, in comparison with other European nationals, ie German, Dutch, Danish and Swedish seafarers, we are still quite reasonably cheaper in comparison, so I do not think it is the cost at all.

**Q102 Chairman:** So you would think the 70% is an inaccurate figure, is that what you are saying?

**Mr Todd:** Yes.

**Q103 Chairman:** So what would you say would be the percentage of operational costs would be represented by wages? I am not going to hold you to it, but just a percentage.

**Mr Todd:** I would say it is less than 50%.

**Q104 Chairman:** Less than 50%. Why do we need to increase the size of our fleet and the number of our seafarers?

**Mr Crow:** Well, number one, geographically we are an island surrounded by sea and we have always had a proud tradition of having a naval influence and we believe it is actually essential, it is a core industry and we believe that all it boils down to at the end of the day is the reason why these shipowners want to flag our ships is by purely bringing in labour at cheaper rates of pay. There is no question over the ability of our British ratings doing the job.

**Q105 Chairman:** That does not quite fit in with what Mr Todd said when he said that in fact we are still cheaper than some other European nations.

**Mr Crow:** Well, we are still cheaper than other nations, for instance—

**Q106 Chairman:** Then why should they seek to bring in other European ratings instead of we who are cheaper?

**Mr Crow:** No, I am talking about countries beyond Europe. For instance, I sit on the International Transport Federation along with my colleagues from NUMAST and we have got situations taking place there where there are people working for £1.40 an hour, £2 an hour.

**Chairman:** I think it is unlikely we will get ratings at that rate in this country, Mr Crow.

**Q107 Miss McIntosh:** I would like to ask the same question of Mr Crow and Mr Orrell. In the RMT's submission, Mr Crow, you argue for a prescriptive commitment to have an employment link between the training under the tonnage tax and employment of UK seafarer ratings. Why are you so keen to have a prescriptive commitment when we have just heard that the MAERSK scheme, which is voluntary, works so well as it does?

**Mr Crow:** It works well, for instance, for those people who want to get up as far as some people who have been going to officers, but for ratings it has not

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worked at all. It has not produced any jobs at all and what we are saying is that we commend the situation where people can be officers, we commend the situation where people have got the ability for an improvement of officers in the shipping industry, but the fact is what we want is some of the tonnage tax purely diverted on the basis of training to bring in ratings to provide a decent level of experience and quality for people working on ships.

**Q108 Miss McIntosh:** If I could ask Mr Orrell. Would you be in favour of a prescriptive commitment?

**Mr Orrell:** Yes. We believe that there should be an obligatory employment link and we are pragmatic about having discussions on what that is. The reality is that on the tonnage tax ships we had 70% of the officer population back in 2002. We have now got 49% of the officer population and yet there has been an increase in the overall total officer population of 1,500. It would not be so bad if the officer population had decreased with an increase overall if our numbers had increased, but the numbers of officers have decreased as well. Some say it is too early, but we do not. One thing I will say is that we are not privy to what companies are on tonnage tax or not. When we try and find out the information on what companies are part of the tonnage tax we hit a brick wall because the Inland Revenue's confidentiality rules apply and they will not tell us. Now, we know that just under 50% of tonnage tax ships are not under the UK flag. We know that just about 49% of officers are UK and we believe strongly—and I will be the first to say we have got it wrong if we are proved wrong, but we will not be proved wrong—there are many companies on the tonnage tax that have no intention of employing the people that they train. We know that in order to try and get the officers into employment we need to have junior positions for the cadets that are trained and we believe if you have, for example, out of the 745 ships on the UK tonnage tax half of those without UK officers on and we have three officer requirements on every ship, then you are up to 1,000 new junior officer placements. If they train them up until the chief mate and the second engineers certification under STCW, they would then have access to an international market and that is a difference with the officers and the ratings. There is a critical international shortage of officers and an oversupply in the international market of ratings and that is why the officers can move there. We are actually training them not just for the UK fleet but for the international fleet as well, but they are getting less and less. So we believe that there is a need to have a link. We do not believe we should frighten companies away. If I may, just on the 620 cadets that are in line now, 60 cadets per year more, by the way, than the 560 we were training before the tonnage tax came in, which is an interesting point which I can elaborate on if asked. The issue is that some companies will go away from the tonnage tax if an employment link comes in, and my view on that is, "Well, good riddance to you," because if they go away they will not be recruiting the cadets and if we

have not got jobs for the cadets when they are trained we are doing everybody a favour anyway, are we not?

**Q109 Miss McIntosh:** You have said also in your submission that you would like to see the introduction of an employment grant in the short sea sector and simplification of the seafarers foreign earnings introduction scheme. In your view, who should pay the employment grant?

**Mr Orrell:** We believe the Government should pay.

**Q110 Miss McIntosh:** Over and above the tonnage tax?

**Mr Orrell:** That is an issue that the RMT, NUMAST and the Chamber of Shipping are at one on. A proposal has been lying in the rooms of the Government for at least three years now. The difficulty that we do have in the short sea trades—and I can give one example of a ship owner and that is Everards, who have tankers—they train their young people. As soon as they get their dangerous cargo endorsements they go deep sea, and they go deep sea because we have the foreign earnings deductions deep sea, which was introduced to help keep a pool of UK seafarers for strategic needs but it is not available under the current arrangements for short sea. So we were looking for an employment support system and the proposal for a short sea shipping grant was that proposal.

**Q111 Miss McIntosh:** Thank you. Mr Todd, you said on the record just now that you believe that UK ratings are cheaper than many of other Europeans?

**Mr Todd:** I gave an example of some where we are cheaper than some. Obviously there are other European—

**Q112 Miss McIntosh:** So you are not the cheapest in the market?

**Mr Todd:** Not the cheapest, no, but we are not the dearest either.

**Q113 Miss McIntosh:** So is it because of the oversupply that Mr Orrell referred to that you believe there are fewer UK ratings on UK flag ships?

**Mr Todd:** I believe it is because it is easier for shipowners to employ foreign nationals, non-UK nationals and non-European nationals.

**Q114 Miss McIntosh:** Why should it be easier, Mr Todd, because we have now got the tonnage tax. You have just said you are about the cheapest in the market. Why should it be easier for—

**Mr Crow:** The cheapest in Europe.

**Q115 Miss McIntosh:** No, I do not think you are the cheapest in Europe, Mr Crow, for the reason you heard me say earlier.

**Mr Crow:** What Mr Todd said was that it was Danish, German, Dutch labour that was more expensive than the UK. We are trying to get over the point, that is why I did say to the Chairman that we



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have got situations where the crews are being manned with labour throughout the world, the Philippines, China, India, on £1.40 to £2 an hour.

**Q116 Miss McIntosh:** On UK flag ships?

*Mr Crow:* Yes.

*Mr Todd:* Yes.

**Q117 Miss McIntosh:** But the whole point of the tonnage tax was to address the officers and the ratings. The problem you face at the moment is that you have a surplus of ratings on the market.

*Mr Crow:* Yes, but what is happening is that British ratings are losing their jobs. The shipowners are getting a tax subsidy and there is a double whammy to the taxpayer because you have now go to pay social security to keep British ratings on the dole.

**Q118 Miss McIntosh:** On the short sea shipping question, if the Government is minded to bring in the aggregate carriers to the short sea shipping why would you need an employment grant, Mr Orrell? You went on to say in your answer to my last question to you that you are arguing and RMT are arguing to bring in the short sea shipping provisions, particularly the aggregate carriers within the short sea shipping provisions. Are you linking that to this employment grant I referred to, or is that totally separate to the employment grant?

*Mr Orrell:* Well, it is a separate issue. I know what you are referring to now. You are referring to the extension of the tonnage tax regime to include aggregate carriers that the Commission has approved as being possible but has not been implemented yet. Yes, as Bob Crow has said, we are actually in favour of the tonnage tax. How can I put it? I would rather whinge about a fleet that has got more ships on it for the jobs than be whinging like I have done professionally for 25 years when the fleet was disappearing in front of our eyes. They are two completely separate issues. One is providing the benefit of the tonnage tax to aggregate carriers. It does not stop the issue of an employment link being relevant and the short sea shipping grant that we were talking about was specifically to address the flow from the short sea trades of UK people into the deep sea trades to take advantage of the foreign earnings deductions, which is a tax back, a tax resident where they do not pay tax and they do not have that on short sea.

**Q119 Mr Donohoe:** So that I understand the drop in employment rates, could I ask you how many members you have in the category and what it was, say, ten years ago?

*Mr Crow:* In sea containers?

**Q120 Mr Donohoe:** In terms of your membership in that sector, how many members do you have today against that that you had when the tonnage tax was introduced?

*Mr Crow:* Less than 7,000.

**Q121 Mr Donohoe:** You now have less than 7,000?

*Mr Crow:* Yes, but we had 30,000 in 1980.

**Q122 Mr Donohoe:** So you have dropped quite significantly?

*Mr Crow:* Yes.

**Q123 Mr Donohoe:** Since the introduction of the tonnage tax, how many members have you lost?

*Mr Crow:* An average of 700 a year.

**Q124 Mr Donohoe:** 700 a year. Mr Orrell, what is the situation in NUMAST?

*Mr Orrell:* Well, I would like to separate out job loss and membership, because membership is not necessarily related to a decline of a fleet. We have just over 19,000 members. About 15,500 of those are sea-going and that is marginally more than what we had ten years ago, but that is because in those companies that we have collective bargaining agreements with we have increased our membership density from what may have been 70, 75% to 90%.

**Q125 Chairman:** Do you think your members in shore jobs, if they move in shore jobs, do you keep them as they get older?

*Mr Orrell:* In some areas, Chairman, deep sea pilots, surveyors, harbour masters.

**Q126 Chairman:** So as much as anything it could have contributed to a stabilisation of your membership rather than a loss?

*Mr Orrell:* Yes, but also because our members have transferability of skills ashore they also have transferable skills into the international market. Near 50% of our sea-going membership is actually on foreign contracts with foreign employers in the international fleets.

**Q127 Mr Donohoe:** Coming back to that point and an earlier point that you made, Mr Orrell, where you indicated that the cadets while training are employed but after the training has expired they are no longer employed. Are you suggesting that they are a cheap form of employment?

*Mr Orrell:* No, the comment that I was referring to is that there is a myth in the industry. The first myth is that we are training too many cadets now that we have got 620 and there are not enough jobs for them. I am not convinced by the truth of that, but it does have a moral side to it that one wants to address. Why is the concern being spread in the industry that we are training too many at 620 when we were originally striding out to get 1,250 jointly with the shipowners. That is an interesting question. Why are we only on 620 now four years on from the tonnage tax coming in with the training link? Some of the reasons for that are that some companies that never trained before are still not training. I do not think any are paying a levy.

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**Q128 Chairman:** They are not paying the levy?

**Mr Orrell:** I do not want to get confused with the pilot under the tonnage tax.

**Q129 Chairman:** No, but you are really suggesting that they are not complying with their side of the bargain?

**Mr Orrell:** No, no, a levy is where companies that do not train—this is not tonnage tax.

**Q130 Chairman:** No, I know, this is the training level.

**Mr Orrell:** In the tonnage tax there is a requirement to pay a pilot. There is a planned pilot of 1%. The unplanned pilot is currently running at 16%. That 16% is money that is being paid because they are not replacing wastage. Why the cadets have not increased to near 1,000 or near 1,250, in our view, is because some companies have reduced their training levels because they are being trained elsewhere now by more companies who are not going to employ them and they will be able to do it and at the same time reduce their training budgets.

**Q131 Chairman:** Yes. That is very difficult to evaluate though, is it not?

**Mr Orrell:** Yes.

**Q132 Chairman:** Forgive me, but that is a whole lot of subjective judgments, is it not?

**Mr Orrell:** From not just myself but the Chamber of Shipping as well, but yes.

**Q133 Chairman:** If we are looking for facts and figures, what you are saying to me is, “I think this is happening, but it’s difficult for us to use that as the basis for an argument”?

**Mr Orrell:** No, that is true. If the question is, though, why have you only got 620 cadets now with 745 ships and a training equivalent of one in fifteen officers per year, and that is only 60 more than 560 when you started in 1998, then what other answer is there?

**Q134 Mr Donohoe:** Could I take you back though to a point. I took a note where you did indicate that you would not think that industry would employ cadets once they have trained them. Have I got that wrong?

**Mr Orrell:** There is no evidence for that. There is no evidence that there is a significant non-employment of cadets.

**Q135 Mr Donohoe:** So all the cadets that are taken on by the companies are employed eventually in the companies?

**Mr Orrell:** No, some cadets that are trained by some companies are taken on by non-sponsoring companies. Some companies have to search around to get someone to take them on. I am not saying that every cadet gets a job, in fact I know they do not because last week I got a letter from a cadet who got excellent records all the way through and has finished and he is trying to get a job now. What I am saying is there is no hard evidence and facts on that and that is why, together with the Chamber of

Shipping, we are saying let us not throw anecdotal evidence around, let us start a research project to find out what is the position.

**Q136 Ian Lucas:** I was going to ask you specifically about British junior officers. Are you saying that there is capacity for every British junior cadet who comes through and becomes an officer to secure employment?

**Mr Orrell:** Now, that is a different question. Will that capacity continue? I say there will be capacity if there is an employment link.

**Q137 Ian Lucas:** How do you answer the argument that if you impose compulsory obligations upon shipping companies to continue to employ both officers and ratings—I put this to both of you—those companies will simply go away again and you will have the situation you described earlier where the fleet is declining, inevitably?

**Mr Orrell:** I am trying to be as factual as I can, but we work in an odd industry. If the training commitment is a small price to pay for the benefits that are derived from a tonnage tax regime, to the extent that more ships come on to the register but more jobs do not come to UK seafarers and we are training to the extent where there may not be the capacity to be absorbed in other companies then they can go. That is our position. They can go and at a stroke you will overcome the problem that people have this myth that we are training too many at 620. I believe that there is an obligation upon companies that train people through a tonnage tax when they took the decision, and I will just mention Canadian Pacific here because we put it in our submission. We decided to go to some of these companies where we knew they were in the tonnage tax, and please remember we do not have access to who is in the tonnage tax and who is not, but we knew CP was. All of their officer population is Indian and we asked them what is their position about a training link for officers and quite clearly they said to us, “When we entered the ten year commitment with the tonnage tax we planned on employing every UK cadet that we trained and over the ten years before we come out we will end up with our trained cadets being masters and chief engineers.” So they are displacing foreign officers to meet their commitment. Now, we were amazed at that. In the industry generally, with the likes of MAERSK, P&O and Nedlloyd, we are negotiating agreements to allow a percentage of foreign officers into the officer establishment so as to secure a proper career progression for young UK officers being trained, being able to go into the Junior officer jobs and up the senior ranks, waiting for the Government to give us an employment link, of course.

**Mr Crow:** But some of these ships will go anyway, whether the tonnage tax is there or not. What we are saying is that if these shipowners are getting a subsidy, eg a tonnage tax, then part of what they are getting we want put back in to British ratings.

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**Q138 Ian Lucas:** I understand what you are saying, but what the shipping companies were telling us earlier was that if these obligations were imposed then the progress that has been made since the introduction of the tonnage tax will end and that the fleet will disappear.

**Mr Crow:** It is a very brutal world out there in the shipping industry and all they are doing is instead of employing a British rating on X rate of pay, they are employing foreign labour on £1.50, £2 an hour, with conditions that will go back to Captain Bligh's days.

**Q139 Ian Lucas:** So what you are saying is that it is happening already. They are not employing British ratings in any event?

**Mr Crow:** No, ratings have not increased at all. All they have done is cop the money and got foreign labour and made bigger profits out of it.

**Q140 Chairman:** Is it true the RMT did not take up training arrangements for British crew members under the tonnage tax?

**Mr Crow:** It is not true at all and I think Steve has been involved in shipping—

**Mr Todd:** No, I do not know and my predecessor, whom I succeeded last year, knows of no offer of any training or any employment opportunities that come on the back of the tonnage tax.

**Chairman:** Well, that has been very helpful, gentlemen. Thank you very much. That is very clear. We are very grateful to you.

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*Witnesses:* **Mr David Jamieson**, a Member of the House, Parliamentary Under-Secretary of State for Transport, **Ms Theresa Crossley**, Divisional Manager, Shipping Policy, Department for Transport, and **Mr Philip Donlan**, Business Tax Group, International Division, Inland Revenue, examined.

**Q141 Chairman:** Could I just congratulate you, Minister, on being the first delegation to deal with this particular industry which has one woman on your team!

**Mr Jamieson:** Well, Mrs Dunwoody, if we had been prompted we could have arranged to have had even more women on the team.

**Q142 Chairman:** We do not require artificial arrangements for our benefit, Minister, thank you. Could I firstly begin by saying how grateful we are to you. I am sorry we are late but yours and my Government is not too good at managing what goes on on the Floor of the House, as you know, and it may be, of course, that we have to rise rapidly to our feet and run, but I am sure you do that with lithe and gazelle-like movements! May I ask you firstly to identify yourself for the record.

**Mr Jamieson:** I am David Jamieson, Maritime Minister.

**Q143 Chairman:** Thank you, Maritime Minister, and would you introduce your colleagues.

**Ms Crossley:** I am Theresa Crossley from Shipping Policy Division in the Department.

**Q144 Chairman:** You are most warmly welcome, Ms Crossley.

**Mr Donlan:** I am Philip Donlan, tax policy adviser in the Inland Revenue.

**Q145 Chairman:** Well, you are also welcome, Mr Donlan, even if you are not wearing the right clothes! Minister, do you have something you want to open the batting with or can we have a go at you straight away?

**Mr Jamieson:** Well, Mrs Dunwoody, if I may, with your permission, be permitted to make a few opening remarks. Firstly, could I just thank you for inviting us here again today on this particular matter. The Government is very proud of its record supporting the United Kingdom shipping industry. Before the publication of British Shipping Charting

a New Course (which I will just refer to as Charting) in December 1998 there was very little by way of support for the industry. The measures that were proposed in Charting and the subsequent introduction of the tonnage tax were introduced to help reverse the decline in the United Kingdom shipping industry and in the three years to the end of 2003 the deadweight tonnage has indeed increased from 5.2 million to 11.5 million tonnes. There has also been a healthy trend in the profile of a UK register of larger, younger ships. The introduction of the tonnage tax and the efforts made to increase the United Kingdom register are both about increasing commercial employment opportunities for the United Kingdom, but these two measures approached their shared aims in different ways. If I may just specify the difference between the two. There is in some people's minds confusion between being on the flag and being in the tonnage tax. Firstly, the tonnage tax is aimed specifically at improving the fiscal environment and increasing registration is about raising standards and maintaining a world-class reputation for quality. They overlap but they are clearly different issues. Although the tonnage tax undoubtedly has played an important part in the increase in the United Kingdom merchant fleet—after all, 53% of the tonnage tax vessels are United Kingdom flag—it is only one of a package of measures and other factors have also helped to create a highly favourable environment of United Kingdom shipping including the registration reforms that were initiated and instituted by the Maritime and Coastguard Agency. Now, we cannot say that there is a direct link, a causal link between the tonnage tax and the growth of the United Kingdom register but what we can say is that the tonnage tax with its unique training link has increased the number of cadets from an average of 61 in 2000–01 to 905 in 2003–04 and this has to be, of course, good news for British shipping. This is nothing to be complacent about. We do recognise that we are still short of the number of cadets that has been estimated as necessary to meet the current

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needs both at sea and on shore. We accept there is still work to do and we are keen to continue working in partnership with the industry and the trades unions to raise the maritime profile amongst their potential trainees, but how do we translate the success in increasing the number of cadets into employment opportunities? We have an opportunity this year and next to take a fresh look at what we can do in reviving maritime employment and the requirement for training incorporated in the tonnage tax regime has been very helpful in injecting life into our efforts but on its own that requirement will not be quite enough. I do not believe that we can solve this purely on a national basis. Our share of the international shipping trade necessarily competes globally and if we are to stay in those trades protectionism and subsidy are unrealistic. We need to think in terms of quality and reputation as giving us that edge. The Government reformed the tax base for the shipping industry in the first place because we always believed that the United Kingdom could compete in this global industry but in terms of quality and reputation. We now need to review our progress across all aspects of Charting in the same spirit in order to ensure the long term survival of our maritime expertise.

**Q146 Chairman:** Well, that sounds excellent. If it were any other Minister than you I would say it sounded ever so slightly priggish because quality and excellence do not do you a lot of good if somebody else is getting a hidden subsidy from somebody else, do they?

**Mr Jamieson:** Well, Mrs Dunwoody, the assistance through the tonnage tax that has been given to the shipping industry has made sure that many of those companies have kept their businesses actually here in the United Kingdom.

**Q147 Chairman:** Yes. So let me be quite clear. Is the primary aim of the tonnage tax to get more ships on to the register or is it to increase employment of British seafarers?

**Mr Jamieson:** The tonnage tax was mainly introduced to keep the companies who are operating their ships in the United Kingdom and by doing so they create many land-based jobs. They also, by being in the United Kingdom, thereby take up other related industries such as insurance and sometimes ship repair. Many other industries benefit from the company actually being based here. What we could see before we brought in the tonnage tax is that there has been a long haemorrhage of ships from the flag but also from being registered in this country as companies running ships.

**Q148 Chairman:** I do not think we doubted that because in fact that is what we said in our original report, Minister, which I am sure you recall. What I really want to know is how does tonnage tax increase the size of the register when it is not flag-linked?

**Mr Jamieson:** Well, it does not directly, and that is what I said in my opening remarks. There is no causal effect between being in the tonnage tax and being on the flag. They are two separate issues and

that is why I was at pains to separate them out in my opening remarks. Being in the tonnage tax, the companies thereby are based and have their strategic management in this country and by doing so they are employing people in this country, mainly shore-based. They are also paying other taxes in this country and they are making access of other industries shore-based in this particular country. The whole of the industry is estimated to bring in somewhere in the region of £1 billion worth of trade in this country, so it is a very substantial industry and I suspect had we not introduced the tonnage tax many of those companies would have left and made their base in another country, not ours.

**Q149 Chairman:** Are you concerned then about the number of states who got registered and classified as Flags of Convenience who are actually benefiting from the tonnage tax?

**Mr Jamieson:** I think we need to look at the definition of Flags of Convenience as well.

**Q150 Chairman:** I think there is a generally accepted definition of Flags of Convenience. Let me put it another way round. Are you concerned that Liberia, which has a total of 64 ships, entered into the tonnage tax regime?

**Mr Jamieson:** Well, my concern would be not necessarily who the flag is but the actual quality of the ship and if that ship was unsafe or was unsound in some way, and many of the so-called Flags of Convenience actually have high quality ships on their register. Some, on the other hand, do not.

**Q151 Chairman:** That is not the sort of reputation that leaps to mind, is it? We are talking about Bermuda, the Bahamas, Panama, Malta, St Vincent. You are quite convinced that there is a justification for these particular countries being involved in the tonnage tax?

**Mr Jamieson:** If they come on to our flag then they are vigorously inspected by the Maritime and Coastguard Agency and they have to go through that very rigorous inspection, and as we know the ships on our flag are the best in the world. They are the best fleet in the world in terms of port state inspections. If they are going into the tonnage tax the Inland Revenue then have certain criteria that they have to meet and it may be helpful if the Inland Revenue set those out. One of the criteria, as I have said earlier, is that the strategic management is in this country, and of course that reflects to some extent on the quality of the operations the ships have, but it may be appropriate to ask the Treasury that particular question.

**Q152 Chairman:** Has the drive to increase the number of ships on the register led to a reduction in standards of employment?

**Mr Jamieson:** When you say "the register" you mean the tonnage tax register rather than the flag?

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**Q153 Chairman:** Yes.

**Mr Jamieson:** No, I do not think it has. I do not think in any sense at all has it shown that. Many of them have flagged in but not all. Those that have flagged in are of very high quality generally. As I say, we are right at the top of the Paris Memoranda of Understanding White List. We are the best at the moment in terms of our flag and I have no reason to believe that the other ships that are actually in the tonnage tax have led to any lowering of standards.

**Q154 Chairman:** Well, it is quite interesting, is it not, that the out-going IMO Secretary General said that he had cause to specifically record his concern over the low standards of employment on the UK flag. Is that usual?

**Mr Jamieson:** I am not quite sure what you mean. I have not heard that comment before and I am not sure quite what he means by that.

**Q155 Chairman:** I should have thought it was fairly straightforward. This is the international organisation which has always in the past accepted the very high standards of British shipping, has never had cause to question the UK in this way, and he is now saying that he is concerned—this is the Secretary General—about the low standards of employment on the UK flag. That must be a matter of concern, must it not?

**Mr Jamieson:** Well, I had not heard that comment from the Secretary General, but those ships on our flag are inspected by the Maritime and Coastguard Agency. They inspect not just the safety of the ship, the quality of the ship, but they also look at the social conditions of those people working aboard the ships; in other words the quality of life—

**Chairman:** Minister, I am afraid that much as I am enjoying this, I must suspend the Committee and there may be more than one vote I am told, so the Committee is adjourned for ten minutes in the event of one vote and 20 minutes in the event of two.

*The Committee suspended from 4.30 pm to 4.53 pm for a division in the House*

**Mr Jamieson:** Mrs Dunwoody, the interlude occasioned by the votes has given me an opportunity just to look a little further into the comments you say were made by the Secretary General of the IMO. I have to say I am in regular contact with both Bill O'Neil (as was) and the new Secretary General. I understand that in the comments he made regarding the UK flag and the quality of employment on the ships he was referring, I believe, to Taiwanese people and ships and he had made some comments regarding the possible quality of conditions on board those ships. I think this was a comment made in very good faith. Perhaps some intelligence had been provided to him. But I understand that the MCA then inspected those ships and firstly found out that the actual quality and structure of the ships themselves was not just good but it was very good. They found then that the quality of life aboard and the social conditions were not just good but they described them as "exemplary". So those Taiwanese ships that have come on to our flag are actually

meeting very high standards. If anybody thinks that that argument cannot be sustained, I would certainly want that investigated most carefully.

**Q156 Chairman:** Are you considering increasing the scope of the tonnage tax to include the vessels that were previously excluded?

**Mr Jamieson:** Probably the Treasury might be the best place to respond to this, but when the Treasury brought in the tax there was the view then of doing the review and then having a look to see if any expansion would be appropriate, but it may be best that Philip Donlan just expands a little bit on that.

**Mr Donlan:** The two examples that are quoted here, aggregate carriers and North Sea specialist vessels, fall into two slightly different categories. Aggregate carriers were originally within the scope of vessels that the Government intended to include within the tonnage tax. However, it was the then existing EU state aid guidelines which prevented their inclusion. As a number of our earlier witnesses commented, the state aid guidelines have recently been revised. I think it is in large part due to the lobbying efforts of the UK shipping industry and also officials from the Department of Transport as well as from the Inland Revenue which have occasioned a change of mind at the European Commission.

**Q157 Chairman:** So aggregates are in, is that what you are saying?

**Mr Donlan:** Aggregate carriers as from the new guidelines published in January of this year can be included in state aid schemes. As part of the review we are discussing with the industry precisely how we take that forward and obviously ministers will be making a statement in due course.

**Q158 Chairman:** What about off-shore specialist vessels?

**Mr Donlan:** Again, as part of the review of tonnage tax that we are undertaking we have received a number of representations that more North Sea engaged vessels than were originally included should be brought within the scope.

**Q159 Chairman:** How many ships are we talking about?

**Mr Donlan:** I think the number could be up to perhaps 100 or slightly more.

**Q160 Chairman:** Oh, so we are not talking twenties here, we are talking of quite a sizeable number of ships?

**Mr Donlan:** We are talking of several different types of vessels, including rescue vessels and I believe ones involved in drilling operations, etcetera. Now, at the time when we introduced tonnage tax the Government took a decision that most of these specialist vessels would be excluded. We are taking note of the representations that are being made and we are doing additional research, looking at the numbers involved, more precisely looking at the cost that might be involved and assessing so that we can advise ministers what the potential benefits might be if they chose to take them into tonnage tax.

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**Q161 Chairman:** I will not hold you to it, but what would you assume you are talking about, employment aspects, when we are talking about the benefits?

**Mr Donlan:** The benefits would have to be protection from perhaps third party competition, so holding on to those UK employments, additional opportunities for UK training (if there are any), etcetera.

**Chairman:** The Committee is suspended.

*The Committee suspended from 5.03 pm to 5.20 pm for a division in the House*

**Q162 Chairman:** Minister, you are most warmly welcome back. Because you have been so patient we will try no to keep you very long, but there really are some questions we need to put. The ten year commitment to the UK tonnage tax regime, is it going to be affected by the new state aid guidelines?

**Mr Jamieson:** I think, again, that is another issue for the Treasury.

**Mr Donlan:** I cannot see any way that the ten year commitment, which is a commitment on the part of the entrance into tonnage tax, will be affected by the new state aid guidelines.

**Q163 Chairman:** So you do not contemplate having to defend this scheme to the EU institutions is really what we are asking you, because one of the questions which you may or may not have heard this afternoon is, is Her Majesty's Government going to reconsider this scheme short of the ten year period because if so that will destabilise the fleets in exactly the way that we do not want to do. What we need to know from you is whether you think that the European institutions who are coming out with these state aid guidelines firstly are going to be able to insist on them being equally interpreted across the twenty-five Member States, and secondly whether their interpretation is likely to affect the tax deal in this country? I know those are fairly large questions but they are actually quite important.

**Mr Donlan:** And good ones, thank you, Madam Chairman. Will we have to make some changes to the tonnage tax as a result of these new guidelines? The answer is, yes, we will have to tinker at the margins.

**Q164 Chairman:** What, tinker in the sense that you will take in more categories of ships?

**Mr Donlan:** That is a small opportunity in one area, specifically with aggregate carriers, but equally there will be some moves slightly the other way, but I think the main changes were those referred to by Mr Brownrigg earlier on, that there are conditions imposed upon retaining any state aid scheme which is not linked to an EU flagging and that will be conditions of monitoring and, if you like, a commitment to maintain where we are at the moment in terms of the proportion of ships which are flagged within the EU.

**Q165 Chairman:** Yes, but we have already been discussing earlier on this afternoon the question of ships that are not EU states but are nevertheless

benefiting from the tonnage tax. Are you suggesting that the EU changes to guidelines will make it more difficult for those firms or less difficult, or will they be excluded from the scheme on the basis that they are not EU flags?

**Mr Donlan:** The UK has a derogation from the general principle in the granting of state aid that a ship operator should be linked to EU flagging. That derogation is not of itself threatened by the changes to guidelines.

**Q166 Chairman:** And how long will that last?

**Mr Donlan:** When the guidelines were issued it stated within them that they will be reviewed, I think after another six years, so that is taking us some way forwards.

**Q167 Chairman:** So our derogation would go from now for another six years?

**Mr Donlan:** One would have to assume that at this stage.

**Q168 Chairman:** So you can more or less assume you would just be to the end of the ten year barrier, am I correct?

**Mr Donlan:** The initial ten year barrier, more or less, yes.

**Q169 Chairman:** Is there any other interpretation on that that would modify our scheme in some way or another?

**Mr Donlan:** There is a significant number of small changes made by the guidelines. Not all of them will have any significant impact on the UK's tonnage tax and where they do, where perhaps that might be unclear before we move to make any change we would want to be certain by discussing with the Commission precisely what they meant by those changes in the guidelines and how they should be interpreted. It is clear that all Member States will have to adopt the same guidelines and one of the advantages of the new guidelines, I suppose, is that they are in many respects clearer to interpret than the previous version.

**Q170 Chairman:** Yes, but it is very important. You will be aware of some of the evidence which says that other EU states interpret state aid and the support for the shipping industry in a different way. Now, is there anything within these guidelines which will either restrict our existing interpretations or force us to move to another set of interpretations, or in any way address what is a perceived gap, it may not be a real gap but a perceived gap between our state aid and the state aid offered by other EU states?

**Mr Donlan:** I think actually it is not a case that different Member States interpret the guidelines differently, it is that they implement their aid schemes within the framework of the guidelines differently. They have different aims, different objectives and they are seeking to address a different population.

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**Q171 Chairman:** Has the Department done any kind of assessment of the effect of those interpretations upon the schemes that are being applied across the 25 states?

**Mr Donlan:** I am not aware that there is a thorough investigation, certainly within the Inland Revenue.

**Q172 Chairman:** It would be quite important, would it not, because if the Treasury is thinking of looking at this whole tonnage tax, it is really quite important that the Department can either defend what we are doing or suggest ways in which it needs to be modified to protect it in relation to other EU institutions?

**Mr Donlan:** I think that is one of the purposes of the review that we are currently undertaking.

**Q173 Miss McIntosh:** Minister, do you think it is fair to say that the tonnage tax has worked for officers but not for ratings?

**Mr Jamieson:** The tonnage tax certainly increased the number of people in training to be officers and those companies, once they have been in three years, of course, are training not just 1:15, it is in fact 3:15, a 1:5 ratio. So yes, it has increased the number of people—and you have seen the figures—quite dramatically, the number of people in training. When the agreement was originally made there was no agreement at that time other than for best endeavours to do anything in terms of the ratings and that was not the intention at the time, it was training for officer positions. But it will inevitably be the case that some of the people who are ratings will certainly train to be officers.

**Q174 Miss McIntosh:** The evidence we took was that there is an allegation that there was a preference to recruit Filipinos and Taiwanese and others on £1.52 per hour rather than take a UK rating. Is the Department sympathetic to that argument?

**Mr Jamieson:** Well, we are aware that certainly in ratings it is an open international market. Shipping is not a national issue, it is an international market and the amount of influence we have on the people who are employed on the ships is exceedingly limited, it is only in those areas where there are work permits granted, but in the rest of the area of shipping we have no competence and no UK law that gives us any influence over who is actually employed. What we can do is, if they are UK flagged ships, we have the ability to inspect all the conditions of the ships, the social conditions. If they come into our port, whether they are flagged on our flag or flagged on a foreign flag, we can inspect them for those standards, but other than that we have no direct influence over who is actually employed on those ships.

**Q175 Miss McIntosh:** Thank you. Mr Jamieson, I do not know if you would like to answer this or Mr Donlan, but we hear from the British Tug Owners' Association that the revised rules on state aid mean that the European Commission have unequivocally

ruled that sea-going harbour tugs cannot be included in a UK tonnage tax scheme. Is that a problem now that they are not going to be included?

**Mr Donlan:** It is an issue. It is one that we are talking about closely with the British Tugboat Owners' Association. It is something that we will develop a policy on. Obviously our main concern is to ensure that any effect on UK-based tugboat operators is as minimal as possible so that they can get the best possible transition.

**Q176 Chairman:** What is the reason for that exclusion? That sigh does not auger well, Mr Donlan!

**Mr Donlan:** It is a long story, but the short version of it is that the European Commission took action against the Dutch state aid to tugboat operators before the European Court of Justice and were successful in that. The effect of the ruling was that where tugboats are operating primarily within ports and harbours then they are outside the scope of the maritime transport state aid guidelines.

**Chairman:** I see. So tugs are nothing to do with maritime matters. Well, that sounds like the normal level of decision-making in the European Court of Justice! Thank you for making that clear.

**Q177 Miss McIntosh:** Mr Donlan, I think Denmark and some other Member States allow national insurance contributions to be reduced for the employers on seafarers. Why has the Treasury not approved such a scheme in addition to a tonnage tax in this country?

**Mr Donlan:** That would be a ministerial decision and not one I can have any idea on.

**Mr Jamieson:** Alas, it is not this ministry that makes that decision, it is the Treasury that makes that decision.

**Q178 Chairman:** Somebody might have given you a hint of a reason though, Minister, might they not?

**Mr Jamieson:** I have had no hint from the Treasury on this matter, Mrs Dunwoody.

**Miss McIntosh:** Has Mr Donlan had a hint from the Treasury?

**Chairman:** Mr Donlan is saying no. I think we have just got the equivalent of, "Not me, Guv."

**Q179 Miss McIntosh:** Or, "Yes, Minister. No, Minister." Minister, could I ask you, are you concerned that while the ships are getting younger the officers are getting older? In the submission we have had from NUMAST the average of officers in 1980 was 27 and now the average age is 47. I am not ageist, Minister.

**Mr Jamieson:** Yes, it is true, your first comment that the fleet is getting younger and the fleet—the fleet we have on our flag we are talking about now—is much more accurate than we had. Before about 1998–99 some of the vessels on the register had actually gone out of commission and probably did not even exist, so we have modernised the register, we have brought it up to date and cleared out the ships that no longer exist and we know now that the ships that we have

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tend to be a younger fleet and a bigger fleet. Yes, it is a concern. It is a concern right the way across transport—

**Q180 Chairman:** Can we try “newer” rather than “younger”, do you think?

**Mr Jamieson:** Well, newer, younger, younger ships. I like to think we are all young, Mrs Dunwoody. Yes, it is a concern and that is why we have put in the training connection with the tonnage tax because we wanted to make sure that there were those people who were being trained firstly to go onto the ships as officers but also in the longer term to provide other parts of the industry, the shore-based industry. When people leave the sea and go ashore we need people of competence who have experience of sea in some of the shore-based industries as well. That is why we brought this training connection in.

**Q181 Miss McIntosh:** Well, are you alarmed it is not working, that the average age has gone up considerably in a twenty year period?

**Mr Jamieson:** Well, it is working in as much as we now have a very substantially greater number, the figures I gave earlier on. We had 61 trainees back in 2000–01 and we have got 905 now. I think the weakness—and I am sure you will want to come on to this—is whether or not and how many of those people have been actually employed aboard the ships and of course whether or not the people who have been trained then choose to go aboard the ships. They may choose, of course, voluntarily to go into some other job instead.

**Q182 Miss McIntosh:** Would the Department be sympathetic to having a prescriptive employment link?

**Mr Jamieson:** Speaking from the heart, if you like, I am attracted to that idea, the idea that we put the link in, we have the training there, and then I would like to see those people then employed aboard the ships, but we have to tread extremely carefully.

**Q183 Miss McIntosh:** Minister, if I could just put to you, if it is working in a voluntary capacity for a company like MAERSK, why can it not work in a voluntary capacity for ships abroad?

**Mr Jamieson:** Well, indeed. What we need to do is to encourage some of the companies to take on those trainees, and indeed many of them do take on the trainees because there is not a huge supply of very skilled people. Of course, the ones we have here, they speak the international language, they speak English, they tend to be trained to a very high quality and if the company is UK-based I think they will show a preference for UK officers. Those in the tonnage tax who are also UK flags, 75% of the officers aboard those ships are in fact UK nationals.

**Q184 Chairman:** Is that still true, Minister?

**Mr Jamieson:** That is the latest information that I had, Mrs Dunwoody. But the issue, I think, is that if you bring in more and more conditions and potentially put a financial load on to the owners of the ships, they have the absolute freedom to move

from the flag to another flag and I am told they can do that within 15 minutes if that is what they want to do. So what we have to do is to go along together on this and make sure we get consensus and agreement because we have done so much work putting this flag together and it would be extremely easy to lose it by doing something that was precipitate. But on the overall principle of it, I am attracted to it but we must tread very carefully.

**Q185 Mr Stringer:** Minister, you said previously that you had no jurisdiction on the payment of wages on ships effectively, but is that not because the Government makes a choice not to repeal section 9 of the Race Relations Act, which allows discrimination on the basis of nationality?

**Mr Jamieson:** We implemented this European Directive with much more rigour than I think any other European country. I cannot remember exactly the details of it, but nevertheless we implemented it more fully than other countries. I think the difficulty here when we have this debate is that if we had insisted that all of the UK flagged fleet had paid a standard rate, which would be a UK rate, I am almost certain that our fleet would have diminished now very substantially. What we have to look at is—and this was the argument we looked at at the time—how someone is paid, not in relation to the United Kingdom but how they are paid in relation to where they actually have their family and where they have to spend their money. What we do know is that, for example, yes, some Filipino ratings are paid less than UK ratings but in terms of their own country where they are domiciled, where they are sending the money home to their family, some of them are earning very good wages indeed in terms of their locality. In fact we have figures here, for example, and these are not ours, these are provided by the unions. The Filipino able seaman on average is earning about \$1,100 per month, whereas a qualified nurse in the Philippines earns \$130 per month. So in fact although those wages are less than the UK seafarer, they are very good in terms of the country of origin.

**Q186 Mr Stringer:** The point I was making, Minister, is that we choose not to have the jurisdiction. It is not that we do not have the jurisdiction, is it not, because we are refusing to repeal section 9 of the Race Relations Act? I understand that people in China and the Philippines get paid less than British workers but it is within our choice to do that, is it not?

**Mr Jamieson:** It is. We could have made that choice and I have to say I agonised over this at great length and had many discussions both with the unions and those in shipping as well, but I think had we made that choice to have that power we would have had the power but we would not have had anything to have any power over because I do not think there would have been any ships on our flag. It is all very well having the authority to do it, but if all the ships had disappeared—



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**Q187 Mr Stringer:** I understand the point, Minister. So you considered it and there are no proposals to repeal that part of the Act?

**Mr Jamieson:** As I say, after very, very long and careful thought, I did not think at the time that was worthwhile doing. The thing that really worried me as well was that if those ships came off our flag, where we inspect—and we inspect to make sure that the social conditions and the quality of the ship and the actual safety for the people aboard the ship is ensured—if they had flagged out, not only would they have continued having their lower wages but they could have gone to a flag that did not do the sort of inspections that our Maritime and Coastguard Agency does and in fact we could have lowered the conditions for many of those foreign workers aboard the ships. Now, that was my concern and we had to find a balance between the two.

**Q188 Mr Stringer:** How do you check that tonnage tax companies are not avoiding the minimum training obligations for ratings?

**Mr Jamieson:** Could I ask my official, Theresa Crossley, to attend to this.

**Ms Crossley:** The training commitment is monitored every four months by officials in the Department. The companies under tonnage tax have to submit their figures, which are checked against their commitment, the core commitment they undertook when they first signed on to the tonnage tax.

**Q189 Mr Stringer:** So do you go and physically check that they are carrying out those obligations or do you just rely on returns from the tonnage tax companies?

**Ms Crossley:** We monitor by cadet name.

**Q190 Chairman:** So you actually have a proper factual record?

**Ms Crossley:** Yes.

**Q191 Chairman:** And unless they are actually making up names you have to assume that is accurate?

**Ms Crossley:** Yes.

**Q192 Mr Stringer:** What is the percentage of the companies that are out of compliance?

**Ms Crossley:** I think it is 16%.

**Q193 Mr Stringer:** And what are you doing about that?

**Ms Crossley:** Where the companies are in default we then follow up that default. They have to make further declarations. They then have to prove that they are complying. We cannot actually exclude them from tonnage tax, but we do follow it through—

**Mr Jamieson:** But they also make a payment in lieu of training, that is the point.

**Ms Crossley:** Yes, they do.

**Mr Jamieson:** So if we find that they are not actually doing the training and that they have not got these people on the list, they have to then make an equivalent payment in lieu of training. So the cost is still the same for them.

**Q194 Mr Stringer:** If they do not comply at any stage they just have to make those payments?

**Mr Jamieson:** Yes, indeed.

**Q195 Mr Stringer:** There is no other penalty?

**Mr Jamieson:** I believe some of the companies that do not feel they are in a position to do the training themselves, maybe because they are such a small company or their ships are inappropriate (for example very small vessels are not actually very good for doing the training), what they do then is they pay in lieu of that training and then the training is done using that money by someone else.

**Ms Crossley:** If I could just add to that. If they do not pay, then they are served with a notice of non-compliance and to date we have not actually had to issue a notice of non-compliance. That has not been necessary.

**Q196 Mr Stringer:** Thank you. Could I move back to Mr Donlan. I was not sure from your answers, Mr Donlan, whether the prime reason for having the review of the tonnage tax now was the change in the EU regulations or if there was some other reason?

**Mr Donlan:** No. Ministers gave a commitment to review the tonnage tax at the time that the scheme was being introduced in Parliament. They said they would review it within a couple of years of it starting. The specific areas they committed themselves to reviewing at that time was the position of, I think, North Sea vessels, but they have also subsequently given further commitments that they would broaden the scope of that review. So we knew right from the start that we were going to review it and Treasury ministers and the Department for Transport announced a joint review back towards the end of 2002. However, as Mr Brownrigg in particular was saying earlier on, this is a pretty early stage to be reviewing all of the effects of tonnage tax. Also, shortly after announcing the review we became aware that the state aid guidelines were likely to be changed. So all of this is brought into the original scope of the review so that we can look at the past effects of the regime in terms of its costs in particular and potentially look at some of the benefits that might have accrued, the technical functioning of the regime and how the regime should be taken forward and in that respect the new state aid guidelines are incredibly important, so obviously we are dealing with those.

**Q197 Mr Stringer:** Accepting that it is at an early stage, when do you expect to report?

**Mr Donlan:** At the moment it is just a bit too early to say when we can have all of this finished. The revised state aid guidelines were with us in January of this year. Discussions with industry on their effect are continuing. I do not think the regime is likely to end

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up with one single report. There will be things done whilst other things are continuing. We have already mentioned the possibility that aggregate carriers could be brought into the regime. That is one thing which could happen earlier. There are some things that we know we cannot do until next year's Finance Bill, where we have got to make changes.

**Q198 Mr Stringer:** Would you expect the review to be finished by the end of 2005?

**Mr Donlan:** I would hope so.

**Q199 Mr Stringer:** I think what you are saying is that the review will report in stages?

**Mr Donlan:** Yes.

**Q200 Mr Stringer:** And you think it will all be reported by the end of next year?

**Mr Donlan:** That has got to be a reasonable expectation, but one cannot foresee all the future events.

**Q201 Mr Stringer:** Are you at this stage concerned about the cost-effectiveness of the scheme?

**Mr Donlan:** I have no reason to be. The costs as reported are in line with what was predicted before we instituted the regime.

**Q202 Mr Stringer:** And the effectiveness?

**Mr Donlan:** That is what we are reviewing in part.

**Mr Jamieson:** It is a difficult area and I think it is largely subjective, the judgment we make. The objective thing we do know is that we have got people being trained, as the question early on made the point. Secondly, we do know that our flag is increasing. I think there is some link there with companies who are choosing to come into the tonnage tax and also choosing to come onto the flag as well. This is where the benefits come in. Those companies will then have a predisposition generally to buy British, if you like, to be buying the other services within the United Kingdom, but that is very difficult to put a yardstick against. The general feeling is that in fact in cost terms it has been very beneficial.

**Q203 Chairman:** It is not entirely difficult, is it, because we know how many people were employed in the industry, we know cadets went down disastrously, we know that a certain number have come back because of your scheme. So although we knew what the approximate demands were, we also know how many were trained. It is not quite bewildering science, is it, Minister?

**Mr Jamieson:** Well, you could do some analyses on that. I think the difficulty is whether in fact the tonnage tax had occasioned the company to come onto the flag. It is very difficult to make that judgment and where they are buying their services. We do not have detailed intimate knowledge of all the workings of the companies. I suppose somebody could do a piece of work on that, but we would not have that kind of detail.

**Q204 Chairman:** I could make a wild guess that if they were not on before you gave them a tax incentive and they came on after you gave them a tax incentive, there might be a sort of mild connection, might there not?

**Mr Jamieson:** I am sure there would be, Mrs Dunwoody.

**Q205 Ian Lucas:** Do you accept the number of UK ratings employed on UK shipping using the tonnage tax has declined since the introduction of the tax?

**Mr Jamieson:** They have been declining for a long period of years. I do not think it is necessarily connected to the tonnage tax but there has been a decline.

**Q206 Ian Lucas:** There has been a decline. So the tax is not having a beneficial effect so far as ratings are concerned, is it?

**Mr Jamieson:** When the tax came in one of the intentions of the tax was not to increase directly the number of ratings but there is the sort of best endeavours the companies have to show to employ ratings and that is checked on a regular basis, whether they are taking on those best endeavours.

**Q207 Ian Lucas:** So what best endeavours are the companies undertaking?

**Mr Jamieson:** Well, they have to show, as I say on a regular basis, that they are making those best endeavours.

**Ian Lucas:** Yes, but what are the best endeavours?

**Q208 Chairman:** Ms Crossley, are you good at people's best endeavours?

**Ms Crossley:** I will do my best, Madam Chairman. Every year the companies under tonnage tax have to make a return to provide evidence that they have considered at least one of four particular things, which are to employ more British or EEA ratings, to employ more highly trained British or EEA ratings in some technical posts, to recruit British or EEA ratings in a planned stream towards officer qualifications and to assist existing British or EEA ratings to advance towards officer qualifications and posts, and they are obliged to make a return to the Department annually to provide some sort of evidence that they are positively considering those.

**Q209 Ian Lucas:** That they are positively considering?

**Ms Crossley:** Yes.

**Q210 Ian Lucas:** So they have to provide evidence that they are thinking about employing British people?

**Ms Crossley:** They have to provide evidence that they are considering at senior management level how best to make those best endeavours and it is true to say that the Department has actually returned forms that we do not feel have provided sufficient evidence.

**Q211 Ian Lucas:** But they are under no obligation to provide more UK seafarers?

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*Ms Crossley:* No, they are not.

*Mr Jamieson:* That was part of the original agreement that was struck at the time with the Chamber of Shipping and the unions. That was the best endeavours.

**Q212 Ian Lucas:** Is there any legal barrier to specifying that these companies should employ UK ratings?

*Mr Jamieson:* Well, let us take that in two parts. Firstly, the agreement was there originally to do what has just been stated, but I think in the review is where we need to look to see if in fact there is more that can be done. As I expressed in an answer to an earlier question, my general feeling on that is that we should be moving in that direction. The other difficulty is that we would not be in a position to be able to say that those ratings should be UK. The very least we could do is to say that EU or EEA—

**Q213 Ian Lucas:** Why is it okay to consider employing more UK seafarers but it is not okay to say that you should employ more UK seafarers?

*Mr Jamieson:* Sorry, it was to employ more British or EEA ratings.

**Q214 Clive Efford:** It was to consider actually.

*Mr Jamieson:* Yes, that was the original agreement.

**Q215 Ian Lucas:** So is it fair to say that the Government is considering—no pun intended—looking at an obligation to employ either EU or EEA seafarers?

*Mr Jamieson:* Well, that was the point I was making earlier, yes.

**Q216 Ian Lucas:** You are thinking about it now?

*Mr Jamieson:* Yes, we are. We are prepared to look at it and—

**Q217 Ian Lucas:** Because the unions are not very happy about the present situation, are they?

*Mr Jamieson:* No. We have had a submission from NUMAST and from RMT. We are awaiting a submission from the Chamber of Shipping on the issue and we will look at it. As I say, I think you can tell by the mode of my answers that I am very sympathetic to that, but I have to say that we have to look not just at what we do but at the consequences of what we do and whether it is going to have the effect that we want. It cannot be for UK people, it has to be for EEA people.

**Q218 Ian Lucas:** I understand that, but the present position is that we are losing jobs in this area even with the introduction of the tonnage tax?

*Mr Jamieson:* I think that is correct, yes.

**Q219 Ian Lucas:** And that is not acceptable, is it?

*Mr Jamieson:* I would prefer it was otherwise.

**Q220 Ian Lucas:** So that is why you are a Minister?

*Mr Jamieson:* Yes.

**Q221 Ian Lucas:** So you are going to do something about it?

*Mr Jamieson:* Well, that is why I am saying when we get the submissions in this is something we want to have a very close look at, as long as we do not do something that has the reverse effect to that that we want.

**Ian Lucas:** Thank you.

**Q222 Clive Efford:** Just briefly, because it really is on that same point and that is if we were to accept that there is an issue around employing people in deep sea services where there is hot competition, let us say, for employment for people who are on lower wages, but we have had it explained to us this afternoon by the unions representing the seafarers that even in the short sea shipping and in our ferry industry significant numbers of jobs have gone to people who are on lower wages. Now, there is an economic incentive for the shipping companies to do that. Has that caused you any concern? Have you had occasion to comment on that, which is clearly against the intentions of your considerations that you are requiring the companies to consider?

*Mr Jamieson:* Well, currently we only have the authority, for example on the work permit scheme, to insist that the people who are aboard the ships are EEA or EU resident people. On the domestic passenger ferries, on dredgers in UK waters and since 2001 on domestic scheduled freight, and we are looking at the one port journeys as well (these are mainly out to the rigs), we are consulting with the Home Office about how that would be policed.

**Q223 Clive Efford:** So are you saying that if that has happened that would be in clear breach of the obligations as you understand them?

*Mr Jamieson:* Oh, yes. The work permit scheme says that the offer of the employment has to be made to an EEA employee first. If such a person does not exist or does not come forward for the job then they can employ someone from outside the EEA.

**Q224 Clive Efford:** We were told earlier on, I think it was Mr Todd from RMT who said that 350 jobs had disappeared in this way at Dover. So would you take that back and investigate that?

*Mr Jamieson:* If it was in those categories that I have just read out and they had not operated the work permit scheme then clearly I am sure the union would have brought that to our attention.

**Q225 Chairman:** If you look at the summary of UK seafaring numbers 1997–2003, Minister, which I am sure you are well acquainted with, the percentage change in the total in training is minus 7.52. The actual total is minus 7.58. The total active seafarers are minus 4.73. So even given the tonnage tax we have got a problem, have we not?

*Mr Jamieson:* You are talking about ratings there rather than officers?

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**Q226 Chairman:** Well, I am talking about cadets and officers because officers are minus 2.80 and cadets in training, the total in training, are minus 7.52. These are quite noticeable figures, are they not? So your total active seafarers are down by nearly minus 5. They are not but they are nearly minus 5.

**Mr Jamieson:** What we have done is what was within our gift to do and the tonnage tax, which has now been much emulated in other countries, has brought in this training commitment. What we have not got is the ability to insist that people are employed by the individual companies. They make the decisions themselves.

**Q227 Chairman:** Are you looking at that aspect of it?

**Mr Jamieson:** Well, that is what I have just been saying in answer to Ian Lucas, that precise point. We need to look to see if we can put together an

employment link that is actually workable, that has the effect that we want it to have, and I do not want it to have the opposite effect.

**Q228 Chairman:** How will the flag neutrality of the UK regime be affected by the EU state aid guidelines?

**Mr Donlan:** I think I have probably answered that question earlier, in that the UK's derogation from the flag link can remain, the tonnage tax under the revised guidelines, but there will be more stringent monitoring both of the extent to which vessels are on the flag and there will be some commitment that needs to be given that people will not reduce the proportion of EU flagged vessels, but otherwise it should remain pretty much as it is at present.

**Chairman:** Minister, you have had a rather lively time this afternoon. We are grateful to you and to your staff for coming. Thank you very much indeed.

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# Written evidence

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## Memorandum by NUMAST (TT 01)

### TONNAGE TAX

#### INTRODUCTION

NUMAST is the trade union and professional organisation representing more than 19,000 shipmasters, officers, cadets, and other professional staff working in the maritime industries at sea and ashore.

We welcome the House of Commons Transport Committee's decision to examine the issue of Tonnage Tax and to consider whether the scheme is succeeding in increasing the number of vessels on the UK register; increasing the number of cadets; and providing ongoing employment to young officers, particularly under the UK flag.

NUMAST strongly believes there are a number of policy changes which could be made to make the regime more effective and we urge the committee to consider our proposals, set out in this written submission.

#### THE BACKGROUND

Throughout history, shipping has been crucial to the economic and strategic well-being of our island nation. In turn, seafaring knowledge and expertise has helped to shape the fortunes of Britain, in war and in peace. However, over the last 25 years of the 20th century, the British shipping industry suffered a dramatic and drastic decline. During this period the number of British-owned and registered ships (500gt and above) dropped from more than 1,600 to fewer than 300 and the number of seafarers serving in the UK shipping industry shrank from more than 90,000 to barely 25,000.

This catastrophic decline prompted a series of inquiries and reports highlighting the adverse effects of the likely demise of the British shipping industry and the loss of its maritime skills base. These included reports by the House of Commons Transport Committee, the Defence Committee, the Employment Committee, the House of Lords Science and Technology Committee, and the Joint Working Party established by the Transport Minister in 1990.

In July 1998 the UK government's White Paper on The Future of Transport announced the intention of reversing this decline, by developing a new shipping policy based upon a long-term strategic vision of the importance to Britain of its shipping and wider maritime-related industries.

This aim was repeatedly reaffirmed by the Deputy Prime Minister in the following months as a year-long joint government-industry working party drew up policy measures, set out in the subsequent report, *British Shipping: Charting a New Course*, which proposed 33 inter-related actions designed to develop the UK's maritime skills by securing British seafaring employment and enhancing the UK's attractiveness as a base for shipping enterprises.

The report's proposals were also supported by the independent inquiry commissioned by Chancellor Gordon Brown and chaired by Lord Alexander. The findings of the Alexander Report paved the way for the introduction of the tonnage tax scheme, and the associated measures that Mr Prescott promised would "put Britain back on the maritime map".

#### IS THE SCHEME SUCCEEDING IN INCREASING THE NUMBER OF VESSELS ON THE UK REGISTER?

The tonnage tax has undoubtedly been successful in delivering a welcome "headline" increase in "British" tonnage. Between December 1999 and December 2003, the UK direct-owned trading fleet (ships of 500gt +) increased from 493 ships of 7.16m dwt to 527 ships of 14.94m dwt. Over the same period, the UK direct-owned and registered trading fleet (ships of 500gt +) increased from 241 ships of 2.39m dwt to 316 ships of 5.71m dwt.

Membership of the tonnage tax scheme has also grown sharply. Between 2001 and 2004 the number of companies enrolled in the tonnage tax scheme increased by almost 40% (from 42 companies to 67) while the number of ships went up by 30% (from 520 to 745 ships). The bulk of the increase was in the period 2002–03.

Disappointingly, UK-flagged ships have contributed only slightly more than half of the tonnage tax-entered fleet. Many UK-owned ships remain flagged in the Isle of Man, Bermuda and the Bahamas and, indeed, at the start of 2004 just 38% of total UK-owned trading tonnage was under the UK register, compared with 29% at the start of 2001 and 24% at the start of 1999. According to the DfT statistics of UK-owned ships, at the end of December 2003 UK owners possessed 649 ships of 15.0m dwt, of which 416 were registered in the UK.

While there were agreed reasons for keeping the tonnage tax scheme "flag blind", the disappointment at the relatively low proportion of British-owned ships within the scheme is all the greater when it is recalled

that, when the policy was announced, P&O chairman Lord Sterling committed his company to bring at least 50 ships onto the UK register—something that alone would have increased UK-flagged tonnage by some 75%.

#### IS THE SCHEME INCREASING THE NUMBER OF CADETS?

The government's maritime polices, as set out in *Charting a New Course*, placed a great deal of emphasis on the importance of maintaining seafaring skills in recognition of the fact that ship operational expertise is the foundation of good practice for any reputable maritime nation. Unsurprisingly then, 21 of the 33 action points set out in the document were aimed at ensuring that the UK maintained a sufficiently large and highly skilled maritime labour force.

The fact that senior officers are made, not born, was well understood by the DPM, his advisors and, not least, by the members of the SWG when it was decided to require enrolment to the tonnage tax scheme be linked to the recruitment of officer trainees. The precise requirement being that for every 15 posts in the effective officer complement of ships (that is the total officer number on ships plus back up officers for facilitating leave) entered in the scheme, the ships' owner had to provide training on a relevant course for not less than one eligible trainee officer per year.

It was recognised that one for every 15 was not a sufficient ratio to produce the number of cadets needed, but was the ratio "negotiated" between the social partners. To supplement this the Chamber of Shipping gave a "best endeavours" commitment to achieve an overall total increase in cadet training numbers of 25% year on year.

The need for such a link was starkly indisputable. British officer cadet training catastrophically reduced during the 1980s, leaving a huge "generation gap" in the country's maritime skills base. A total of 2,315 cadets began training in 1975. This fell to 1,274 in 1980 and to an all-time low of 162 in 1987. The intake recovered slightly since then, running between 400–500 throughout the 1990s and when the tonnage tax was still at the discussion stage in 1999, officer trainee recruitment was in the region of 560 cadets per year (around 500 of which were being trained through GAFT/SMarT).

Despite the training link with tonnage tax, cadet recruitment since the scheme was launched has been disappointing. The intake rose to 622 in 2002–03 and a provisional estimate of 620 in 2003–04. This number is barely half of the figure of 1,200, reported in 1996 in a University of Wales study (commissioned by the Department of Transport, the UK Chamber of Shipping and the Marine Society) determined necessary just to stand still. A 2003 update reiterated the earlier findings, but revised downward the earlier estimate of the numbers needed because, the authors argued, they had previously overestimated the attrition rate of cadets in training. The 2003 study proposes a 6% annual loss, compared with their 1996 estimate of 10% per annum.

NUMAST believes this highlights the fact that there is insufficient substantial evidence of attrition rates. Emerging evidence from an ongoing SIRC cohort study of UK cadets employed by the three companies with the largest cadet intakes suggests that attrition rates actually vary considerably from one employer to the other and that the safest assumption of the overall rate of loss is between 40% and 50% over the three-year period, ie an averaged annual rate of between 14% and 17%. On the basis of these figures, and using the University of Wales 1996 study's formula for calculating the required output, annual cadet recruitment should be 1,680 using the lower figure of 14% per annum loss, or 2,040 using the higher figure of 17%. Current recruitment (as in 2003) at just over 600 cadets pa falls woefully short of the 1996 estimate of 1,200 and is some 20% short of the 2003 revised downward estimate.

#### IS THE SCHEME PROVIDING ONGOING EMPLOYMENT TO YOUNG OFFICERS, PARTICULARLY UNDER THE UK FLAG?

Sadly, since *Charting a New Course* was published in December 1998 there has been growing evidence that the measures put in place to develop the industry's workforce have failed to deliver the anticipated increases in British officer recruitment and training—despite some very welcome growth of the UK-flagged fleet and the number of non-UK flagged ships entered into the tonnage tax fleet.

NUMAST believes it has become evident that the "unique feature" of the tonnage tax—the training link—has sadly failed to deliver a sustained enhancement of British officer recruitment and employment, despite the substantial increase in the number of ships entered into the scheme. Indeed, over the past year in particular the officer numbers have declined and between October 2001 and March 2004 NUMAST has had to deal with the potential impact of more than 1,100 declared UK officer redundancies (a figure that resulted in some 719 confirmed job losses following negotiations between the Union and employers).

The failure of the tonnage tax training linkage to provide sustained employment opportunities for British maritime personnel is underlined by the steadily declining numbers of UK officers employed onboard tonnage tax ships. DfT data shows that in 2001–02, 69% of officers were UK-domiciled. By 2002–03 the proportion had fallen to 58% and in 2003–04 had fallen still further, this time to 49%. In just three years, therefore, the proportion of UK officers fell from more than two-thirds to less than half.

Even more disturbing is the fact that the last annual UK seafarers analysis produced by the Centre for International Transport Management at London Metropolitan University indicated a 14% decrease in the number of UK officers between 1997 and 2002. Not only that, but the number of officers aged less than 40 also fell by 15% in this period, which raises particular concern about the long-term health of the labour supply trends. The analysis pointed out that the detailed breakdown of the ages of the officers examined in the research suggested that the increase in certification between 2001 and 2003 “is more to do with the transfer to STCW 95 than as a consequence of the tonnage tax provisions”.

Against such a background, it is therefore important to examine the supply and demand for officers in the UK and on tonnage tax ships. This is particularly important given the significant proportion of vessels in the scheme that do not operate under the red ensign, but instead remain under flags including Barbados, Bahamas, Germany, Antigua & Barbuda, Liberia, Panama, Hong Kong, Norway, Ireland, Netherlands Antilles, Singapore, Japan, Denmark, St Vincent, Marshall Islands, Netherlands and Luxembourg.

The DfT analyses of the crews of tonnage tax ships offer only high-level aggregations. They do not differentiate between UK-registered and other flag ships and make no analysis by nationality and rank. The only available data on the nationalities of the officer corps of UK-flagged ships is shown below in Table 1. This data, drawn from the 2002 global survey of crew composition by Cardiff University’s Seafarers International Research Centre, estimates that some 48% of officers aboard UK-flag ships are of British nationality and a further 21% are citizens of other EEA countries—Poland and Latvia of the EU-accession countries together providing 11%.

**Table 1**

ESTIMATED NUMBERS OF OFFICERS OF VARIOUS NATIONALITIES  
EMPLOYED ABOARD UK-FLAGGED VESSELS, 2002

<i>Nationality</i>	<i>Frequency</i>	<i>%</i>
United Kingdom	1,356	47.9
Poland	264	9.3
Philippines	213	7.5
Canada	111	3.9
Ukraine	90	3.2
Russia	85	3.0
Croatia	85	3.0
Latvia	80	2.8
India	74	2.6
Norway	66	2.3
Denmark	65	2.3
Sweden	56	2.0
Indonesia	53	1.9
Germany	49	1.7
Romania	38	1.3
Barbados	35	1.2
<b>TOTALS</b>	<b>2,761</b>	<b>97</b>

The position is even more stark than these statistics would suggest. The “generation gap” caused by the massive decline in UK cadet training during the 1980s has created the situation in which the current officer corps has an extremely unhealthy demographic. In 1980 the average age of UK officers was 27. Today the figure is over 47. More than 80% of the entire British seafarer workforce is aged over 35, compared with just 41% in 1971 and more than 73% of UK officers are aged over 40, compared with 53% of the overall UK male workforce.

LMU’s annual UK seafarers analysis shows how these trends present disturbing medium to long-term implications for British shipping and the country’s maritime infrastructure. Quite simply, even with the small but welcome recent increase in cadet training, the numbers of trainee officers are inadequate to bridge the “generation gap” and unless current trends are reversed the number of UK officers is on course to decline by as much as 24% in the next five years and as much as an additional 33% over a further 10-year interval.

The SIRC figures also demonstrate the scale of these alarming potential problems, as well as the increased “globalisation” of the UK-flag maritime labour force. SIRC’s research (based on analysis of crew lists) showed that while some 70% of masters on British-registered ships are UK nationals, the figure falls to 54% for chief engineer officers, 37% for chief officers and barely 33% of second officers.

The increasing use of foreign nationals as junior officers on ships that used to have 100% UK officer manning is also demonstrated by statistics showing the numbers of Certificates of Equivalent Competency issued by the Maritime & Coastguard Agency. These rose from 37 in 1997 to more than 2,000 in 2002 and total 6,097 over that period.

Not only does the increasing use of foreign officers erode the UK maritime skills base, it also presents a wide range of challenges to British shipping's safety record and international reputation as a "quality" flag. In considering European Commission proposals for the recognition of foreign seafarer certification last year, the European economic and social committee pointed to the "adverse effects of permitting third country nationals to sail in unlimited numbers" on EU shipping, including the erosion of the Community's maritime skills base and the problems of providing adequate protective social provisions for foreign seafarers. At a time of marked international concern about the variations in training standards around the world, NUMAST is concerned that the existing procedures for issuing CECs are inadequate and fail to provide a sufficient check on competence, language and cultural differences. NUMAST is also concerned that the government has failed to provide sufficient social safeguards to protect the increased employment of foreign officers from allegations of exploitation. For example, the government has adopted the position that it does not regard pay as a factor in determining whether "decent living and working conditions" exist for seafarers on UK ships. NUMAST has repeatedly expressed its concern that there have been breaches of national and international law in respect of social conditions onboard UK ships and we believe there are inadequate provisions and resources for policing and enforcing these issues. These cases have included illegal clauses in crew agreements, in which non-domiciled seafarers on UK ships had contracts making contact with a trade union or the flag state authority a dismissible offence. NUMAST has also raised concern about the lack of clear definition on the circumstances in which the Minimum Wage provisions apply and about the UK's ability to ensure that seafarers' rights are respected when they are recruited and employed through foreign crewing agencies.

In these circumstances, NUMAST believes there is an urgent need to reassess the original measures and to propose methods more certainly geared to securing a long-term future for the UK's shipping industry and the wider maritime infrastructure. Only with such programmes in place will it be possible for the UK to continue to sustain its leading role in the rapidly emerging new global order of world shipping.

#### THE CASE FOR FURTHER ACTION

*Charting a New Course* was produced by the Shipping Working Group (SWG) in 1998. Established by the Deputy Prime Minister in 1997, the Group's terms of reference were to identify actions with the aim of:

- Enabling economic and environmental benefits from shipping.
- Reversing the UK merchant fleet's decline.
- Increasing the employment and training of British seafarers.
- Encouraging shipowners and the maritime industry generally to increase investment in seafarer training.

These terms of reference were decided upon because the Government had concluded "... that acquiescence in the continued erosion of the UK's core maritime capability is not a tenable policy ... 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 ... [Maritime] 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." (p15).

In concluding its review of the condition of the British shipping industry, then current EU shipping policies and measures taken in other EU member-states, the SWG asserted the need for a comprehensive strategy incorporating an integrated set of policy proposals (including fiscal changes) to be achieved through a partnership of the interests involved, ie shipowners, maritime-related industries, maritime trade unions and government, to ensure full implementation of the necessary policy package. This "necessary political package" both in its action points and in the preceding text spoke repeatedly of the fundamental importance of maintaining those maritime skills acquired through high quality training supplemented by seagoing experience in responsible positions.

From the outset, the Deputy Prime Minister made clear the Government's intention that the introduction of the tonnage tax was expected to produce a great deal more than a mere increase in the numbers of ships attracted to the British registry. Speaking on 10 December 1999 at the ceremony marking the re-adoption of the British-flag by the Cunard cruise liner, *Caronia*, the DPM said that: "An important feature of the tonnage tax, unique to the UK, is its establishment of a training commitment by the industry". This was reaffirmed by the DPM speaking on 12 July 2000, when he repeated that: "A unique feature of the tax is its linkage to a training commitment by the industry designed to improve the nation's seafaring skills". In a speech just two weeks later (28 July 2000), on the occasion of the launch of the DETR's website, *Our Ships Your Future*, the DPM said: "This was the right time for young people to consider a career in the Merchant Navy. The number of ships being flagged to the UK is increasing all the time. The British Merchant Navy is vital for this country. It is an industry of the future and offers great career ... opportunities".



The DPM's emphasis on career opportunities and the "unique feature" of the training-employment link do, of course, sit together and are of a piece with the Government's general approach of tying training and employment considerations into its industrial policies—as well as underlining the distinctive feature of the British tonnage tax regime.

These objectives were also reinforced by the Alexander Report, published following Lord Alexander's independent inquiry into a tonnage tax scheme. In recommending the adoption of the tonnage tax scheme, the report emphasised that: "The DETR, the industry and the trades unions are willing in partnership to attempt to revive the industry and promote skilled employment to benefit seafarers and those who switch from active seafaring to join the valuable shore-based industries".

The use of the term "unique feature" and the creation of the website, *Our Ships Your Future*, aimed at recruiting young people, demonstrates how the Government expected that there would be employment benefits for UK-domiciled seafarers from the tonnage tax. It is clear from all the policy documents and associated ministerial statements that the Government designed its approach as a coherent whole, with clear objectives to end both the decline of the British shipping industry and to reverse the haemorrhaging of the country's maritime skills base.

The potentially problematic combination of a continuing inadequate and low level of recruitment and training with the high age profile of the existing officer workforce presents devastating consequences for Britain's future as a maritime nation—consequences that should be unthinkable for a country that remains so reliant upon shipping for its economic and strategic well-being.

The scale of Britain's maritime sector and its continued national importance cannot be over-emphasised. The UK continues to benefit from the largest maritime sector in Europe, with a turnover of £37 billion—twice the size of aerospace or agriculture—and employing more than a quarter of a million people.

Traditionally, a very significant proportion of the employment in the maritime sector and related service industries have been filled by former seafarers. The most recent report from the University of Wales on the supply of experienced ex-officers for these positions predicts how the growing shortfall in the supply of such personnel could threaten the UK's long-term dominance of the global maritime services market and may also help to further accelerate the loss of British junior officers.

Updating earlier research carried out in 1996 and published in March 2004, the report assesses current and forecast UK shore-based demand for skilled seafarers to fill posts in such key areas as classification societies, port services, marine insurance and law, and maritime training. The report concluded that there are some 132,000 jobs in the shore-based maritime sector, of which around 12% are posts that employers would prefer to fill with former seafarers and more than 6.5% are jobs for which companies consider seafaring experience to be essential.

Researchers discovered that since 1996 companies have cut the proportion of positions in the "essential" category by as much as 23%. "This suggests that in the intervening years there has been some reassessment by employers of the jobs as to which jobs they need to fill with ex-seafarers and this has led to some jobs being downgraded from the essential to the advantage category," the report explains. It warns that this could lead to deterioration in the quality and competence of staff working in maritime-related posts ashore. "It is clear, in some circumstances, that a suitably qualified and trained non-seafarer would be an inappropriate substitute for a trained seafarer," the report adds. And it also warns that re-classifying jobs in this way will not be sufficient to offset the increasing shortfall of skilled seafarers caused by inadequate training over the past 20 years.

If present trends continue, the researchers suggest that "UK officers currently employed at sea will be encouraged to move to onshore employment sooner in their career than they otherwise would have done. Without government intervention, the report says, market forces will drive up shore-based salaries to attract serving seafarers—creating increased wastage from shipping companies. "If a shorter career at sea is expected to become the norm, companies currently employing UK junior officers will have less incentive to train them and less incentive to recruit UK officer cadets and be more likely to employ foreign officers," the study argues. "Ultimately, they may even cease to employ UK junior officers after completing their cadetship because of the probable loss of whole age cohorts of experienced ships' officers."

The report says these developments will have serious consequences for training programmes and could result in "footloose" firms switching their business to offshore centres where they can employ foreign seafarers locally. As this report has argued, shipping is the most "globalised" of all industries and the intense competition that characterises its operations at every level means the process of "offshoring" is well established. Britain's lead in many key maritime service sectors has arisen from a combination of historic fleet size, maritime expertise, and qualitative advantages such as high levels of safety and efficiency. However, continued long-term failure to ensure an adequate supply of maritime expertise will almost certainly result in additional pressure for shore-based shipping-related businesses and services to relocate and this will have a significant impact on crucial sectors in which the UK presently has an international lead, such as classification, shipbroking, marine law, protection and indemnity, maritime training and education, and ship and crew management. This will, in turn, have a major impact on the UK economy. Maritime services generate more than £1,090 million a year in overseas earnings (Maritime Services report, City Business Series 2003), but the UK's lead is under considerable threat as a result of the development of new maritime centres in the Asia-Pacific region in particular.

Similarly, the potential scarcity of skilled seafarers also presents alarming consequences for the UK's maritime safety infrastructure. Maritime experience is essential in many safety-critical posts, such as marine pilots, vessel traffic services, ship inspection and surveying, salvage, coastguards, casualty investigation and harbour masters. Unless current trends are reversed, there could be serious problems in finding candidates for many of these posts—especially if market forces drive up wage rates as the shortage intensifies. This scenario is all the more disturbing given the UK's increasing reliance upon foreign and flag of convenience shipping, which places even greater significance upon the need for high quality marine safety provision.

As the Cardiff University Study into the UK's requirements for people with experience of working at sea pointed out, the available evidence suggests that “Merchant Navy service is still the most cost-effective training ground for many of the short-based jobs” and NUMAST believes the government should consider its case for an employment link in this wider context of national needs.

It is also important to consider the wider context of international supply and demand for seafarers. A series of studies produced by BIMCO/International Shipping Federation and the University of Warwick since the early 1990s have repeatedly warned of the increasing international deficit of skilled and experienced officers. Shortages were somewhat mitigated in the mid-1990s as a result of the unforeseen availability of a new source of low-cost labour from eastern Europe. However, as the most recent interim BIMCO update admitted, the shortfall of officers has remained and last year was estimated at 16,000, or 4% of the total workforce. The shortages are also underlined by the ISF's 2003 interim manpower survey, which showed 83% of its members reporting serious or moderate shortages in the current officer supply/demand situation.

On a global basis it is clear that the international shipping industry is falling far short of the agreed target of one cadet per ship in the world fleet—for much of the 1990s it failed even to meet 25% of this target—and again the most recent BIMCO update found evidence that there had been some falling off in recruitment in the late 1990s. The ISF interim manpower survey last year reported that 26% of its members reported a decrease in cadet recruitment levels since 2000, 37% said there had been no change and 37% said the figures had increased. The ISF has also highlighted how techniques such as curtailed training, reduced back-up and shorter leave periods have been used to mitigate the existing shortage of officers.

However, the OECD and UNCTAD have both pointed to the ongoing sustained increases in the volumes of world seaborne trade, which are presently helping to fuel record levels of investment in new tonnage. The high number of ship orders also reflects the significant earnings to be made in many sectors of the industry—with the Clarksea index, which measures earnings in all the main sectors such as tankers, bulk carriers, containerships and LPG vessels, hit US\$24,970 per day in December 2003, against a trough of less than \$10,000 in 2001. Rates in many sectors have been at record levels over the past year, and laid-up tanker and dry cargo tonnage dropped to the lowest level for more than 30 years.

It is therefore clear that demand for seafarers will continue to increase and greater pressure for safer and more environmentally sensitive operations will place a greater premium of high quality officers. The growing awareness of the importance of the human element in safe shipping (with 80% of accidents related to human factors) is likely to act as a brake on the trend towards ever-cheaper seafarer labour supply sources—particularly when coupled with new regulatory pressures, such as the ISM and ISPS Codes and the STCW 95 requirements. New, technologically sophisticated tonnage also requires highly skilled officers with a broad range of technical expertise. Demand for seafarers is also likely to increase as a result of the moves at the IMO to overhaul the principles for the assessment of safe manning levels and by the more effective enforcement of regulations on seafarer work hours and rest periods. That demand, as an OECD report on the availability and training of seafarers stated last year, is likely to continue at a broadly consistent level for the next 10 years and to focus particularly strongly for officers from OECD member states to fill senior ranks. The report estimated that there should be one cadet for every seven officers or 1.5 trainees per ship to meet these needs—while BIMCO estimates the current ratio is around one trainee for every 10 officers. Similarly, the last BIMCO update suggested that on current global recruitment trends the shortage of officers is likely to grow to 46,000, or around 12% of the total workforce, by 2010.

The shipping industry is the leading example of a global industry. This is most visible in the seaborne volumes of globally-traded goods and commodities—some 95% of manufactured goods, raw materials and processed commodities are carried in ships. The reality of the industry's uniquely advanced global character lies in its network of interactive statutory and voluntary regulatory agencies and organisations and in its labour market structures and institutions which similarly span the world and make possible those multinational crews which are unique to the shipping industry. Within this global network of regulatory agencies and labour market organisations, UK and UK-trained Commonwealth citizens with seafaring experience are prominent in executive and operational roles.

The global nature of the industry—as distinct from its centuries-old function as the carrier of international trade—is a relatively recent development. Only in the last 40 years has the industry grown beyond its various national origins. Until the 1970s the shipping industry was nationally based and all nations with sizeable fleets had their own clusters of interacting sets of organisations representative of all interested parties. While these clusters still exist, their role has in most cases diminished in both width and depth. In this new global era there are now just three principal shipping metropolises—the UK, Singapore and Hong Kong. Of these, the UK is the most important, with its extensive specialised linkages drawing together organisations in banking, insurance, shipbroking, maritime law, regulation, classification, technical consultancy, shipowning and managing, industrial relations and seafarers' welfare. This unrivalled plurality of

institutions ensures for UK-based organisations a pivotal role in the shipping industry's global "political system". Two recent instances of key global developments illustrate the central part played by UK-based organisations, with British and British-trained former seafarers having a pivotal role in developing the revised International Maritime Organisation convention on Standards of seafarer Training, Certification and Watchkeeping (universally accepted as a necessary measure to ensure acceptable standards of competence in the emergent global labour market) and in last year's agreement on the formulation of international collective bargaining machinery aimed at stabilising the global labour market.

Also important, given the highly integrated nature of world shipping operation and regulation, are the roles played in centres such as the Arabian Gulf, Hong Kong and Singapore by UK ex-seafarers and others either trained and educated in British maritime academies and universities, or in institutions modelled on the British system and paralleling its curricula.

The British-owned and controlled shipping enterprises are no longer dominant in world shipping and it would, of course, be far too much to claim that the rest of the world still follows the British model of maritime law and tripartite administration as it did 100 years ago. On the other hand, that historical background is fundamental to the continuing significant contribution made by British personnel and British practices and approaches to devising and then administering realistic policies in global shipping. This contribution could not continue without people with a foundation in the practice of professional seafaring and in a political culture where the value of negotiated consent is a core value.

## CONCLUSIONS

The issues to be addressed are obvious enough: Britain, if it is to remain a major global maritime influence, is in desperate need of measures that will ensure an enhanced flow of skilled and experienced maritime personnel.

Since 2000, the government's maritime policies have had a welcome impact in reversing the serious long-term decline of the British merchant fleet. However, the policies have not resulted in a matching increase in the recruitment, training and employment of British Merchant Navy officers.

NUMAST believes the government must now act urgently to implement measures that will "finish the job" begun by the introduction of the tonnage tax scheme and to fulfil the critical policy objectives of increased UK officer employment and training.

The creation of the training link to tonnage tax has had a welcome, though limited, impact on cadet numbers. It is clear that significantly more must be done to provide a more assured pathway for training and promotion to the senior positions in which UK nationals are in demand—not just domestically, but throughout the world. Indeed, for the past 20 years around 50% of NUMAST members have served under foreign flags and with foreign employers—although largely in the senior ranks.

NUMAST recognises that, in an international market place, the cost differentials between UK officers and those from developing nations often over-ride the natural preference for British owners to recruit and train British junior officers. The government must facilitate the provision of employment opportunities for cadets recruited through the tonnage tax scheme by building on the tonnage tax requirement with a further commitment to an employment link for junior officers that will ensure they can progress to at least a minimum of Chief Mate and second Engineer certification.

NUMAST also recognises that some shipowners may seek to argue that the pay differentials between British and foreign officers will mean that any such requirement will "frighten off" companies from the tonnage tax scheme. However, there are already examples of "best practice" operators—such as Maersk, CP Ships, Hatsu Marine and P&O Nedlloyd—who are making a commitment to defined long-term training and employment pathways for British officers. In addition, with the implementation of outstanding recommendations for stimulating British seafarer employment—such as improvements in SMarT training assistance, increases in the scope of the crew relief costs scheme, and the introduction of an employment grant in the shortsea sector—will help to narrow the employment cost differentials. NUMAST recognises that there are good, reputable companies who are committed to the training and employment of UK officers. Their interests are not served—indeed they are undermined—by the current situation and the focus of this submission is for a training obligation aimed at those tonnage tax companies that do not employ any UK officers at all. The government, in its Charting a new course document noted that "there is clear evidence of market failure in seafarer training" and that "there is a far greater "free-rider" effect than in [other] industries". Again, the employment link would help to address such issues.

The inherent "value added" element of such measures can also be enhanced by further measures to ensure that young people of the right quality are recruited as trainee officers and put through a rigorous programme offering clear and attractive routes of advancement. NUMAST believes that offering such defined pathways will help to significantly reduce cadet attrition rates.

These proposed measures will only be successful if new entrants have genuine career prospects. The industry generally and not just in the UK has become accustomed to crewing from a global labour market and taking the lazy view that "the market will provide". This has not always been the view in the UK industry—least of all in the liner and tanker trades. But, apart from a small number of companies, it is hard

to find anyone with strategic plans for human resources. It is easier to go “shopping” for the latest fashion in officer supply, thus obviating the need to engage in the organisational disciplines and investment of the long view.

In these circumstances it seems unavoidable that there must be some mechanisms put in place to ensure that the required employment linkage attached to tonnage tax membership is capable of delivering a sustainable stream of professional seafarers. Regulation can accomplish this by the simple application of a rule requiring recruitment within flexible parameters and a subsequent period of employment as a junior officer. Incentives can be built in by integrating training and education within the mainstream state sector (which is normal practice in most other EU states). A number of employers have already committed themselves to partnership agreements with NUMAST where they undertake to train UK cadets and offer them employment subsequent to training. DfT policy with regard to the tonnage tax should therefore give shipowners the option of having formal agreements with relevant trade unions or being obliged to enter into contractual commitments with the DfT where they agree to both train and offer post-training employment as junior officers.

In order to address the imminent crisis of persons sufficiently experienced in senior positions and needed for employment in the industry’s infrastructure prompt action could ensure that within a five/six year period the UK would be in a position to replenish its stock of senior officers. This could be accomplished by identifying potential high-flyers coming through existing cadet programmes and then providing a phased programme of additional training in short courses to prepare them for early command and chief engineer positions. There is a very long but largely overlooked history of persons in their mid/late 20s being appointed master and chief engineer and proving to be extremely successful both aboard ship and subsequently ashore in highly responsible shipping industry positions. Considerable work has already been undertaken through the Merchant Navy Training Board towards creating a modern, flexible and productive stream of training avenues for officers and the concepts outlined above will help to ensure that the introduction of an employment link for junior officers will form part of a coherent package to deliver the well-trained, competent and efficient senior officers that remain in consistent demand at home and throughout the world.

#### RECOMMENDATIONS

1. The government must build on the limited success of the training link to tonnage tax by introducing an employment link.
2. The employment link needs to be simple and flexible, but capable of ensuring that qualifying cadets are able to gain subsequent periods of employment and training as junior officer, progressing to Chief Mate and second Engineer certification as a minimum.
3. To increase “value added” and to help to narrow employment cost differentials, the government must implement outstanding recommendations for stimulating British seafarer employment, including:
  - improvements in SMarT training assistance, up to 100% of eligible costs up to first certificate level;
  - increases in the scope of the crew relief costs scheme;
  - the introduction of an employment grant in the shortsea sector and simplification of the seafarers’ Foreign Earnings Deduction scheme; and
  - widening the tonnage tax provisions to include aggregate dredgers (approved, but still not implemented) and specialist offshore vessels—both areas of considerable employment and training for UK officers.
4. The government must also develop a more coherent policy towards the regulation of the social conditions of foreign seafarers on British ships, either through the development of effective collective bargaining agreements involving the social partners or through more rigorous controls over the issue of Certificates of Equivalent Competency, the issue of one-port work permits and the enforcement of minimum wage requirements

*June 2004*

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#### **Supplementary memorandum by NUMAST (TT 01A)**

Thank you very much for giving NUMAST the opportunity to address your committee in June to present oral evidence to your inquiry into the effects of the tonnage tax scheme on the British shipping register and the employment and training of British seafarers.

We believe that this inquiry is extremely important and it comes at a crucial time for British seafarers and the British shipping industry—not least because of the evident failure of the scheme to deliver a sustained increase in the number of British officers or in the number of cadets in training.

During the presentation of our verbal evidence, we made reference to a concern that the tonnage tax training requirements have inadvertently proved counter-productive. I would like to take this opportunity to provide some additional information on this point, in the form of a supplementary memorandum.

We said that there were many companies, new to UK shipping, entering the tonnage tax regime—companies that had no previous record of training UK cadets, and simple arithmetic suggests that as the total number of cadets in training had remained relatively static, other companies must have cut back their totals.

In seeking to clarify our concerns on this issue, I can do no better than refer you to the joint submission made by NUMAST and the Chamber of Shipping on the future employment prospects for British Merchant Navy officers. In the background section to this paper, the Chamber acknowledges that “. . . the possibility of an over-supply of newly-qualified junior officers has caused a few companies to rein back their own training programmes”.

This paper notes that NUMAST and the Chamber are seeking to cooperate to research this issue further and to establish an informal database of surpluses and shortages for junior officer employment. However, I do believe the unfortunate reduction in the overall number of cadets in training (–7.52% between 1997 and 2003) is in no small part the result of some companies choosing to reduce their intakes to the minimum required by tonnage tax—and particularly in the belief that they will be able to pick up newly-qualified officers who are not required by companies which have trained cadets but chosen not to give them continuing employment as officers. I would also add that the initial reports filtering back to NUMAST about this autumn’s intake of cadets at UK colleges suggest there has been no improvement in the situation.

These developments are of the utmost concern, because NUMAST believes the continued existence of the tonnage tax arrangements will face increasingly intense political pressure if they are not being seen to deliver tangible improvements in the employment and training of British officers. Our proposals to extend the training commitment with a modest and flexible employment link—to take officers through to a level when they are fully able to compete in an international labour marketplace—seek to bridge a commercial gap and to create the conditions in which companies do not have an incentive to reduce their training levels to the minimum.

I do hope you will be able to take these points onboard during your committee’s consideration of the evidence and I would be happy to provide you with any further information you may need.

*Brian Orrell*  
General Secretary

*September 2004*

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### Memorandum by Dr Heather Leggate (TT 02)

#### TONNAGE TAX AND EMPLOYMENT UK SEAFARERS

##### *Introduction*

One of the fundamental objectives of the tonnage tax was to reverse the decline not only in the UK fleet but of the level of UK seafarers on board UK registered vessels. The tonnage tax has undoubtedly succeeded in attracting a considerable amount of new tonnage onto the UK register, but its achievement in relation to the employment of UK seafarers can be seriously questioned despite its link to recruitment. Under the legislation, for every 15 posts in the effective officer complement for the ships qualifying for the tax, the company shall provide training on a relevant course for not less than one eligible officer trainee each year. There is however, an “opt out” for the company by making a payment in lieu of training (PILOT) calculated by multiplying the number of months when they should have been training by £550. However, the number of UK cadets recruited and trained has been much less dramatic, rising from 480 in 2000 to 603 in 2002. This situation has been exacerbated by the fact that the training does not appear to lead to eventual employment on those vessels. Indeed this analysis demonstrates that the legislation has led to a sustained proportionate increase in the employment of non-UK seafarers.

**Table 1**

TONNAGE TAX VESSELS 2000–04

<i>Year</i>	<i>No. of Tonnage Tax Vessels</i>	<i>Of which UK Register</i>	<i>% UK Register</i>
2000–01	187		0%
2001–02	522	300	57%
2002–03	718	337	47%
2003–04	490	263	54%

Note that the 2003–04 figures are based on returns from 49 out of the 64 companies registered in that year.

Since 1 August 2000 (when the tonnage tax came into force), the number of vessels electing for this form of tax assessment increased steadily in the first two years reaching a peak of 718 vessels in 2002–03. As can be seen in Table 1, not all of these vessels were flying the UK flag since the legislation allows a tonnage tax election based not on registration but on vessels “strategically and commercially managed in the United Kingdom”. In other words, there is no guarantee that the vessel will register under the UK flag, or, having done so, remain within the register. The tonnage tax initiative has caused an influx of various foreign shipping companies establishing strategic and commercial control of on shore operation. They are often run by UK based ship managers who assist foreign owners to set up their UK based operations. It should be stressed that this is part of the long-term trend, which began in 1970s but has been much accelerated by the introduction of the tonnage tax legislation. Registration does however fulfil that criterion and therefore the percentage of such vessels flying the UK flag has consistently been around 50% over the last three years.

**Table 2**  
SEAFARERS EMPLOYED ON TONNAGE TAX VESSELS

Year	Officers				Ratings			
	UK	Other EEA	Other	Total	UK	Other EEA	Other	Total
2000–01	896	40	187	1,123	449	19	455	923
2001–02	3,204	212	1,201	4,617	1,681	176	2,909	4,766
2002–03	2,858	533	1,444	4,835	1,977	632	3,578	6,187
2003–04	2,265	490	2,589	5,343	1,870	263	3,858	5,991

Note that the 2003–04 figures have been grossed up based on returns from 49 out of the 64 companies registered in that year.

Table 2 shows the number of seafarers employed on vessels electing for the tonnage tax categorised by nationality groups. It can be seen that the numbers increased dramatically in 2001–02 reflecting the increased number of vessels. The total levels of employment continued to increase steadily over the next two years. It is interesting to note that the combined number of non-UK seafarers exceeded that of UK residents in 2003–04 and that since 2001–02, the latter has been falling. Table 3 converts these figures into an index.

**Table 3**  
INCREASES IN EMPLOYMENT (2000–01 = 100)

Year	Officers				Ratings			
	UK	Other EEA	Other	Total	UK	Other EEA	Other	Total
2000–01	100	100	100	100	100	100	100	100
2001–02	358	530	642	411	374	926	639	516
2002–03	319	1,333	772	431	440	3,326	786	670
2003–04	253	1,224	1,384	476	417	1,382	848	649

The total employment of officers has increased by 4.76 over the period. However analysis by nationality group reveals that the most dramatic impact has been in the employment of Other seafarers which has increased by 1,384% compared to 1,224% in other EEA and 253% in UK officers. Employment of UK officers reached its peak in 2001–02 although the number of tonnage tax vessels continued to rise. This change in trend has meant a profound redistribution of the nationalities as shown by Table 4.

**Table 4**  
DISTRIBUTION OF SEAFARERS BY NATIONALITY

Year	Officers				Ratings			
	UK	Other EEA	Other	Total	UK	Other EEA	Other	Total
2000–01	80%	4%	17%	100%	49%	2%	49%	100%
2001–02	69%	5%	26%	100%	35%	4%	61%	100%
2002–03	59%	11%	30%	100%	32%	10%	58%	100%
2003–04	42%	9%	48%	100%	31%	4%	64%	100%

In 2000–01 80% of the total number of officers employed on tonnage tax vessels were UK resident. This proportion has declined significantly over a three year period to a mere 42% by 2003–04. The benefits of this have been felt by other non-EEA officers, which have increased from 17% to 48%. The proportion of other EEA has remained reasonably constant. Thus the benefit has been largely enjoyed by non-UK officer groups

whose employment position has increased threefold. The distribution of ratings although exhibiting a similar trend has not been so dramatic. UK ratings now represent 31%, decreasing from 49%. The other non-EEA have increased to 64% from the same 49%.

**Table 5**  
EMPLOYMENT PER TONNAGE TAX VESSEL

Year	Officers				Ratings			
	UK	Other EEA	Other	Total	UK	Other EEA	Other	Total
2000–01	4.8	0.2	1.0	6.0	2.4	0.1	2.4	4.9
2001–02	6.1	0.4	2.3	8.8	3.2	0.3	5.6	9.1
2002–03	4.0	0.7	2.0	6.7	2.8	0.9	5.0	8.6
2003–04	3.5	0.8	4.0	8.3	2.9	0.4	6.0	9.4

It follows logically that employment of UK seafarers per tonnage tax vessel shows a decline from 4.8 in 2000–01 to 3.5 in 2003–04 following a peak of 6.1 in 2001–02. Conversely there has been a significant rise in the number of other non-EEA officers per vessel from 1.0 to 4.0.

The analysis highlights the relative reduction in the number of UK seafarers employed on qualifying ships under the tonnage tax legislation and a definite preference for seafarers of other non-EEA nationalities. Since part of the rationale for the establishment of the tonnage tax was to stem the decline in the number of UK seafarers, this is a disturbing state of affairs. As the Alexander Report states: “The Department of Environment, Transport and the Regions concludes on balance that the economic case for the tonnage tax is sound. The key to revival of the industry is seen as more UK direct ownership of shipping leading to more training of UK seafarers especially officers, with consequent substantial benefits to the shore-based related industries. It is envisaged that there would be more registration of vessels here which is not part of the economic case but is likely in turn to increase the employment of both officers and ratings” (Report by Lord Alexander of Weedon QC paragraph viii).

The introduction of the tonnage tax legislation recognised the need to invest in UK seafarers as a method of ensuring a necessary level of maritime expertise within the UK economy. It is clear from this analysis that, although cadet numbers have marginally increased, employment of UK seafarers on the “Tonnage Tax Vessels” has declined. If the legislation is seriously aimed at the increase in UK based seafarers, there is clearly a case for establishing a method whereby these cadets are able to secure stable employment within the UK fleet.

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### Memorandum by Trinity House (TT 03)

#### TONNAGE TAX AND TRAINING

##### 1. Industry History

In 2000, the year when the enabling legislation for Tonnage Tax was approved by Parliament the shipping industry was considered to be in long-term decline at the rate of about 4% a year. Tonnage had fallen from a peak of 50 million dwt in 1975 to 9.7 million dwt in 1998. At that time only 20% of the UK owned trading fleet was registered in the UK and without a fundamental change in fiscal law the Chamber of Shipping forecast an ongoing decline in ship owning in the then current financial environment.

The situation regarding seafarers was also in serious decline with officer numbers falling by 78% and those for ratings by 65% during the period 1980 to 1997. The number of cadets entering the industry in the late 1990s had fallen below 500 per year which was well below the target of 1,200 which academic studies had indicated was the number required per annum to meet the long term needs of both the sea going and shore based sectors of the shipping industry.

The continuing inexorable decline had been a concern of successive governments and was the subject of a number of Select Committees concerned with Employment, Defence, Environment and Transport. In 1999 a DETR study stated that “the UK shipping industry is in a parlous condition, and radical measures are required to arrest and reverse its decline. The case for ensuring that the UK has a strong shipping industry is overwhelming”.

The concerns outlined in the foregoing resulted in the establishment by Government of a Shipping Working Group set up in 1997 and comprised representatives from the industry, trade unions and Government. The conclusions of the Working Group formed the matrix of a Government White Paper published in late 1998 entitled “British Shipping—Charting a new course” which set out the Government’s policy and objectives for the shipping industry which can be broadly summed up by the following statement “The Government does not accept that the long decline in the British Merchant Navy should simply be allowed to continue. The future offers substantial opportunities for Britain’s shipping and the Government is committed to working with the shipping and maritime—related sectors and trade unions to exploit those opportunities to the full. The paper went on to reject any argument that the UK should allow the maritime industry to atrophy and outsource our shipping needs on the grounds that such policy, which relied heavily on foreign service and supply, was too risky for our commercial and defence future. The policy paper further determined that what was required was the sustained requirement and employment of British sea farers which in turn required the continued participation and viability of British shipping companies involved in international trade. This statement of policy was the essential starting point in the creation of a new fiscal regime which ultimately led to the establishment of the new Tonnage Tax which concept had been successfully introduced in some European and Scandinavian countries and had resulted in benefit to the growth of their indigenous shipping industries.

## 2. *Tonnage Tax—Training obligations*

From the outset Tonnage Tax has always been linked to a strong training commitment by a participating company. The Government had confirmed their concern over maritime training with a number of financial support initiatives for training schemes to meet demand in key training categories. This policy reflected DETR concern that unless we started to reverse the decline in industry training, the long lead time of about a decade of sea service from new-entry cadet to class one certificate, the UK would not be in a position to prevent the loss of the maritime industry. The training proviso associated with Tonnage Tax benefit reflects this concern as the Government recognised that without increasing UK ownership there would be insufficient training berths to absorb the required increase in training capacity. The DETR recognised from the onset that it could only encourage training through grants but that the commitment towards training had to come from within the industry and the best way of stimulating such commitment was to make it a condition of Tonnage Tax entry.

The training formula that was eventually agreed was that as a pre-condition of eligibility for Tonnage Tax entry a company had to declare a minimum training obligation to recruit each year one UK officer trainee for every 15 existing officer posts regardless of whether those posts were currently filled by a UK officer or one of different nationality. After three years such policy would mean, in broad terms, that there would be one officer cadet under training for every five officer posts.

With the benefit of hindsight the obvious omission in the training argument was that training was limited to cadet status only and there was no requirement for a ship owner to continue training from first qualifying certificate level to senior certificate level which omission forms the basis of the present crisis in junior officer berth availability.

The other outstanding omission in the training requirement is that there was no need for a Tonnage Tax company to register its ships in the UK and thereby comply with the direct jurisdiction of UK maritime law. The “Eligibility” role required a company to undertake the “strategic and commercial management” of a vessel within the Tonnage Tax regime from the UK. Once entered into the tax regime an owner was required to follow Tonnage Tax regulations for 10 years subject to annual review.

The lack of any requirement to register the vessel in the UK leads to all sorts of complications in implementing a national training standard. Without UK registration there is no control requirement over the qualification or nationality of the officers on the vessel which in turn leads to problems in their appointment as “Training Officers” for cadets serving on board those vessels or indeed for the effective training of junior officers serving on the vessel where all senior officers are of a different nationality and culture and have been trained under quite different regimes to that established in the UK.

## 3. *Current situation—Tonnage Tax introduction plus four years*

In the course of a Maritime Policy debate in the House on 17 December 2003 the success or otherwise of the Tonnage Tax regime was confirmed by Government with the following statistics:

- (i) In the three years during which Tonnage Tax has been operating 62 shipping groups representing 200 companies and 720 vessels have been entered into Tonnage Tax.
- (ii) The UK based shipping fleet now comprises 590 vessels representing 12.3 million tons which have recorded overseas earnings in 2001 of £5.1 billion.
- (iii) The UK registered fleet now stands at 8.9 million tons which places it 15th in the World league table or 2% of the World trading fleet.
- (iv) The maritime training scheme associated with Tonnage Tax saw a cadet entry in the year 2002–03 of 557 cadets which represented a 16% increase over the previous year (480 cadets).



What is not declared in the debate report is the value to a ship owner of Tonnage Tax compared to his existing fiscal regime. According to industry sources there can be no common figure associated with that benefit as the tax circumstances of participating companies vary considerably and in the case of multinational companies are probably spread over a number of countries.

It can be assumed, however, that in view of the impressive number of vessels which have been entered into the Tonnage Tax regime there must be significant financial benefit to the ship owner which should have a bearing on his ability to undertake training over and above that required at Cadet level. It is a great pity that with the benefit of hindsight no consideration was given to offsetting the tax advantage to the ship owner with an extended training requirement for officers up to Class 1 certificate level.

#### 4. *Trinity House Scholarship Cadets*

When we established the Scholarship Cadet Training Scheme in 1989 we declared it to be something of a catalyst for the industry which was then in severe training decline as in 1987 the training problem had reached a nadir when cadet intake into the industry had reduced to 160 entries which was considered to be only 15% of the number required to maintain the then current officer pool.

At that time the UK managed fleet was in rapid decline for a number of reasons both fiscal and technical—the container revolution was well established where a first generation containers ship replaced seven conventional break—bulk cargo ships while the development of North Sea oil had reduced the need for long haul tanker tonnage engaged in Crude oil supply from the Middle East to UK refineries. This reduction in fleet size had produced a significant officer surplus and shipping companies saw no immediate need to train a cadet to junior officer level when there was the ready availability of senior officers prepared to sail in junior officer positions. Trinity House recognised that this situation, if allowed, to persist, would result in a severe officer shortage sometime in the future when the displaced senior officers sailing in junior capacity transferred to overseas employment when they could expect to regain their original rank or decided to seek a career change in view of their somewhat reduced financial circumstances.

It has to be recognised that our scholarship scheme is operated in partnership with major players within the industry who co-operate by providing us with training berths. In this connection we differ significantly from the Tonnage Tax companies who cynically train cadets to meet a fiscal requirement with no consideration for their ongoing employment. In the case of the Trinity House cadet, training has involved four or five established UK based companies whose generosity in providing training berths disguises the fact that they have also reduced their own training requirement to accommodate our cadet for sound financial reason—why pay to train a cadet if Trinity House will do it for you!—all these companies almost certainly hope that the cadet, on qualifying at first certificate level, will select their company as his career employer.

The Trinity House scheme is unique in that the policy of deliberately appointing cadets to different companies in different trade sectors involving different types of ships produces a very broad practical training base and our cadets certainly have a reputation of being trained in the majority of industry sectors which ensures a special skill base over and above that required by any particular shipping company. The second benefit of our multi company training programme is that a company considering employing our cadet at junior officer level recognises that the candidate has experience of at least four other shipping companies and has approached his selected company on the basis of first hand experience of other prospective employers. This fact encourages the employing company to believe that the Trinity House cadet is worthy of further training investment necessary to allow him to qualify to senior certificate level and, indeed, our track record shows that our cadets do show a strong loyalty by remaining with their company of first choice whom they joined at the completion of their cadetship with Training House.

From the foregoing it will be recognised that the principle beneficiary of our scholarship is not the cadet but rather the shipping industry which has received a multi skilled officer trained at Trinity House expense which skill base is seen as a foundation for his ongoing career with a selected shipping company. In this connection the industry has to date received the gift of approximately 100 multi-skilled officers trained at Trinity House expense. That record should refute any charge that our training policy is little different of that of the Tonnage Tax company.

It should also be recorded that in view of the current concerns over the availability of junior officer positions within the UK based shipping industry we have no knowledge of any Trinity House cadet who has had difficulty in obtaining employment with a shipping company of his choice on completion of his cadet training with us. If there are problems in the industry, and all reports indicate that there certainly are, our cadet is better placed than most in being seen as a prime candidate for employment with a major shipping company.

#### 5. *Junior Officer training opportunities*

In view of the correspondence and articles appearing in both the technical and national media concerning the difficult situation regarding the employment of junior British officers we approached Clyde Marine to comment on this situation in their capacity as the UK's largest training company. Clyde currently train on behalf of 45 owners and over recent years have consistently recruited in the order of 300 cadets for the industry representing 43% of last year's UK national cadet intake. Clyde confirmed that the current

situation is extremely serious as part of their business is involved with officer recruitment and placement in addition to their work in cadet training. On that side of the business they report that over a three year period an average of 60 to 80 junior officer positions which they were required to fill has reduced to zero positions today and they currently record no industry requirements for junior officers. Of even more concern is that the number of senior officer positions also seems to be in decline as a result of major changes in company manning policy. At the time of our contact they reported that a major Scandinavian owner, who had traditionally employed senior and junior British officers on a sophisticated gas tanker fleet operating world wide, had changed its manning policy and had made 87 British officers redundant to be replaced by East European or Pacific Rim nationals.

#### 6. *Breaking the Berth Barrier*

In view of the ship owners reluctance to sacrifice part of the saving they enjoy through entry into Tonnage Tax combined with the fact that the Tonnage Tax “contract” is essentially a 10 year commitment it would seem to be quite difficult for the Government to introduce legislation three years into the mission which would change the Tonnage Tax rules other than with the consent of Tonnage Tax companies. The remedy, if one can be found, will therefore need to protect the ship owners current financial position and seek his co-operation in preventing the current situation from deteriorating further in the sense that the present berth problem reflects the early stage of the Tonnage Tax problem and it is only now that the first generation of Tonnage Tax cadets are obtaining their first professional certificate. In order to reduce the number of cadets being employed for Tonnage Tax reasons two remedies would seem to be possible:

- (a) Increase the cadet to officer ratio to say 1:30 which would have the immediate effect to halving the number of cadets a Tonnage Tax company is required to employ under Tonnage Tax rules.
- (b) Review the tonnage Tax training penalty which presently stands at just over £7,000 per annum or approximately £24,000 per cadet placement. The £24,000 is approximately equal to the cost of training a cadet once Government assistance against training cost is taken into consideration. If the penalty was significantly reduced and the cheaper option for the ship owner to engage a cadet was to pay a reduced penalty the effect on cadet recruitment should be dramatic. At the present time, with training costs and penalty in approximate balance, the ship owner enjoys the marginal benefit of a young English speaking officer cadet supplementing his manning numbers. If the penalty for not engaging that cadet was to, say, halve the amount paid into the Maritime Training Trust from £24,000 to £12,000 it is unlikely that Tonnage Tax owners would persist in recruiting cadets other than those which they genuinely intend to retain as part of their future officer pool. The effect on the training fund would be significant but as that fund presently stands in excess of £10 million—and the trustees are finding it very difficult to find genuine outlets for the fund under current Trust rules—a reduction of income should not be an embarrassment.

The secondary benefit of changing the ratio between cadets and officers employed would also show a significant cost saving to the ship owners which might be redirected to form a compensation fund for that ship owner to employ a junior officer at UK rates.

Clyde Marine advise that the East European/Pacific Rim annual salary differential of a Third Officer is approximately £8,000 (£21,000–£13,000) against that paid for a UK alternative. It is therefore possible, by adjusting the training ratio rules for a ship owner to receive indirect compensation via saving on cadet training expenditure to cover the cost of employing a UK junior officer and by doing so he would not suffer any cost penalty over that which he presently enjoys under Tonnage Tax Regulation.

There is no doubt that the listed figures would need to be fine tuned and better investigated but it does seem to form the matrix for a proposal to change the Tonnage Tax regulations which would:

- (a) reduce cadet intake;
- (b) encourage ship owners to employ UK nationals; and
- (c) protect the ship owner from any additional cost as a result of employing a UK national at UK rates.

June 2004

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### Memorandum by Dr David Glen (TT 04)

#### TONNAGE TAX

#### THE QUESTIONS

The questions posed for the hearing of 23 June address the following:

- Is tonnage tax succeeding in increasing the number of vessels on the UK register?
- Is tonnage tax increasing the number of cadets?; and

- Once qualified are the young officers gaining maritime employment, particularly under the UK flag?
- Are there changes which could be made to make the regime more effective?

## EVIDENCE

The evidence submitted in this memorandum is derived from work carried out by staff at the Centre for International Transport Management, and published in the *UK Seafarers Analysis* over the years 1997–2003.

Using the data provided in the summary table 1 below, it is clear that:

1. Cadet numbers have improved significantly since the Tonnage Tax was introduced in 2000. Table 1 clearly shows an increase in numbers of new trainees (the annual intake) in 2002 and 2003.
2. Officer numbers are more difficult to comment on. As Table 1 indicates, numbers have oscillated, but this appears to be primarily due to the widening coverage of certificated officers post implementation of STCW'95, which has offset the effects of an ageing officer population.

## EVIDENCE ON CADET NUMBERS

The annual publication of the *UK Seafarers Analysis* has monitored the numbers of new cadets entering training programmes over the past seven years. There have been significant changes in the way such training is supported. At present the government supports most UK cadet trainees through the SMaRT scheme, which provides a grant towards the cost of training. The other incentive to train for certain companies, is the existence of the Tonnage requirement that all companies electing for the Tonnage tax regime should be training one cadet officer for every 15 officer employees.

Table 1

## SUMMARY OF UK SEAFARER NUMBERS, 1997–2003

Calendar Year	Cadets		Officers Actual Totals	Ratings	Total Active Seafarers
	Total in Training	Annual Intake			
1997	1,130	450	17,620	10,860	29,610
1998	1,158	544	17,356	10,795	29,309
1999	1,127	425	15,897	11,409	28,085
2000	1,031	480	16,464	10,331	27,826
2001	1,086	468	14,395	9,707	25,188
2002	1,175	631	15,125	10,360	26,660
2003	1,045	603	17,126	10,037	28,208
Average		514			
% Change (1997 = 100)	-7.52		-2.80	-7.58	-4.73

Source: Derived from *UK Seafarers Analysis, 1997–2003*

It is clear from the above Table that there has indeed been quite a significant increase in the numbers of new trainee cadets. The figures for 2003 in the above Table are probably an underestimate, given the time that the data was prepared. An estimate of 620–630 would not be unreasonable.

## CAN ALL OF THE INCREASE BE PUT DOWN TO THE TONNAGE TAX CHANGE?

This is a difficult question to answer. There has been a much greater proportional increase in the numbers of UK registered vessels, reflecting company shifts to take advantage of the tonnage tax provisions, but it does not follow that we should expect a directly proportional response. This is because many companies may have already satisfied the training requirements prior to their election of the tonnage tax, and this would imply that no significant change in cadet recruitment need be observed. In my opinion, the shift is probably primarily related to the new regime, and in that sense the tonnage tax can be regarded as improving the viability of future UK officer numbers.

## IS THE INCREASE ENOUGH TO ALTER LONG TERM PROSPECTS FOR OFFICER NUMBERS?

Probably not. The latest projections made in *UK Seafarers Analysis 2003* is presented in Annex 1 below. The critical element to notice is the assumed cadet entry rate of 600 per year, plus wastage rates of 8% per year during training, and 6% per year during the ages of 20–30 as officers. Table 2 reveals an expected decline in officer numbers (assuming a retirement age of 65) from 17,126 (the number of officers for which full

information was available in the databases) to 15,031 in 2008, a decline of some 12.2% over the period. There is a more dramatic decline projected in the officer stock when the retirement age is taken to be 57; from 14,311 in 2003 to 10,690 in 2008, a decline of the order of 25% in the same period. These short-term declines will occur irrespective of changes in government policy, although they are still subject to errors in the assumptions about cadet entry and wastage rates, which may have an impact. Taking the projections to 2018 simply extends the decline on both retirement age assumptions. Officer numbers are expected to fall further to 9,817 from the 2008 figure of 15,031 a 34.6% reduction over the ten year interval. The “57” officer stock declines from 10,690 in 2008 to 6,650 a 37.8% reduction in total.

**Table 2**  
**PROJECTIONS OF UK OFFICER NUMBERS 2003–18 (Most Likely Scenario)**

Age 65	Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total	Numbers	17,126	16,706	16,295	15,887	15,487	15,031	14,530	14,040	13,493	12,848	12,279	11,775	11,286	10,815	10,317	9,817
Deck	0.56	9,591	9,355	9,125	8,897	8,673	8,417	8,137	7,862	7,556	7,195	6,876	6,594	6,320	6,056	5,778	5,498
Engineer	0.44	7,535	7,351	7,170	6,990	6,814	6,614	6,393	6,178	5,937	5,653	5,403	5,181	4,966	4,759	4,540	4,319

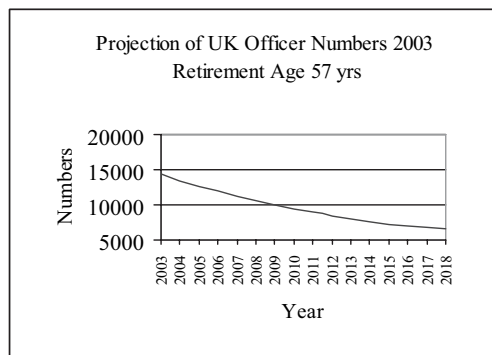
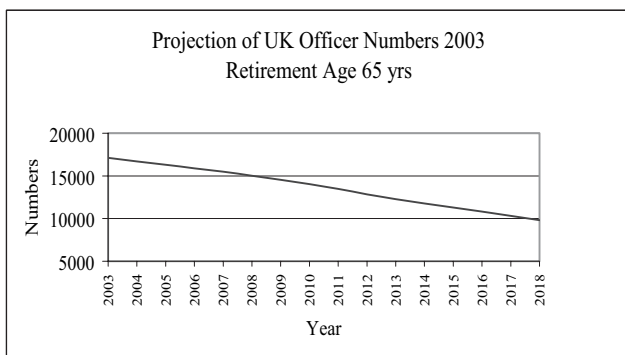
Age 57	Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total	Numbers	14,312	13,403	12,617	11,931	11,288	10,690	10,084	9,494	8,963	8,435	8,009	7,614	7,289	7,022	6,819	6,650
Deck	0.56	8,015	7,506	7,066	6,681	6,321	5,986	5,647	5,317	5,019	4,724	4,485	4,264	4,082	3,932	3,819	3,724
Engineer	0.44	6,297	5,897	5,552	5,250	4,967	4,703	4,437	4,178	3,944	3,712	3,524	3,350	3,207	3,090	3,000	2,926

Wastage Rates

20 < 30	0.06
30 < 50	0.06
50 plus	0.01

Cadet Entry Rates

Input	600
Wastage	0.08
Output	430



Source: UK Seafarers Analysis 2003, Table 3.8

It is clear that this projection does not give an encouraging prospect for the long term careers prospects of officers, even if cadet numbers have increased.

It should be noted that the above projection is for all certificated officers. Throughout the period 1997–2003, an estimated figure of 9% was used to allow for the numbers of shore-based workers who hold valid STCW’95 certificates of competency. This figure has recently been challenged by a number of other research studies, who put the estimate considerably higher. It is clear that UK active officer numbers are therefore verging on the “optimistic” side if the 9% figure is an understatement.

The increase in officer numbers seen in 2002 and 2003 might be read as reflecting a rise in employment of UK officers as UK registered ships have also increased in this period. There are no firm grounds for believing this to be the case. First, officers and ratings employed on UK registered tonnage do not have to be UK nationals. EU nationals have the same employment rights under European employment law. Second, if it were the case that a large increase in officer employment had occurred, NUMAST and other unions would no doubt have been celebrating this fact. As stated earlier, the author is of the opinion that the fluctuation in officer number observed in the past few years is more likely to be due to the widening implementation of STCW’95.

## RATINGS EMPLOYMENT

It is clear from Table 1 above that ratings numbers have not altered significantly in the past two years. There is a caveat to be read into these figures however. They are based upon the UK Chamber of Shipping Fleet and Manpower survey for 2002. The results of this survey are affected by the differential non-response of certain companies who are members of the chamber, and of course, do not include any ratings employed by companies which are not Chamber members.

## CONCLUSION

The author is of the opinion that the tonnage tax has had a significant impact upon the cadet intake in the past two years. There is also evidence that there has been an increase in the number of certificated officers in the 20 < 25 and 25 < 30 year age groups. Their numbers rose from 799 to 908, and 1,127 to 1,203 respectively. The overall change in the numbers in this age group since 1997 was 36.5% and 10% respectively (see Table 3). Whether these young officers are employed by UK companies is not possible to ascertain from the data.

The long term prognosis for UK active officer numbers is still not very good however.

Table 3

## COMPARISON OF UK OFFICER AGE PROFILES IN 1997, 1999 and 2003

<i>Age(years)</i>	<i>Total 1997</i>	<i>Total 1999</i>	<i>Total 2002</i>	<i>Total 2003</i>	<i>% Difference 2002-03</i>	<i>% Difference 1997-2003</i>
15 < 20	0	11	0	9		
20 < 25	666	708	799	908	13.6	36.3
25 < 30	1,089	1,231	1,127	1,203	6.7	10.5
30 < 35	1,238	1,007	1,115	1,241	11.3	0.2
35 < 40	1,975	1,727	1,278	1,282	0.3	-35.1
40 < 45	2,876	2,716	2,132	2,234	4.8	-22.3
45 < 50	2,905	2,766	2,812	3,122	11.0	7.5
50 < 55	2,977	2,775	2,628	2,986	13.6	0.3
55 < 60	2,108	1,978	2,249	2,828	25.7	34.2
60 < 65	1,303	978	894	1,313	46.9	0.8
Age 15 < 65	17,137	15,897	15,034	17,126	13.9	-0.1
Age to 57	14,599	13,895	12,997	14,312	10.1	-2.0
All Ages	17,137	15,897	15,114	17,408	15.2	1.6
Under 40	4,968	4,684	4,319	4,643	7.5	-6.5
Over 40	12,169	11,213	10,715	12,483	16.5	2.6

Source: Table 7.2 *UK Seafarers Analysis 2003*

*Dr David Glen*

Reader

Centre for International Transport Management

London Metropolitan University

June 2004

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### Memorandum by the Chamber of Shipping (TT 05)

#### TONNAGE TAX

The Chamber of Shipping welcomes the opportunity to set out its assessment of the success of the tonnage tax and to offer some comments on how the Government should complete its objectives, though some of these fall outside tonnage tax itself.

#### SUMMARY

There has been a remarkable and potentially historic reversal of the 25-year trend of decline in the level of ship-owning and operating activity in the UK. Not only has the activity and value of existing shipping ventures been enhanced, but the UK has become a more attractive place in which to base international shipping operations and there has been significant inward investment. The size of the fleet is now back to the levels of the late 1980s.

However, this recovery is still very fragile and will be derailed if the business climate for shipping in the UK does not remain positive and flexible. In particular, the Chamber opposes any suggestion of a mandatory requirement on tonnage tax operators to employ British crews, even in part, on the grounds that such a restrictive message to those companies now beginning to expand their fleets here will drive them away and shatter the success of the policy to date.

It is inevitable that the revival of the fleet should precede any positive impact on training and employment for British seafarers (particularly officers). Training has begun to increase, but both this and jobs at sea are subject to complex and longstanding factors that still have to be addressed by industry and by Government.

Tonnage tax has had a significant positive influence on the size of the UK-registered fleet by creating the right environment for shipping operations based in Britain. The Chamber advocates strongly the need for the UK register to continue to be a user-friendly, efficiently-run and high-quality register in the UK, to ensure that the UK register remains a real “register of choice” for UK-based shipping operations.

Improvements of a practical nature are under discussion with the Inland Revenue (on technical tax aspects) and with the Department for Transport and the unions. The Chamber is happy to go into greater detail on the former, but has confined itself here mainly to highlighting the need to expand the scope of the tonnage tax regime to include some sectors which are currently excluded—aggregate carriers and specialist North Sea vessels—which also happen to be key employers at the present time of British officers and ratings.

#### THE EFFECTS OF TONNAGE TAX ON BRITISH SHIPPING

Four years after its adoption in July 2000, the UK tonnage tax has already had a fundamental and deep-ranging impact on British shipping—both directly and as a result of the confidence it has inspired in the UK as a good base for shipping business generally. Tonnage tax has become a symbol of new opportunities, which would not have arisen if it had not been adopted.

Although the industry warned of the consequences of inaction at the time, it is even clearer now that—without the tonnage tax—there would have been a further, very substantial reduction in the UK-based and UK-registered fleets, with no attractions to inward investment. This UK’s maritime contribution would

have become that of a third-division player, with most of our shipping activity confined to near-sea (rather than global) trading and any strength internationally confined to specific niche areas. The prospect of recovery would have been lost for the foreseeable future.

More details concerning the background to the tonnage tax, including the relative state of the UK fleet and British manpower, are included in Annex 1.

In the event, the tonnage tax has been a great success. The most recent figures from the Department for Transport indicate that 70 company groups have elected for the new regime, representing over 277 companies and 756 ships.

As the statistics in Annex 1 show, the UK-flag fleet has increased by 250% since January 2000 to nearly 10 million deadweight tonnes. The UK-based fleet (ie that directly owned in and operated from the UK and subject to the UK's tax regime) under all flags has increased by 100% to nearly 15 million tonnes. This has already taken both the owned and the flag fleets back to their levels at the end of the 1980s.

In terms of numbers of ships, the owned fleet has shown only a modest increase. The register has shown an increase of over 50%. In reality, the increase in the number of ships has been even greater, if changes in the national ship register are taken into account (over the last five years the Register in Cardiff has reviewed all the ships on the register and removed a substantial number of ships which it found were no longer in operation).

The average age of the fleet is down over the last five years from 15 to 10 years and falling—below the world average (12½ years) for the first time in a long time.

An assessment of the impact on overall UK shipping turnover and the balance of payments is not yet possible as up-to-date figures are not available and the statistics hide other distortions. To date, gross turnover remains at around £5 billion.

There have been considerable benefits to “corporate UK”, both for employment in enhanced shore-side establishments of existing UK shipping companies and in the form of new offices opened up by new companies brought into the UK. The beneficial impact also extends to a wide range of service-providers including the Stock Exchange, banks, insurers, public relations agencies, lawyers, accountants, and a variety of consultants.

#### TONNAGE TAX AND TRAINING

There is also good news on seafarer training. The last four years have seen a significant increase in the number of cadets being trained in the Merchant Navy in both the deck and engine room departments. The figures for new officer trainees recruited since the year 1999–2000 are shown in the following table.

	<i>British new officer entrants</i>
1999–2000	446
2000–01	481
2001–02	483
2002–03	606
2003–04 (estimate)	627

(Notes: This information is derived from returns to a Merchant Navy Training Board enquiry to sponsoring companies and “group” training organisations. These are then adjusted in the light of Government information from the Support for Maritime Training (SMarT) scheme. New entrants include “traditional” HND cadets, graduate/under-graduate recruits and shore-trained engineers. In addition, and not included here, an increasing number of trainees have joined and now completed rating-to-officer conversion courses.)

These figures show a 40% increase since 2000. This increase is due to two factors. The first is the increase in the size of the British fleet. The second, and far more significant factor, is the requirement in the tonnage tax for one new cadet to be taken on each year for every 15 officers (of whatever nationality) on the safe manning certificate. While the tonnage tax regime allows for Payments In Lieu Of Training (PILOT), this happens mainly where companies fall into default on their tonnage tax training commitment through unexpected developments (mainly wastage, or trainees leaving and the company having to wait for the next college course cycle to begin). “Planned” PILOT has to be formally approved by the Department for Transport and represents a minute fraction—as low as 1–1½%—of the training undertaken by or on behalf of tonnage tax companies.

Companies not in tonnage tax and who traditionally trained have, generally speaking, continued to train for their own requirements.

#### THE NEW POLICY AND EMPLOYMENT

The impact on the employment of British seafarers was always going to take longer to come through. This is because:

- the increase in the fleet has to come first, followed by positive effects on training and only then on employment and skills (there has in recent years been effectively no unemployment of officers);
- the lead-time for the training of skilled crew members (particularly officers) is long. It takes eight to 10 years to produce a master or chief engineer;
- there are longstanding demographic trends which have to be reversed, before we shall see a halt in the reduction of total officer and rating numbers year by year. It stems from an combination of long-term low levels of officer recruitment over the last 15 years and an ageing seafarer population (with large numbers in their 50s); and
- much of the reason for the current reduction lies in the 25-year period during which the fleet was shrinking. Large numbers of British officers were compelled to find berths on foreign ships. Their ability to make such a move, rather than be forced to find other work as might happen in a shore-based career, has meant that the total number of British officers has remained high in comparison to the requirements of the UK fleet. Now, many are reaching retirement or moving ashore. Inevitably, therefore, the number of British seafarers will continue to decline until a new equilibrium is found.

In addition, there are many other complex factors involved in the issue of employment in the shipping industry. The competitive pressures on employers of crews at sea are stronger and more immediate than equivalent pressures in land-based industries. In shipping, they are becoming ever keener as a result of the global nature of the industry and the fact that quality and fully certificated officers are freely available from countries whose basic wage rates are considerably lower than those in the UK. This is a challenge faced by all high-cost European countries.

These difficulties have been intensified by the fact that the Government has not implemented or developed the central issues relating to seafarers' employment costs which were jointly put to it by the Chamber, NUMAST and RMT in the late 1990s (some were discussed in "Charting a New Course").

The effects of the tonnage tax on employment are only just starting to emerge as the first cadets taken on to meet the companies' training requirements under the tax complete their training and gain their watch-keeping certificates of competency.

#### *Dangers of unemployment*

There have been reports that some newly qualified cadets are experiencing problems obtaining positions as junior officers and of some companies not being able to offer all their cadets posts on their ships. While some have found difficulty, there is as yet no firm evidence that unemployment as such is a significant issue. There has always been some "churning" at this stage of a seafarer's career and cadets may well be finding posts in other companies.

To gain clarity, the Chamber of Shipping and NUMAST are jointly commissioning independent research to assess the practical position and to look as well at the other surrounding issues which might affect the viability of the employment of junior officers into the near and middle future. It is hoped that the results of this research will be available during the autumn.

In this context, it may also be helpful to note that:

- most companies that have traditionally recruited and trained cadets to meet their own requirements continue to do so, even though some companies in the short-sea sector lose all cadets when they gain their first certificate as they seek the advantages of an income-tax-free environment by going deep-sea;
- the Chamber is aware of surpluses and shortages in a number of our member companies and, wherever possible, seeks to put one in contact with another;
- companies who are training for the first time because they have entered the tonnage tax regime have generally done so with a view to offering gainful employment to suitable cadets on the completion of their cadetship. There is a spectrum of views as to how the cadets will be remunerated—from full north-west European rates to so-called "international rates" which may not be the same wage rate as a full UK officer but which, nevertheless, offer a reasonable remuneration package for the age and qualification of the individual; and
- employment is available in the international maritime labour market (as opposed to the traditional national labour market)—the question is whether individuals are willing to be employed at international rates. Some might if they see it as a way of reaching the more senior positions (when more seagoing options will become available to them and/or when there will be opportunities to transfer ashore to progress their careers within the wider maritime sector).



## THREATS TO THE SUCCESS

The danger remains that the fruits of the Government's policy and the successful revival of the UK-based fleet have still to be consolidated for the long term. Last year saw a number of actions by Government—mostly unwitting—that threatened the recovery, both in the eyes of UK owners and, especially, potentially among other groups which have chosen to establish a shipping base in the UK. By way of example, the proposed changes to race relations legislation which would have affected the pay structures of international crews on UK-flagged ships would, if proceeded with, have caused a major exodus from the register. The threat to adjust the National Insurance arrangements for British seafarers employed in a number of short-sea sectors would, if implemented, have led to considerable loss of jobs.

There is no reason that the success should not continue well into the future—provided the Government continues to pursue policies which bolster rather than detract from the positive environment it has created. One example of a change in other areas which could enhance the attractiveness of the UK register even further would be in matrimonial law—at present, marriages on board ships are not recognised under British law; with a buoyant desire for marriages on board cruise ships, this puts UK-flag operators at a competitive disadvantage and acts as a disincentive to register ships in this country.

### *An employment link?*

Understandably, some parties—including some seafarers' unions—have expressed frustration with the time that improvements are taking to come through in employment terms. Some have gone further and called for an “employment link”.

There is no clear or common definition of what such an obligation might comprise. However the concept of requiring a fixed number of the crew of a tonnage tax ship to be UK nationals was explicitly rejected at the inception of tonnage tax (as was a flag link), on the grounds that it would introduce a rigidity that would deter companies from opting for it or from coming to the UK to do shipping business. It would also—if the Government did not match the best employment-cost arrangements offered by our competitors—put UK-based operators at a severe competitive disadvantage compared to say the Dutch or the Danes or other European regimes.

The Chamber remains strongly of this view. Nothing has changed since that earlier common view of industry, unions and Government. If an inflexible change of this nature were introduced, the Chamber foresees a substantial removal of a number of companies and fleets from the UK flag and from the UK as a base. This is a real and very present danger, which would be sufficient to wreck the recovery.

This does not mean that nothing can be done, but it is important for any action to be of a voluntary nature and to involve a review of the way in which seafarer training and employment is currently supported within the UK. The Chamber is currently in dialogue with its social partners and with Government on how best to address this matter.

## CHANGES TO THE TONNAGE TAX REGIME

While the fundamentals of UK tonnage tax are right, and the need for stability of fiscal regime is a most important aspect of tonnage tax policy, there is of course room for further improvement. The Inland Revenue has been conducting an ongoing review of tonnage tax which will be drawn to a close in the autumn. In that context the Chamber has made and is making a number of submissions, some of which are focused specifically on detailed points of tax law. Further information can be provided on these if required; they include, for example, the volume of leasing linked to the regime which is considered acceptable (the level of the “lease cap”) and rules covering the payment of dividends to UK tonnage tax companies by foreign shipping subsidiaries.

However, there is one specific aspect that would be more appropriate to raise within this submission—that is, the extent of eligibility for tonnage tax. When the tonnage tax was established in 1999–2000 two important shipping sectors were excluded:

- *Offshore specialist vessels.* While some offshore vessel types (supply vessels, anchor-handling tugs and the like) and their trades are eligible for tonnage tax others are not, particularly when working on the UK Continental Shelf. These include emergency response and rescue vessels, seismic survey vessels, diving vessels and the like. At the time this was a decision taken within the Treasury, which was trying to balance conflicting policy objectives of supporting the shipping industry on one hand and protecting the “rent” from North Sea oilfield development. All these vessels offer a high level of UK employment of officers and ratings. The case for their inclusion in tonnage tax has been renewed and is currently under consideration within Treasury and Inland Revenue.
- *Aggregate Carriers.* An important part of the British short-sea shipping sector, aggregate carriers were excluded initially, because the European Commission had not understood the difference between port maintenance dredging (which would not be eligible) and the transport of sea-dredged aggregates to the UK and Continental markets, which happen to have loaded at sea rather than at another port. The Commission has subsequently been persuaded that this sector may be included and it is hoped that this will be arranged soon.

### BACKGROUND TO THE TONNAGE TAX

At the low point in December 1999, the UK-owned fleet (under all registers) had shrunk to about 20% of its size in 1980. The size of the UK-registered fleet had shrunk even more—to around 7%.

At that time, the UK-owned fleet stood at 7.2 million deadweight tonnes and the registered fleet at just over 2.5 million dwt, representing less than 1% and  $\frac{1}{3}$ % respectively of the world fleet. The average age of the fleet was about 15 years, compared to eight years in 1980. Shipping's contribution to the UK's balance of payments was about half what it had been in 1980 in real terms.

The position regarding employment was more complex to assess, because of changing statistical bases and the identification of substantial numbers of British seafarers serving on ships outside the UK shipping industry. Nevertheless, those numbers also showed a heavy reduction of more than 50% (for both officers and ratings). Moreover, their average age was older—70% were over 40 years, compared to an average age in 1980 of about 28 years. Recruitment was also low—about 450 new officer cadets were taken on in 1999, compared to 1,274 in 1980.

Following its election in 1997, the new Government established the Shipping Working Group, chaired by the Deputy Prime Minister and involving both trade unions and the industry. In December 1998, responding to the group's report, the Government developed a package of specific policies related to shipping, set out in the white paper "British Shipping: Charting a New Course". This included a range of policy actions to encourage employment, increase maritime training, improve the UK's attractiveness to shipping enterprises and facilitate UK ship registration. It committed the Government to consider options for the taxation of shipping enterprises, including the introduction of a tonnage tax system. Following an independent report to the Chancellor by Lord Alexander in 1999, tonnage tax was introduced as an optional fiscal regime in the Finance Act 2000.

The design of the UK's tonnage tax regime took account of the nature and recent history of the UK-based shipping industry and the competitive international context in which it operated. It was considered important that the tonnage tax option should be attractive to a substantial part of the existing British shipping industry as well as stimulate investment in new UK shipping ventures, including those from abroad.

Among other things, the possibility of requiring tonnage tax ships to fly the UK flag was considered. With the existing internationally-trading British-owned fleet at that time operating (for a variety of reasons) under many registers as well as under those of the UK and the other "Red Ensign" registers, it was considered that such a restriction could dramatically lower the take-up of tonnage tax. In any case the attractiveness of the UK register was very much a function of the cost and efficiency of the Maritime & Coastguard Agency. At that time the MCA had already embarked on a programme of reform and improvement intended to make UK registry a more attractive choice for shipowners, while retaining its commitment to maintaining the highest international standards and reputation. This was recognised as a separate policy area in "Charting a New Course".

This approach has proved to be well justified and the resulting practical flexibility has been a significant factor underpinning the remarkable expansion of both the owned and the registered fleets—particularly in the minds of inward-locating companies.

Conscious decisions were also made to encompass shipping operators in as many sectors as possible, regardless of the registry of their fleets or the nationality of their crews; similar approaches can be found in some other European tonnage tax regimes. However, in recognition that a revival in British shipping activity should specifically enhance the maritime skills base—with the more extensive requirements of the wider maritime services industries in the UK—the regime incorporated a "training commitment". This provision was, and remains, unique in tonnage tax regimes worldwide.

### UK FLEET AND MANPOWER

#### Total Trading Fleet on UK Register

<i>End Year</i>	<i>Number</i>	<i>000 GT</i>	<i>000 Dwt</i>
1996	381	3,291	3,319
1997	369	2,822	2,412
1998	378	3,081	2,699
1999	379	3,200	2,740
2000	417	4,579	3,757
2001	427	5,035	4,269
2002	497	7,114	6,686
2003	587	9,971	9,830
% change 1999 to 2003	54.9	211.6	258.8

**Total UK-owned Trading Fleet**

<i>End Year</i>	<i>Number</i>	<i>000 GT</i>	<i>000 Dwt</i>
1996	638	8,341	11,646
1997	612	7,840	10,579
1998	616	7,610	9,761
1999	617	6,530	7,196
2000	624	8,536	10,499
2001	594	9,480	12,013
2002	590	9,752	12,273
2003	649	12,654	14,972
% change 1999 to 2003	5.2	93.8	108.1

**Estimated Seafarer Numbers**  
(MCA data compiled by London Metropolitan University)

	<i>Cert Offs at sea</i>	<i>Ratings</i>
1998	15,794	10,795
1999	14,466	11,409
2000	14,982	10,331
2001	13,099	9,707
2002	13,763	10,360
2003	15,585	10,037

NB: Excludes uncertificated officers

Recent CoS research indicates rating numbers have been underestimated over time.

Volatility in officer numbers is due to changes in the STCW requirements and in rating numbers to the voluntary nature of the Chamber survey.

**Supplementary memorandum by the Chamber of Shipping (TT 05A)**

At the Tonnage Tax hearing on 23 June, the Chamber of Shipping was asked to provide clarification regarding the proportion that crewing costs represent of operating costs, and to elaborate on their relationship with capital costs. We were also asked to present further information regarding the ability to perform marriages on board UK-registered ships. These and supplementary comments in regard to other figures on employment and training numbers quoted during the evidence session are given below.

**CREW COSTS**

The Select Committee asked how important crew costs were as a proportion of operating costs. Maurice Storey suggested that, in some sectors, they could represent as much as 70% of operating costs. Michael Hassing said that the figure was somewhat less in the container sector.

The proportion clearly varies considerably from sector to sector and by size of ship. It is also dependent on the specific elements which are included in the term “operating costs”.

Annex 1 shows a number of practical examples (a modern roll-on/roll-off ship, a deep-sea tanker trading world-wide, and a passenger ferry) taken from the Chamber membership.

Annex 2 reproduces two tables issued in a report by Drewry Shipping Consultants entitled “*Ship Operating Costs—Annual Review and Forecast—2004–05*”. This was published in June 2004 and is an authoritative source which illustrates the varying proportions well. In these tables, which are produced by Precious Associates:

- Table 1.2 considers a wide range of bulk carriers and tanker sizes. It is clear from this that the crewing costs of these vessels increase from 30–35% of total operating costs for the largest ships to around 45–52% for the smaller sizes. For operators of the sizes more typically used in the UK coastal and short-sea trades, the proportion is likely to be around 50%.
- Figure 1.6 shows a schematic presentation of a sample of other ship types, including LNG (including liquefied natural gas, container, refrigerated, and multi-purpose vessels). These show variations in the range of 40–50%.

(These comparisons do include insurances; if they were excluded, the proportions would increase correspondingly.)

It is important to note that all the crews in question in Table 1.2 use as their reference point crew costs at standard international rates (ie not including high-cost European crews). Figure 1.6 is more varied, but the one ship cited as employing European officers is based on a British Master with the remainder of the officers and ratings Polish.

The cost premium represented by the employment of British crews would be likely to represent an additional 15–20%.

This is evidenced by the attached table (again from Precious Associates) which shows comparative wage costs for British seafarers and a range of other nationalities (it should be noted that, even in the British case here, the ratings are Filipino).

#### COMPARATIVE WAGE COSTS (US\$ PER MONTH)

	<i>Complement</i>	<i>US\$ per month</i>
British Officers/Filipino Ratings	9/10	78,000
Chinese Officers/Ratings	9/10	37,000
Indian Officers/Ratings	9/9	47,000
Filipino Officers/Ratings	9/9	47,000
Polish Officers/Ratings	9/9	48,000

#### EMPLOYMENT AND TRAINING FIGURES

##### *Numbers of UK Certificated Officers*

The most recent source for these is the United Kingdom Seafarers' Analysis 2003 produced by London Metropolitan University in March this year. This presents data using retirement ages of 65 and 57. The Government's Shipping Task Force sub-group on seafarer and training numbers has decided that future publications should focus on a single retirement age of 61 (although figures will continue to be produced for 65 and 57). The following table uses an interpolation of the report data for certificated officers. It should be noted that it excludes "non-certificated officers" (a survey of Chamber members in 2003 showed that these included at least 900 technical officers and 1,230 catering/hotel/other uncertificated officers).

#### ESTIMATES UK SEAFARER NUMBERS

AS AT 30 JUNE 2003

Retirement Age	61
Certificated Officers at Sea	14,305
Cadets	1,045
Ratings	
Deck/Engine	4,393
Catering/Other	5,644
Total Active Seafarers at Sea	25,387

*Source:* London Metropolitan University.

There has been a certain volatility in the time-series for certificated officers over the reports for recent years, largely owing to the bedding-in of the system for re-validating certificates issued under the IMO Standards of Training, Certification and Watch-keeping Convention 1995.

It is additionally difficult to make a true estimate of change since 1997, as the criteria for inclusion in the re-validation process have altered over the period. There was an apparent decline of 14% up to 2002 (the actual figure was under 12% when some 500 Irish officers are stripped out of the earlier figure); whereas the same calculation for the period to 2003 indicates virtually no change since 1997.

#### CADET NUMBERS

The suggestion was made also that the cadet numbers had increased only from 560 to the current 627. The Chamber stands by the table contained on page 3 of its earlier memorandum that the 1999–2000 figure for British new officer entrants was 446. This compares with similar figures as at April 2003 of 606 and the current provisional figure for April 2004 of 627.

As indicated in our earlier memorandum, this information is derived from returns to a Merchant Navy Training Board enquiry, which are subsequently adjusted in the light of Government information from the Support for Maritime Training (SMarT) Scheme. They do not include other EU/Irish nationals, nor trainees undertaking rating-to-officer conversion courses.

The figure of 560 appears to have been taken from an estimate in evidence given by the Chamber to an earlier Select Committee enquiry, report issued on 26 May 1999; the final figure showed that this had been substantially over-estimated.

#### ASSISTANCE FOR RATINGS

A number of questions were raised during the hearing on the impact of the tonnage tax regime on ratings, in the light of the fact that there are no formal training or numerical commitments in regard to ratings. It may be of interest to the Committee to know that, despite this, monies arising from the tonnage tax commitment have been allocated by the Maritime Training Trust to encourage the training of ratings on rating-to-officer conversion courses. The Trust has to date allocated a total of £600,000 to the John Slater Fund, which is dedicated precisely to this purpose.

#### MARRIAGES

A separate note is attached at Annex 3 to this memorandum of the subject of marriages and UK-flag ships.  
7 July 2004

#### Annex 1

#### COST COMPARISONS

##### A. MODERN ROLL-ON/ROLL-OFF SHIP

	<i>% excl capital costs</i>	<i>% incl capital costs</i>
Crewing (All UK Crew)	71	39
Fixed Operating Costs	29	16
Total Operating Costs	100	55
Capital/Lease Cost		45
Total, incl Capital Costs		100

##### B. DEEP-SEA TANKER—30,000 DWT

	<i>UK Officers Filipino Ratings</i>		<i>All Indian Crew</i>	
	<i>% excl capital cost</i>	<i>% incl capital cost</i>	<i>% excl capital cost</i>	<i>% incl capital cost</i>
Crewing—	70	34	53	20
Fixed Operating Costs	30	15	47	18
Total Operating Costs	100	49	100	38
Capital/Lease Cost		51		62
Total, incl Capital Costs		100		100

##### C. DEEP-SEA TANKER—100,000 DWT

	<i>UK Officers Filipino Ratings</i>		<i>All Indian Crew</i>	
	<i>% excl capital cost</i>	<i>% incl capital cost</i>	<i>% excl capital cost</i>	<i>% incl capital cost</i>
Crewing—	70	29	53	17
Fixed Operating Costs	30	13	47	15
Total Operating Costs	100	42	100	32
Capital/Lease Cost		58		68
Total, incl Capital Costs		100		100

## D. PASSENGER FERRY

	<i>% excl capital costs</i>	<i>% incl capital costs</i>
Crewing (All UK Crew)	67	29
Fixed Operating Costs	133	15
Total Operating Costs	100	44
Capital/Lease Cost		56
Total, incl Capital Costs		100

*Notes:*

1. Fixed operating costs include provisions, stores, lubricating oils, spares, repairs and maintenance, communications and management fees, etc.
2. Operating costs here do not include voyage costs such as bunker fuel or port costs (both of which are normally borne by the charterer); or insurances.
3. Capital costs will vary depending on ship size, price paid, ability to obtain low-cost finance, etc.

## Annex 2

EXTRACTS FROM REPORT BY DREWRY SHIPPING CONSULTANTS ENTITLED  
 “SHIP OPERATING COSTS—ANNUAL REVIEW AND FORECAST—2004–05”

Table 1.2

## BULK CARRIER AND TANKER OPERATING COSTS: 2003–07 (US\$ per day)

## (a) Bulk Carriers

		<i>Manning</i>	<i>H&amp;M Insurance</i>	<i>P&amp;I Insurance</i>	<i>Repairs and Maintenance</i>	<i>Stores/Supplies/Spares</i>	<i>Admin</i>	<i>Total</i>
Handy: 26–28,000 dwt	2003	1,625	190	150	490	525	525	3,505
	2004	1,690	245	190	525	530	570	3,750
	2005	1,725	260	210	535	545	575	3,850
	2006	1,775	250	220	515	550	575	3,885
	2007	1,830	250	220	510	565	590	3,965
Handymax: 40–45,000 dwt	2003	1,625	240	190	650	615	530	3,850
	2004	1,690	340	245	685	625	570	4,155
	2005	1,725	360	270	700	635	575	4,265
	2006	1,775	350	280	680	645	580	4,310
	2007	1,830	350	280	675	660	590	4,385
Panamax: 65–73,000 dwt	2003	1,725	280	220	820	645	590	4,280
	2004	1,790	380	270	865	655	630	4,590
	2005	1,825	400	300	885	670	635	4,715
	2006	1,880	380	310	865	680	640	4,755
	2007	1,935	380	310	855	695	650	4,825
Cape: 140–160,000 dwt	2003	1,725	325	280	1,005	825	690	4,850
	2004	1,790	450	325	1,060	835	735	5,195
	2005	1,825	470	350	1,085	855	740	5,325
	2006	1,880	450	365	1,060	870	745	5,370
	2007	1,935	450	365	1,050	885	760	5,445

## (b) Tankers

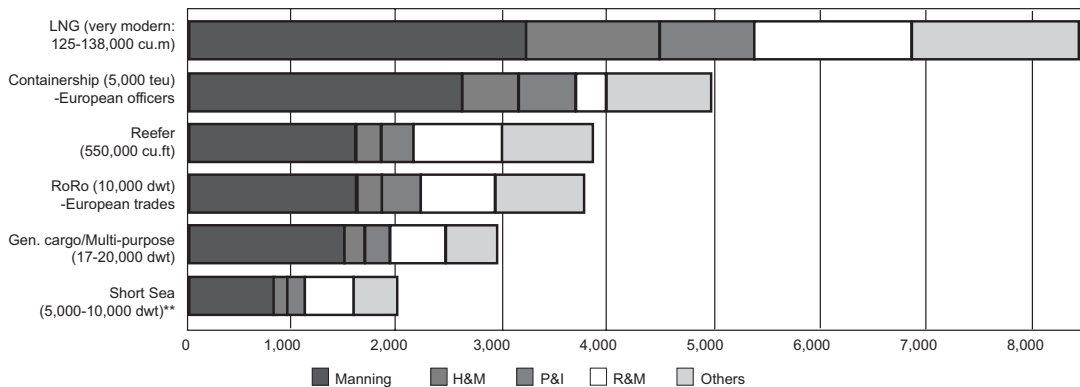
		<i>Manning</i>	<i>H&amp;M Insurance</i>	<i>P&amp;I Insurance</i>	<i>Repairs and Maintenance</i>	<i>Stores/ Supplies/ Spares</i>	<i>Admin</i>	<i>Total</i>
Products:	2003	2,290	230	200	965	865	575	5,125
35–45,000 dwt	2004	2,380	340	220	1,020	880	615	5,455
	2005	2,425	355	240	1,045	895	620	5,580
	2006	2,495	350	260	1,020	910	625	5,660
	2007	2,570	350	260	1,015	930	635	5,760
Aframax:	2003	2,350	330	260	1,230	910	705	5,785
80–110,000 dwt	2004	2,440	490	325	1,285	925	745	6,210
	2005	2,485	510	355	1,315	945	755	6,365
	2006	2,560	500	375	1,290	960	760	6,445
	2007	2,635	500	375	1,275	980	775	6,540
Suezmax:	2003	2,350	420	330	1,405	955	745	6,205
140,000 dwt	2004	2,440	550	410	1,470	975	790	6,635
	2005	2,485	575	450	1,505	995	795	6,805
	2006	2,560	550	475	1,475	1,010	800	6,870
	2007	2,635	550	475	1,460	1,030	815	6,965
Vlcc:	2003	2,400	490	440	1,935	1,465	920	7,650
280,000 dwt	2004	2,490	765	550	2,020	1,490	960	8,275
	2005	2,535	800	605	2,070	1,520	970	8,500
	2006	2,610	760	630	2,035	1,545	975	8,555
	2007	2,690	760	630	2,015	1,575	995	8,665

*Note:* Stores/Spares/Supplies includes lubricating oils (lubes).

*Note:* Data estimates for 2003 are provisional.

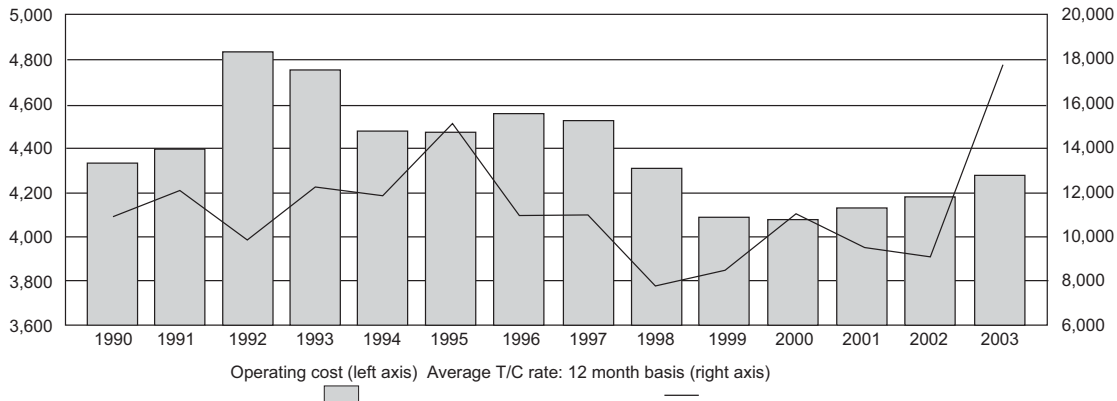
*Sources:* Drewry Shipping Consultants Ltd, Ensign Marine Consulting Ltd, Precious Associates Ltd, D M Jupe Consulting.

**Figure 1.6**  
**Estimated operating costs for selected other ship types, 2003\* (US\$/day)**



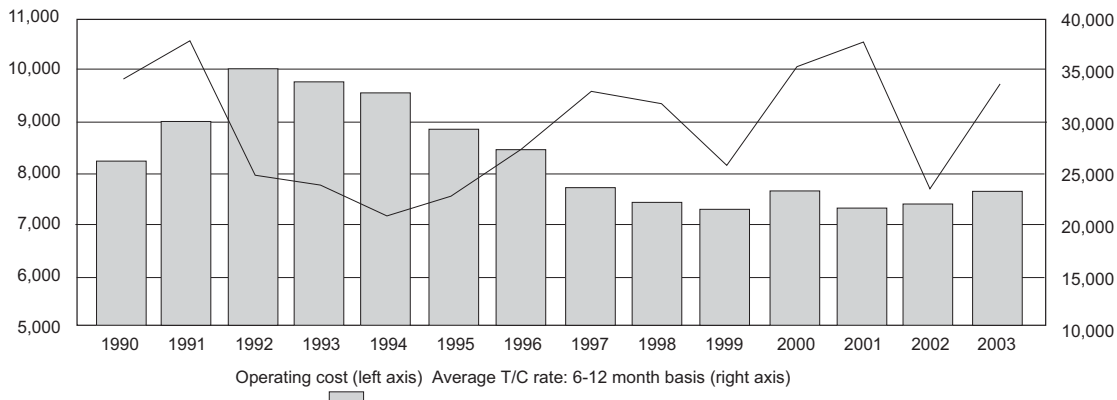
\* Data is intended to be indicative and is derived from various and sometimes limited data sources.  
 \*\* Based on dry cargoship in European trades. Main variation for a tanker likely to be insurance costs.  
 Sources: D.M. Jupe Consulting, Drewry Shipping Consultants Ltd

**Figure 1.7**  
**Pattern of operating costs and charter revenues: Panamax bulk carrier (US\$/day)**



Note: Time charter revenue needs to cover operating costs.  
 Source: Drewry Shipping Consultants Ltd

**Figure 1.8**  
**Pattern of operating costs and charter revenues: Vlcc (US\$/day)**



Note: Time charter revenue needs to cover operating costs.  
 Source: Drewry Shipping Consultants Ltd



## MARRIAGES

English law does not recognise marriages performed on board ship. Scottish law does, but only if the marriage is performed when the ship is tied up in a Scottish port. There is however a strong demand from couples to get married on board ships, especially in the spectacular setting of a cruise vessel mid-ocean, which supports a lucrative weddings business on ships registered in jurisdictions that do recognise onboard ceremonies.

Experience gained by P&O Princess Cruises with cruise vessels registered in Bermuda shows clearly that the option of getting married on a Red Ensign ship, with all the attendant trappings of a traditional wedding, has wide appeal. Their Grand class ships were built with “wedding chapels” and the need for the facility was a significant consideration in their decision to place these ships on the Bermudan rather than UK register. (Purpose-built chapels are ideal from a customer perspective, but for ships-in-service public rooms can readily be adapted to provide the right setting.)

The ability to offer the same weddings service onboard ships registered in the UK would enable cruise ship operators to place their ships on the UK register without losing valuable weddings business. It would also enable the owners of the 20 or so cruise vessels and cruise-ferries already registered in the UK to match the services already offered by competitors under foreign flags.

It is likely that the ability to offer onboard weddings would also be of value to operators of shorter-haul ferries and locally-operating cruise boats, with couples attracted to the option of getting married against a pleasing backdrop of Britain’s coastal scenery. This would be an entirely new area of business, to which the current ability to host weddings on ships tied up in Scottish ports is of little guidance, and its value is therefore difficult to assess.

The Chamber has therefore advocated the introduction of legislation that would confer legal recognition on civil marriages performed on British ships. The marriage law of Bermuda, which recognises any marriage performed on board Bermudan-registered ships by a celebrant (typically the ship’s captain) authorised by the Bermudan authorities to conduct marriages at sea, could serve as a model.

In view of the separate legal bases for civil marriage in England and Wales and in Scotland, the Chamber has recommended that legal recognition for marriages performed on British ships be conferred through a piece of Merchant Shipping legislation so that all British ships were covered.

The Chamber understands that the Department for Transport is currently preparing the specification for such a piece of legislation, with the intention of securing its promotion as a Private Member’s Bill.

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**Memorandum by the RMT (TT 06)**

## THE TONNAGE TAX

*Introduction*

The National Union of Rail, Maritime and Transport Workers (RMT) welcome the opportunity to contribute to your Inquiry into the tonnage tax. RMT represent 70,000 workers in a number of transport industries. We are also the specialist union for seafaring ratings and represent the majority of UK seafaring ratings currently in employment. Ratings comprise at least half of seafaring personnel employed on a ship.

RMT worked alongside NUMAST and the Chamber of Shipping to negotiate the introduction of the tonnage tax with the Department of Transport and the Treasury. The objective of the tonnage tax was to increase employment for UK seafaring officers and ratings.

At the time the Chamber of Shipping resisted a cast iron commitment for employing UK ratings as has been stipulated for cadets. Instead more general commitments were made to increase the training and employment of UK ratings. More detail on these will be given in this submission. Any study on the how effective the tonnage tax has been also needs to examine whether the concession has increased training and employment opportunities for UK seafaring ratings. We recognise that exact numbers cannot be measured as against the set benchmark that exists for cadets. However the success of the concession in delivering general increases in training and employment for ratings can be accessed.

Whilst RMT will comment briefly on the position for cadets I trust the committee will understand that our expertise in this area is obviously focused on ratings. In summary we can advise the committee that contrary to the commitments and expectations surrounding the benefits of the tonnage tax, increased training and employment opportunities have not materialised for UK ratings. The tax has actually only produced small increases in the number of cadets being trained and for ratings the results have been even more unsatisfactory. Indeed RMT can advise that employment opportunities for UK seafaring ratings continues to decline and the number of trainee ratings has fallen even further from the already low position at the time of the introduction of the tonnage tax.

### *The background*

In the run up to the Department of Transport policy document, “*Charting a New Course*”, the industry showed real unity of purpose in persuading Government to introduce a series of measures that we hoped would address the long term decline of the industry in the UK.

The union entered into an alliance with other industry partners in good faith. There were a wide range of proposals to boost the industry within “*Charting a New Course*”. Employer representatives clearly stated that a lot of the good work in developing and implementing the proposals would not necessarily produce employment benefits without a more favourable tax regime.

From the start it has always been quite clear that the purpose of the tonnage tax was to increase both the number of ships on the UK Register and also generate training and employment for UK seafarers, both officers and ratings.

At the end of 1997 the Deputy Prime Minister established a special shipping working group whose 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.
- To encourage shipowners and the wider maritime industry to commit more resources to seafarer training.

In addition the White Paper on the Future of Transport was published in July 1998. This set out four aims of an integrated shipping policy:

- 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 a 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.

The Government developed its strategy for UK shipping as set out in “*Charting a New Course*” on the basis of the aims of the White Paper on Transport and the work of the Shipping Working Group. As we have illustrated the need to increase training and employment opportunities for UK seafaring officers and ratings was of course at the forefront of all discussions and policy statements.

We shall give details on the position for UK seafaring ratings later in the paper. First of all we will make brief comments on the other questions as set out by the Transport Committee.

### *Increases in the number of vessels on the UK Register*

There is no doubt that the introduction of the tonnage tax has succeeded in increasing the number of vessels on the UK Register. As at 31 December 2003 there were a total of 483 merchant trading vessels over 500 gross tons. In December 1997 the equivalent number of trading vessels of this tonnage was 246.

Much of the increase has arisen as a result of the tonnage tax, although many ships claiming tonnage tax are not on the UK Register. The ships entering the UK Register are increasingly being crewed by low cost foreign nationals. In fact RMT are not currently aware of any tonnage tax trainee ratings positions or increases in ratings employment, only ratings to officer schemes. NUMAST will no doubt also reiterate that ships switching to the UK Register are often crewed almost entirely with low cost foreign national seafaring officers and ratings.

Despite the very significant increase in tonnage on the UK register only 53% of vessels currently claiming tonnage tax concessions are registered in the UK. This is because there is no actual requirement for ships to be on the UK Flag. RMT believe it is desirable for ships claiming tonnage tax concessions to be registered in the UK. However the most important factor is that the concession should regenerate UK maritime skills. As we have stated above UK registration has not led to increased training and employment opportunities for UK seafaring ratings and this is why a formal training and employment link is required.

Whilst the flag of the vessel is not always of paramount importance RMT are concerned about a number of the Flag States currently enjoying tonnage tax concessions. Recent figures at the Shipping Task Force (May 2004) illustrate that many states with registers classified as Flags of Convenience are claiming tonnage tax concessions. Following the UK Register Liberia has a total of 64 ships entered into the tonnage tax regime. Also in the top 10 are FOC states Bermuda, the Bahamas, Panama, Malta and St Vincent. Flags of Convenience (FOC) are those states that have been deemed by the International Transport Workers Federation (ITF) to have little effective control over vessels on their register. The vessels are not beneficially owned and controlled in the Flag State and little attention is paid to upholding international regulations that govern international standards on safety and maritime law.

The ITF have a network of inspectors investigating suspect ships and their reports have found that seafarers suffer very low wages, poor on board conditions, inadequate food and clean drinking water, and long periods of work without proper rest leading to stress and fatigue. The home countries of the crew can do little to protect them as the rules that apply are those of the country of registration and these states do not usually enforce minimum standards.

The union have questioned the commitment of many shipping companies in the tonnage tax to the broader objectives of UK shipping policy, foremost of which is the strengthening of UK maritime skills. The figures from the shipping task force revealing a majority of FOC registers at the heart of the tonnage tax regime only serves to confirm our belief that resources from the taxpayer are not being spent wisely.

#### *Increases in cadets and employment for officers*

Latest figures on the number of cadets were provided at the May 2004 meeting of the Department of Transport Shipping Task Force Working Group. They revealed that in 2003–04 there were a total of 657 cadets on the Government sponsored SMART training programme.

This is a little less than half that required to replenish current numbers of serving seafaring officers and also to provide sufficient personnel likely to transfer from sea to shore service. On shore ex-seafarers are deemed as essential or very desirable to work in a number of positions. These include those associated with port and harbour services, pilotage, classification, maritime training, insurance and law.

In addition to the insufficient number of cadets being trained there remains a further problem for UK seafaring officers. The tonnage tax requires that there be a training place for one cadet from every 15 officers on board vessels qualifying for the tonnage tax concession. Unfortunately it appears from reports in the Shipping Task Force Working Group that many companies are discharging just their minimum responsibilities under the tonnage tax regime. This means that when cadets have completed training there is in many instances no position for them within the company. In particular whilst senior officers can find employment there are particular problems for junior officers as shipping companies are increasingly employing low cost foreign nationals who now make up 75% of these positions.

#### *Seafaring ratings and the tonnage tax*

At the current time shipping companies opting for the tonnage tax regime are supposed to review annually the feasibility of adopting each of the ratings employment and development options. The four routes below were identified by the Ratings Task Force Working Group, a tripartite body involving the Chamber of shipping, NUMAST and RMT. The four options were subsequently written in to the Minimum Training Commitment of the tonnage tax as overseen by the Department of Transport.

The four routes identified for developing ratings skills and employment were as follows:

- Employ more UK ratings.
- Employ more highly trained UK ratings in more technical posts.
- Recruit UK ratings in a planned stream towards officer qualifications.
- Assist existing UK ratings to advance towards officer qualifications and posts.

The above routes towards ratings employment are largely ignored by the shipping companies entering the tonnage tax regime. Indeed, aside from the ratings to officer schemes, it appears that there is a complete lack of information on ratings employment arising from the tonnage tax, so much so that it is never reported in the Shipping Task Force.

It is apparent that the numbers of new ratings trainees has actually declined since the measures were introduced. Although there are now far more ships on the UK register, the shipowners have taken advantage of the low social standards that now permeate vessels under the UK Flag. So much so that the outgoing IMO Secretary General has had cause to specifically record his concern over the low standards of employment on the UK Flag. In addition as a result of these factors RMT, together with NUMAST, have now tabled a motion at the ITF to declare certain UK ships an FOC (Flag of Convenience) on a ship by ship basis.

The Independent Enquiry into the tonnage tax, conducted by Lord Alexander in 1999, correctly records that RMT called for a written commitment to train seafaring ratings. The Chamber of Shipping would not accept this despite our representations. It is certainly now arguable that we should have attempted to take a tougher line in negotiations as five years have since passed and the objective of increased employment for UK seafaring ratings has not been fulfilled. However, at a time when there really was a sense of partnership in the industry, it would have been difficult to try and place a veto on the tonnage tax when we hoped that it would at least have had some positive consequences for ratings employment, even without the formal link.

The Chamber of Shipping stated that they preferred a non-formal commitment to double the current intake within three years. They also stated that a new structure and programme for ratings training could be developed. Separately the Chamber of Shipping made a commitment on behalf of its members to make every effort to increase the recruitment and training of British officers and ratings by 25% each year on a cumulative basis. This should have had the effect of by now doubling the numbers of new ratings entrants.

The one very limited success that has been achieved for ratings are the opportunities that have been generated for those who wish to train to reach officer status. However, whilst this is welcome, the real test is the overall numbers of ratings positions and the total amount of training taking place to replenish the existing ratings complement.

Latest figures on ratings trainees disclosed at the Shipping Task Force would seem to indicate that approximately 50 new ratings trainees are being trained every year. This is less than the number of ratings who were being trained at the time of the discussions on the tonnage tax. Figures supplied to us by the Chamber of Shipping, at the time of deliberations within the Ratings Task Force sub-group in 1998, indicated that approximately 200 new ratings were being trained every year.

We should point out that 200 new trainees are barely sufficient for maintaining the skills base for even the current low number of UK seafaring ratings. The fact that numbers have deteriorated to around a quarter of this figure graphically illustrates just how desperate the situation is for UK seafaring ratings.

In addition we also have to advise that new structures and programmes for ratings training, with the exception of ratings to officer courses, have not been forthcoming. The union is not tied to old methods of working, and we would have given constructive consideration to any proposals that would protect and enhance UK ratings employment.

The tonnage tax is the centrepiece of Government shipping policy and RMT believe that the resources devoted to the tonnage tax demand that taxpayers gain value for money in the form of some tangible benefits. A much improved employment environment for all UK seafarers is, we would strongly argue, the most significant in this equation.

#### *The employment environment*

RMT have consistently conveyed the gravity of the situation for UK seafaring ratings to the Department of Transport. Since the introduction of the tonnage tax job losses have continued. The union produced a special report outlining the declining prospects for UK seafaring ratings (RMT Submission to the Shipping Task Force on Ratings Employment Conditions and Job Opportunities—October 2000) just after the start of the tonnage tax. The document reported that UK seafaring ratings had been dismissed and replaced by low cost foreign nationals by P&O Irish Sea Ferries, Bibby International and Serac Maritime Crewing.

Since this time employment for UK seafaring ratings has continued to fall. Hundreds of redundancies have recently been announced at P&O Dover and this was quickly followed by 150 dismissals of UK ratings by Northern Marine Manning Ltd. The UK seafarers engaged by Northern Marine to work on the Technip diving and pipelay fleet have been replaced by low cost Filipino nationals. This follows similar moves by many other operators in the offshore sector of the industry. UK seafaring ratings have also been replaced by low cost foreign nationals in the hotel and catering department on P&O European Ferries (Portsmouth) vessels.

Chamber of Shipping representatives have previously stated that it is unrealistic to expect UK seafaring ratings to be employed on deep sea (foreign going) ships and that RMT should focus on the short sea ferry routes. However in the last few years employment for UK seafaring ratings has been steadily eroded even on the ferries operating from UK ports. P&O have dismissed many UK seafaring ratings from their operations in the North and Irish Sea. Even Stena Line has now started to engage low cost foreign nationals on UK ferry routes.

In 1980 there were a total of 30,000 UK seafaring ratings in employment. This figure has now dropped to less than 10,000. Due to the complete failure of the industry to train UK seafaring ratings since the introduction of the tonnage tax this figure will fall dramatically in forthcoming years, especially in the more skilled deck and engine grades.

The once thriving maritime ports continue to suffer the effects of the loss of employment, and the demise of UK maritime expertise poses a serious threat to the future health of many maritime industries and services that provide significant economic and employment opportunities. In addition the continued replacement of UK seafarers also poses a growing threat to the safe operation of shipping in our waters, especially where it is evident that requirements for a common language amongst core crew with safety responsibilities in emergency situations are not being properly enforced.

Charting a New Course did incorporate a number of other employment and training measures separate from the tonnage tax. RMT have sought the full implementation of the work permit regime and the whole repeal of section nine of the Race Relations Act 1976.

In the recent consultation on the implementation of the EU Equality Directives the Government decided to retain section nine of the 1976 Act. This section specifically allows shipowners to discriminate with lower rates of pay on the grounds of nationality providing seafarers who are employed on UK ships are engaged and resident abroad. Originally this outdated discrimination allowed for lower rates of pay on the basis of colour, ethnic origin, race or nationality. The Government have sought to convey a compromise by removing colour, race and ethnic origin from section nine. However by leaving shipowners the ability to

discriminate on the grounds of nationality has meant that the status quo has been maintained. Employers have been permitted to continue the dismissals of UK seafarers, and UK ratings and officers have been replaced by foreign nationals on low rates of pay.

The Home Office had originally proposed that section nine be entirely removed from the statute book. However it is very regrettable that the Department of Transport intervened following representations from the Chamber of Shipping and produced a Government u-turn on this matter.

We are of course aware that shipping is a globalised industry but certain minimum employment and equal rights legislation must still be enforced. In any other transport industry the current practices of shipowners would be illegal, and the dismissals of UK seafaring ratings are even more inexcusable when we consider the benefits that the industry has received through the tonnage tax.

The tonnage tax involves considerable Government resources. In answer to a Parliamentary Question by Kelvin Hopkins on 5 January 2004, the Paymaster General, Dawn Primarolo, revealed in the House of Commons that in the last financial year 2002–03, the value of the financial concessions given to the UK shipping industry was £35 million. The Paymaster General stated that since the scheme started in 2000 the total value of the concessions amounted to £70 million. RMT believe that taxpayers have every right to expect a better return on their money given the woefully insufficient return in respect of both training and employment for seafaring ratings and officers.

More generally the industry has also called for further Government action on the Crew Relief Costs Scheme and an extension of Foreign Earnings Deductions. Whilst RMT support these proposals, the fact that they have not been implemented is no excuse for the industry's miserable performance on ratings training and employment since the introduction of the tonnage tax.

It is apparent that if the Government believe that its room for action on the regulatory front is limited through membership of the European Union, then the enforcement of minimum employment and training for all UK seafarers will need to be addressed in every other way possible.

#### *Changes to make the regime more effective*

It is true that the measures as set out in *Charting a New Course* have not been introduced in their entirety; however it is recognised that the Government have undertaken a great deal of work in attempting to formulate and implement policies that turn around the fortunes of the industry. Ministers have also acknowledged that more work needs to be undertaken in improving the employment situation for UK seafaring ratings. A clear link between eligibility for the tonnage tax, and positions for UK seafaring ratings, is one of the few options left to Government if action is actually to be taken to address the situation.

Whilst UK seafaring ratings continue to be replaced by low cost foreign nationals the Union, and we believe the taxpayer, cannot possibly support the continuation of the tonnage tax without a clear link to the employment of both UK seafaring ratings and officers. We must also advise the Government that the link should enshrine not only an employment obligation, but also a training one as well.

The urgency of a training commitment is also illustrated by the increasingly high age profile of UK seafaring ratings. The last available analysis was recently provided by the Chamber of Shipping in their Manpower Survey published in June 2002. This informs us that the average age for UK deck ratings is 43 years and for engine room personnel the equivalent figure was 43.3 years. This is also broadly in line with the results of similar research presented by the London Metropolitan University in the 2002 UK Seafarers Analysis. The London Metropolitan Analysis found that the total of UK deck ratings over 40 was 65%, and for engine room ratings it was 62%. Given that the level of training for seafaring ratings positions has actually declined since 2000 the age profile will deteriorate further unless corrective action is urgently undertaken by the industry.

The union would also like to place on record that we believe in future shipowners will state that they are hiring foreign national crews due to the fact skilled UK seafaring personnel are not available. If current levels of training are not substantially increased then this will inevitably become a self fulfilling prophecy.

The tonnage tax is a policy measure that is at the discretion of the Government and the employment link for both officers and ratings needs to be enshrined in its structure. All ships in the tonnage tax regime should employ solely UK seafaring ratings and officers in all positions on board and training also needs to be undertaken on every vessel. Otherwise we believe the balance sheet will continue to be the sole determining factor for crewing decisions for the majority of UK companies, ignoring longer term considerations for retaining a maritime skills base and the wider benefits that this brings to the UK maritime sector and the national economy.

This "belt and braces" approach is essential given the experience of actual training commitments since the introduction of the tonnage tax concession in 2000.

RMT would also like to refer the committee to the recommendations of the Environment, Transport and Regional Affairs Committee Twelfth Report on the Shipping Industry in May 1999. The report expressed concern at the parlous state of the industry and asked the Government to introduce measures to increase

the training and employment of UK seafarers, both ratings and officers. Whilst the Government have clearly attempted to make progress towards this objective the industry has not so far delivered the results that were expected through the implementation of the tonnage tax.

#### CONCLUSION

When commentating on the employment and training link in his 1999 report Lord Alexander stated that *“The industry’s offer clearly demonstrates a determination to increase training and employment and to try to meet the need for trained officers. But there are nonetheless concerns as to its adequacy. The formal link of the tonnage tax to training alone would not satisfy demands for trained and experienced officers in related sectors. Its extra cost to the industry of about £4.5 million a year after five years is small when compared against the financial and other advantages of the tonnage tax. The commitment to ratings is less than the RMT would wish. I therefore asked the industry and the DETR to explore together the prospect of further commitments.”*

With the exception of the ratings to officer conversion courses, the vague commitments to review the numbers of ratings employed and employ more highly trained ratings in technical posts has unfortunately amounted to virtually nothing in terms of industry commitment.

It is now apparent that the future employment prospects for UK seafaring ratings is dependent on Government being more pro-active in ensuring that UK seafarers have a future in the UK Fleet. There must be a clear link between the training and employment of UK seafaring ratings and the tonnage tax. It is also apparent that the link for UK officers needs to be strengthened.

Unless this is done, the haemorrhaging of skills from the UK maritime sector will continue. It is essential that the link should provide a clear, unequivocal commitment to the employment and training of UK seafaring ratings.

We hope that the Transport Committee will give full consideration of this paper and we look forward to giving evidence to the committee later this month.

June 2004

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### Memorandum by the Department for Transport (TT 07)

#### TONNAGE TAX

##### ORIGIN OF TONNAGE TAX

1. The December 1998 shipping White Paper, *British Shipping: Charting a new course*, set out a comprehensive strategy to reverse the long decline of British shipping. It recognised the importance of an appropriate fiscal environment for retaining a significant shipping sector in the UK. It committed the Government to “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.”

2. In his 1999 Budget, the Chancellor announced that Lord Alexander of Weedon would conduct a study of the case for introducing tonnage tax. Lord Alexander’s Report, published in August 1999 recommended the introduction of tonnage tax, and the Government accepted this. The tax was introduced as part of the Finance Act 2000.

##### HOW THE SCHEME WORKS

3. Shipping companies can opt into tonnage tax, or stay in the current corporate tax regime. Tonnage tax calculates profits chargeable to corporation tax by reference to tonnage instead of commercial profits. It brings certainty because it fixes the amount of corporation tax relative to the size and number of ships and is not affected by financial profitability or tax allowances. A company electing to enter tonnage tax does so for a minimum of 10 years.

4. To qualify for the tonnage tax scheme ships must be seagoing, at least 100 gross tons, and used for:
- carriage of passengers; or
  - carriage of cargo; or
  - towage, salvage or other marine assistance; or
  - transport in connection with other services of a kind necessarily provided at sea.

Tonnage tax is “flag neutral”—ie there is no requirement for ships in tonnage tax to be linked to any particular flag.

5. They must also be operated by companies within corporation tax and be “strategically and commercially” managed in the UK. As there is no standard guidance available on the meaning of “strategically and commercially managed”, the Government adopts a common sense interpretation, taking

into account the various different strands of management activity that can be carried out in respect of a ship. Companies must demonstrate elements of both types of management. Amongst the indicators that might be considered are:

*Strategic management*

- Location of HQ, including senior management staff.
- Where the board of directors makes its decisions.

*Commercial management*

- Route planning.
- Taking bookings for passengers and cargo.
- Managing bunkers, provisioning and victualling requirements.
- Personnel management.
- Technical management.

Inland Revenue officials consider the number and weight of the various indicators exhibited for both types of management and expect to see real economic activity from ship operations in the UK. Greater weight is given to the higher levels of decision making and management as opposed to day to day management.

#### TRAINING COMMITMENT

6. A unique feature of the UK tonnage tax is that it imposes a minimum training obligation on companies entering the scheme. This is to train one officer trainee per year for every 15 officer posts in the company's effective officer complement, and to give consideration to employment and training opportunities for ratings (1:15 formula).

7. The training commitment was adopted to try to ensure an increase in UK seafarers to meet both present needs at sea, as well as future jobs onshore in the maritime services sector; a recent study by the University of Wales identified around 16,000 jobs in the maritime services sector which employers would prefer to fill with ex-seafarers.

8. Lord Alexander did not make a similar recommendation for training ratings as for officers (1:15 formula). He concluded that "ready access for the deep sea shipping industry to low-cost world labour markets means that, in the absence of any EU action to 'protect' its seafarers, the employment of European ratings in essentially unskilled roles is simply unviable". However, he went on to say that "opportunities might exist for training ratings for more skilled roles and to become officers".

9. The minimum training obligation is cumulative and covers each trainee for a course lasting up to three years. Before electing to enter Tonnage Tax, each company or group must first obtain approval from the Department for Transport for a Core Training Commitment (CTC) which shows how they intend to meet the minimum training obligation.

10. Achievement of the CTC is monitored from reports submitted to DfT every four months. Where the CTC has not been achieved, Payments In Lieu of Training (PILOT) are made to the Maritime Training Trust. This can arise when a company or group has not been able to recruit the number of trainees required to meet the CTC, where trainees who have started a course drop out or fail to meet the required standard, or when additional vessels have been chartered into the company fleet during the period. The Maritime Training Trust (MTT) allocates the monies received to promote UK seafarer training. If a company has failed to achieve 50% of its CTC during a year, any PILOT payments during the next year are subject to a surcharge.

#### ELIGIBLE OFFICE TRAINEES

11. To be eligible to be counted against the training commitment, trainees must meet the criteria set out below on nationality and residence, and on the type of training undertaken.\*

Trainees shall be:

- a UK national, a national of another EEA State or a British citizen from the Channel Islands or, Isle of Man; and
- ordinarily resident in the UK.

The following categories of trainees undertaking a Merchant Navy Training Board (MNTB) approved course of training towards a first certificate of competency (FCC) can be counted against the CTC:

- Cadets.
- Undergraduates.
- Graduates.

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\* A fuller explanation of these criteria is included in the Guidance Notes.

- Ratings-to-officer apprentices.
- Conversion trainees (rating to officer).

#### NUMBER OF COMPANY/GROUPS AND SHIPS

12. Since the scheme was introduced in 2000–01, 74 company groups have received DfT approval for their CTC. Three companies have merged with other Tonnage Tax groups and one has withdrawn, leaving 67 with an active CTC in the scheme. Three other companies are due to commence their first training year in October 2004.

13. The following chart shows cumulatively *the number of company groups and ships* for each year that the scheme has operated.

<i>Year</i>	<i>Company/groups</i>	<i>No of ships</i>	<i>% UK flagged</i>
2000–01	15	187	46%
2001–02	42	521	58%
2002–03	64	718	48%
2003–04	67	750*	53%*

\* The number of ships for 2003–04 includes estimates for three companies who have yet to submit correctly completed CTCs for approval.

#### TONNAGE TAX TRAINING COMMITMENT

14. The following chart shows the *approved cumulative training commitment* for each year that the scheme has operated. These totals were approved at the beginning of each training year. The CTC can vary if additional ships are added to the group fleet during a particular period. If this is the case, the CTC increases for that specific period but these temporary increases are not shown in the table.

<i>Year</i>	<i>Approved CTC</i>
2000–01	70
2001–02	365
2002–03	762
2003–04	1,040*

\* There are outstanding queries on four returns so this figure is likely to increase.

#### TRACKING ACHIEVEMENT OF THE TRAINING COMMITMENT

15. Achievement of the CTC is determined by comparing the actual number of trainee months achieved during each period with the number of months that would be achieved if the company–group met its training commitment in full. Administration of the scheme was intended to be flexible and so all trainee months achieved during a period may be counted. Our experience is that the number of trainees varies due to wastage or recruitment during each four month period and does not remain constant throughout each training year. However, it is possible to show the trend for each year by dividing the number of trainee months achieved by 12. The following table shows the *average number of trainees in training* for each year that the scheme has operated.

<i>Year</i>	<i>Average no of trainees</i>
2000–01	61
2001–02	350*
2002–03	678**
2003–04	905***

\* One return with outstanding queries;

\*\* two returns with outstanding queries; and

\*\*\* Period 1 only (October 2003–January 2004) and 12 returns are outstanding.



#### INCREASE IN UK REGISTERED FLEET

16. There has been a substantial increase in the UK registered fleet over the last few years. In the period from June 2000 to December 2003, the number of all vessels on the UK registered fleet (trading and non-trading) increased from 1,470 to 1,799, and deadweight tonnage from 5 million to 11.5 million. ("Trading" vessels are those which carry cargo or passengers for commercial purposes. The remainder of the fleet consists of vessels which are deemed to be "non trading").

17. The introduction of tonnage tax has been a major factor in this revival together with the MCA registration reforms. However it is important to remember that it is only one of a package of measures that were introduced to create a favourable environment for shipping in the UK.

#### MARITIME EMPLOYMENT

18. Although the training commitment is monitored, there is no equivalent monitoring of employment of seafarers after they have completed training. This is something that the Shipping Task Force will be considering over the next few months. The Department, as a result of work commissioned by the Shipping Task Force, plans to publish a comprehensive annual assessment of the number of UK active seafarers. This will include, although not separately, cadets recruited as part of the training commitment under tonnage tax, after they have completed training. The first annual UK seafarers report is expected to be published next year.

19. In the meantime, the best available estimates of the number of UK seafarers are produced by London Metropolitan University (LMU) and their results for 2003 have just been published. They report that the number of UK active seafarers declined from around 30,000 in 1997 to 25,000 in 2001, but has increased thereafter to 28,000 in 2003. Of these, around 25,000 are employed at sea. At least part of this increase, however, may have resulted from changes in statistical coverage following implementation of STCW 95, rather than real increases. LMU report that there were approximately 17,000 UK officers in 2003, 10,000 ratings and 1,000 cadets in training. In 2003, cadet numbers rose to an annual intake of over 600, a 20% increase in annual intake compared with the intake before tonnage tax was introduced. They also estimate that a cadet intake of around 1,000 per year is needed if the number of officers is to stabilise at current levels.

#### MARITIME STATE AID GUIDELINES

20. Tonnage tax schemes require EU state aid approval, not as issues of taxation which remain outside Community competence, but as schemes for financial intervention in a single, commercial market. The UK scheme, which is flag neutral, was approved in July 2000 under the maritime state aid guidelines published in 1997.

21. The European Commission published revised maritime state aid guidelines in January 2004. As in the previous guidelines, state aid may generally only be granted in respect of ships registered in an EC State. However, the conditions for allowing derogation from the flag link have been strengthened. The guidelines state that before tonnage tax schemes are approved for fleets which include non-EC flagged ships, beneficiary companies must "commit themselves to increasing or at least maintaining under the flag of one of the Member States the share of tonnage that they will be operating under such flags".

22. The guidelines also state that tugs will only be allowed to enter tonnage tax if more than 50% of towage activity during a given year constitutes "maritime transport". No flag link derogation is allowed.

23. The UK, along with other Member States, is required to confirm acceptance of the proposals by 30 June 2004, and to amend its existing aid schemes covered by the guidelines so as to comply with them by 30 June 2005.

24. Under state aids guidelines the UK and other EU countries can only subsidise employment of seafarers up to the amount of tax and National Insurance paid. Most UK seafarers in deep sea trades (and some in short sea trades) have already reached that limit.

#### EXCLUSIONS

25. Aggregate carriers were excluded from the original tonnage tax regime only because the EU state aid guidelines for maritime transport did not permit them to be included. Following the recent revisions to the guidelines, Inland Revenue will be advising Ministers on the measures that would be needed to bring these vessels into tonnage tax. If Ministers are happy with the proposals, then those measures will be taken forward as soon as possible.

26. Ministers decided not to include North Sea specialist vessels when tonnage tax was introduced. A number of correspondents to the tonnage tax review have supported the inclusion of these vessels in the regime. These representations will be passed to Ministers for their consideration, in due course, as part of the review process.

CONCLUSION

27. The introduction of tonnage tax has delivered an increase in the UK registered fleet and in training. The Government recognises that there are concerns that it has not delivered the increase in UK seafarer employment that studies have identified as being required to guarantee the supply of ex-seafarers to the maritime services sector. We are currently considering whether or not to include additional measures to enhance UK seafarer employment opportunities within the scheme and have invited proposals from our social partners.

*David Jamieson*  
Parliamentary Under Secretary of State for Transport

*June 2004*

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**Memorandum by the British Tugowners Association (TT 08)**

TONNAGE TAX

SUMMARY

The British Tugowners Association represents the port towage industry in the UK. Of the 160-odd tugs operated by its 15 operating group members, a large majority are currently operating within UK Tonnage Tax—virtually all are on the UK register and have fully UK crews. Newly published rules on maritime state aids from the European Commission have unequivocally ruled that seagoing harbour tugs cannot be included in such schemes; the UK scheme will therefore be modified to exclude our members and their vessels. Department of Transport and Inland Revenue officials have confirmed that this exclusion is not desired by them; they are working with us to ensure that the arrangements for exclusion are the least harmful available. While it is too early to identify specific effects on UK maritime employment and support for the UK Register, undoubtedly these will be threatened, and the effects on training may be more direct. This short memorandum is to inform the Transport Committee of those unfortunate circumstances.

BACKGROUND

The BTA's membership of 15 towage company groups runs 160 modern state-of-the-art tugs providing vital safety services at all the UK's major ports and beyond. Virtually all these tugs are sea-going vessels, registered in the UK and employing British seafarers—about 1,200 in all. These vessels, while primarily assisting vessels entering or leaving ports and terminals do spend part of their time at sea beyond port limits and are available immediately when required to assist with marine casualties. Furthermore, it is important to note that the towage industry has developed its own NVQ-based training schemes, fully within the STCW system recognised by the MCA and the Merchant Navy Training Board.

The towage companies currently with Tonnage Tax alone have about 60 cadets currently under training in accordance with their commitments. Of the members' 160 tugs, more than 100 are operated by tonnage tax companies.

In 1999, it was clear that operators of sea-going tugs were eligible to elect into UK Tonnage Tax, and the major operators did so. Unfortunately, since then, cases before the European Court of Justice concerning Dutch tugs operating in Germany have established that port towage operations are not encompassed by the special state aids rules for maritime transport, and the European Commission has had little option but to reflect that in the redrafted Maritime State Aids Guidelines published in January 2004. In order not to be in breach of these Guidelines, the UK Government must implement the required changes in its statutes by mid-2005; this will of course fall to Treasury rather than Transport legislation.

Over the last five years, most of the towage companies have made major investments based on the certainty that the 10-year commitment to Tonnage Tax brought. Furthermore, during this period, the ownership of two major companies changed hands on terms reflecting that commitment. All those economic decisions would have been assessed differently if exclusion had been foreseen. The implications are therefore serious for the economic viability of the operators and their value to investors.

This major development follows the equally unexpected changes last year in the arrangements for seafarers' national insurance contributions which have hit the industry with an additional £4 million per annum in its operating costs.

We accept that, in relation to Tonnage Tax, the Government's hands are tied by the EU's state aid regime. Furthermore, we are assured by Department of Transport and Inland Revenue officials that they will seek legislative changes that will do the least damage possible to the industry. Nevertheless, a reduction in training places can be foreseen and consideration will undoubtedly be given to any possible benefits that might flow from economies in the flagging or operation of the fleets.

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Taken overall, we invite the Transport Committee to take note of these developments with concern and to urge the Government to take all possible steps to ensure that the inevitable damage to this important sector of British shipping is minimised.

8 June 2004

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**Memorandum by the Creekside Forum (TT 09)**

**TONNAGE TAX**

**INTRODUCTION**

1. We are a small community group based in Deptford, south-east London. Our interest in this matter is explained in Annex 1.

**CRUISE LINERS**

2. We attended the committee's evidence session on 23 June 2004 and read the written submissions that were available. We were disappointed by the very limited amount of evidence regarding cruise ships. The leisure cruise industry has grown enormously over the last two decades.

3. Over the last three years we have become aware of both the general lack of awareness in the UK of how successful the international cruise liner industry is and some ambivalence to the idea that this country might enjoy its share of the economic benefits. Reference has been made elsewhere<sup>1</sup> to the maritime sector having "... slipped below people's radar". Over recent decades freight handling has moved out of our major cities to estuarine and coastal ports far away from the eyes of both print journalism and the electronic media.

4. Cruise liners are the most visible of ships, drawing the public's eye wherever they moor. This is in the heart of major cities to a far greater extent than cargo vessels. The *Queen Mary 2*, flying the Red Ensign, has raised the profile of British shipping everywhere she has travelled both at home and abroad.

**EMPLOYMENT**

5. Crewing levels on cargo vessels have greatly diminished in recent years. Paying passengers, however, are disinclined to travel on vessels that appear to them to be understaffed. As a general rule of thumb cruise ships are staffed at a ratio of about one crew member per two passengers. Individual cruise liners create more seagoing employment than a fleet of cargo vessels. *Minerva II*, named in London last year and returning this summer, has a crew capacity of 376. The *Europa* and the *Silver Cloud*, both due in London this August, have crew capacities of 264 and 210 respectively.<sup>2</sup>

**UK REGISTER**

6. Passenger perceptions are a relevant issue in the flagging of cruise ships. The Maritime and Coastguard Agency (MCA) operate a robust inspection regime which ensures that UK registered vessels are maintained and operated to a high standard. The government might do more to ensure that this quality assurance aspect of UK registration is known both to the international travel industry and through them seagoing passengers. In conjunction with the tonnage tax more cruise ships might be attracted to UK registration and management.

7. Raised in isolation, the question of onboard marriages contributes to an image of cruise liners being peripheral to the UK shipping industry. This is somewhat unfortunate. In context marriage cruises are a discreet sector of the world cruise offer. Given the breadth of inspections carried out by the MCA, ensuring that the onboard wedding chapel is up to the same standard as any premises licensed for marriages in England would seem a simple and straightforward task. As many UK citizens are presently getting married on foreign registered vessels it is hard to see any principled objection to such marriages onboard British registered cruise ships.

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<sup>1</sup> Bosses launch distress flare over recruitment as old seadogs fade away; *Guardian*, 21 June 2004.

<sup>2</sup> Crew capacity figures from *Convoys Wharf Cruise Terminal Feasibility Assessment*: Locum Destination Consulting for the Port of London Authority, October 2003.

#### GENDER ISSUES AND MONITORING

8. There is a stark contrast between the venerable British shipping institutions and the younger and brasher international cruise liner industry. Whilst the UK shipping institutions appear to be almost entirely dominated by men in dark suits there are many women owners and senior managers in the cruise industry. The Government should monitor the issue so as to ensure that it is not a barrier to cruise lines registering their ships in the UK or locating their strategic management here.

9. A civil servant giving evidence to the committee on the 23rd referred to tracking officer cadets by name. She would therefore already have a reasonable idea of the gender and ethnicity of those currently being trained. As this training is effectively provided at the UK taxpayers' expense it is particularly important that the government should ensure equality of opportunity for citizens seeking to embark on a maritime career. The collation and publication of relevant statistics would be a first step in this process.

#### CONCLUSIONS

10. It is vitally important to the health of the British shipping industry as a whole that the government ensures that the opportunities afforded by the tonnage tax are as open to cruise lines as any other part of the shipping industry.

11. The international cruise liner industry is a dynamic and growing sector of world shipping. Highly profitable and employing large numbers of seafarers we are surprised that it has such a low UK policy profile. Might we be so bold as to suggest that, at its earliest convenience, the committee holds an inquiry into whether the UK is taking proper advantage of the extensive economic opportunities afforded by the cruise liner industry?

*Bill Ellson*  
Creekside Forum

*July 2004*

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#### Annex 1

#### WHO WE ARE

1. The Creekside Forum was established in 1997 as a joint sub-committee of Deptford Community Forum and Greenwich Waterfront Community Forum in order to give local people a voice in the *Building Bridges* Creekside SRB2. The SRB project has long since finished and the now independent Creekside Forum finds itself at the centre of a maelstrom of developer interest. Our current membership is around 300 individuals and organisations.

#### CONVOYS WHARF

2. The largest individual development site in the area is Convoys Wharf, which until early 2000 handled imports of newsprint. During the early 1990s tonnages steadily increased and there were aspirations of reaching one million tonnes per annum. However in the late 1990s the Greenwich Lorry Ban was introduced which added considerably to the time and cost of delivering paper landed at the wharf and the trade moved to Felixstowe and Chatham.

#### CONVOYS OPPORTUNITY

3. In late 2000 it became apparent that the site owners intended to seek planning permission for residential development prior to disposal of the site. Since that time we have facilitated a regular gathering, under the name Convoys Opportunity, of community organisations, churches, businesses and others to ensure a local say in the future of site.

4. A clear aspiration to maximise employment arose from these meetings. Out of that desire emerged the idea of locating London's long wished for cruise liner terminal<sup>3</sup> on the 25 acres (just over half the site) protected for freight use. The safeguarding order was originally made by John Gummer in 1997 and confirmed by John Prescott in 2000 when the office of Mayor of London was created. London Plan policies include a sequential test (4C 106) that whereby when a wharf is no longer viable for freight use then other maritime uses should be considered first.

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<sup>3</sup> See River Thames Working Party report 1994 (Chaired by Steve Norris, then Minister for Transport in London).

5. The Port of London Authority (PLA) are now taking the lead in progressing plans to develop a permanent cruise liner facility at Convoys Wharf. They have commissioned engineering and marketing reports that have confirmed the physical suitability of the wharf and that such a facility would attract over a hundred liners per year. The Chair, Simon Sherrard, and the Chief Executive, Steve Cuthbert have publicly set out the need for a permanent cruise liner terminal on a number of occasions and have made clear that Convoys is their preferred site.

Such a cruise liner terminal would give both the Port of London and the international shipping community a visible focus within the capital that has been lacking for decades.

#### PLANNING

6. It is that visible focus that we are promoting, at a regional level, in response to the planning application by Richard Rogers Partnership (RRP), for 3,500 residential units. At a local level we are concentrating on the employment and other economic opportunities arising from the terminal and other marine uses. RRP's application is likely to be considered by Lewisham Council's planning committee in September or October this year.

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