THE DECLINE OF UK MERCHANT SHIPPING,

1975-90:

BEYOND THE MARKET VIEW

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ALL FIGURES AND TABLES HAVE BEEN REDACTED AT THE REQUEST OF THE UNIVERSITY.

"The Ship was Cheer'd, the harbour clear'd, Merrily did we drop
Below the kirk, below the hill,
Below the lighthouse top.

Samuel Taylor Coleridge, The Rime of the Ancient Mariner

With Thanks to: Jacky, Liam, Matty & Danny for their Saintly Support.

ABSTRACT

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LONDON GUILDHALL UNIVERSITY, JAN, 1995.

This dissertation will provide explanation for the decline of UK merchant shipping, 1975-1990. This involves identifying and analysing a broad range of factors which have simultaneously affected the merchant fleet. In attaining this objective it has become apparent that prominent amongst the explanations is the market view. This leads to a belief that the merchant fleet has suffered because it has not been able to combat the economic pressures which exist in the international shipping market. Whilst this work acknowledges that these economic forces are an important quantitative determinant of decline, it also presents the case for a broader analysis which includes qualitative factors.

The qualitative approach allows for the analysis of sectoral, organisational and business behaviour elements which have been identified as influential. By extending the scope of research to these three areas, the context in which decline has occurred becomes apparent, providing a more sensitive and detailed explanation why decline has occurred.

The nature of the literature considered here extends from the statistical evidence of decline in the major sectors of the fleet to works on the historical development of shipping organisation, to academic discourse, and evidence from both governmental (including inter-governmental) and shipping industry sources on the nature and issues of decline.

From the sectoral base, which identifies the pattern of decline throughout the main fleet sectors, the organisational and business behaviour elements will be analysed as key factors. Issues raised by the decline are identified as those of over-tonnaging, fiscal policy, industrial relations and maritime safety; analysis of these issues reveals a source of qualitative evidence within the sectoral, organisational and business behaviour context. The findings resulting from this approach are that decline is accurately explained by analysis of the organisational change and its impact on business behaviour within the context of the international shipping market.

THE HYPOTHESIS

Understanding the UK merchant fleet's decline, 1975-90, requires analysis which extends beyond the boundaries of the market view's perception of a failure to compete in the open market. The required analysis, therefore, demands a framework which is conducive to the study of the sectoral, organisational, and business behaviour components of UK shipping and its global environment.

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Chapter One: Introduction

This dissertation will attempt to provide an accurate explanation of the decline of UK merchant shipping during the 1975-1990 period. Understanding why decline occurred is necessary not only as a historic record but as a requisite for any future fleet revival. During this period the decline in both the number and total tonnage of UK flagged ships continued at a rapid rate, with total tonnage falling by nearly 80 percent - from 33.1 to 6.7 million gross registered tonnes(grt).[1] [*]

This decline meant that the UK flag fell from third to sixteenth in world tonnage tables;[2] many of the nation's traditional shipping companies either ceased trading or only continued operations at a much reduced level; companies diversified away from shipping towards new business opportunities, whilst others chose to re-register their ships under foreign flags, continuing operations on an off-shore basis. These vessels were still UK owned but adhering to the legal requirements of the host nation. The rapid and seemingly irreversible decline has provoked many questions: why did this decline occur? what were the principal determinants of this decline? Was the decline caused by The UK fleet's failure to compete

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[*]In most tonnage references in this work gross registered tonnage(grt) is used. This provides an estimation of the vessel's carrying capacity, based on the adding of 1 ton for every 100 cubic feet of enclosed space(excluding bridge and accommodation). The principal statistical source used, Lloyd's Register of Shipping Statistical Tables, aggregates tonnages of all merchant vessels over 100. grt.

In a limited number of examples - where grt is not available - deadweight tonnage(dwt) is referred to. This indicates the actual metric tonnage of the total cargo weight, plus fresh water and fuel. See: P.Alderton, Sea Transport Operations and Economics(London: Thomas Reed, 1973), pp.14-17.

in the international market-place? Or were there other, less tangible forces which brought decline?

In seeking answers to these questions the most apparent and widely accepted explanation is that the UK fleet has failed to compete in the global market-place; and, furthermore, that increased competitiveness is the key to future revivals of the fleet. Whilst acknowledging the importance of competitiveness to the shipping industry, this work sets out to broaden the study of decline. This involves extending the analysis beyond economic performance in shipping operations to the many, not so easily identifiable, factors which have contributed to decline. These are identified as the factors behind the decline, ranging from the varied composition of the fleet to the evolving organisation and business behaviour of UK and the global shipping environment in which it operates. The evidence from which much of the analysis is made has stemmed from the academic, political and industrial debates which emerged as a result of decline, the context of which is next considered.

Defining the Problem

In 1975 the composition of the fleet posed questions of expansion rather than contraction: an extra million grt had joined the registry in the previous twelve months,[3] the shipping press featured the shift towards more capital intensive ships - fully cellular container ships, ro-ro ships, large tankers and bulk carriers.[*] April 1975 saw the industrial journal, Motor Ship,

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[*]The moves towards a more capital intensive fleet were generally welcomed by all in the industry as it (appeared) to guarantee competitiveness. See: A.Marsh, V.Ryan, The Seamen: A History of the National Union of Seamen(Oxford: Malthouse, 1989), pp.202-212.

Earlier failures to develop into new growth areas of shipping technology had been made by Sturmey's scathing criticism of the UK owners. See: S.G.Sturmey, British Shipping and World Competition(London: Athlone Press, 1962),pp.398-403.

congratulating the UK industry for its ability to blend expansion with high standards of safety:

> While ships have grown larger and coastal waters more crowded, with ship types more varied, and good men to crew them more difficult to find, Britain seems to have kept her place where safety is concerned.[4]

Five years later(1980), the General Council of British Shipping(GCBS) were rationalising the fleet's loss of 5m.grt from the 1975 peak of 33.1m.grt as the symptoms of a healthy restructuring process. The assumption being that the fleet would diversify away from the low value sectors, such as tramp shipping, and concentrate on the high value, high technology sectors, such as chemical tankers and container shipping.[5] By 1990, the problems of a severe contraction were apparent in the shipping press: concern over the lack of investment, seafarer unemployment and deteriorating safety standards were all regularly featured. Typifying the mood of pessimism that accompanied decline, the editor of Jane's Fighting Ships was by 1986 regretting the nation's loss with the "oblivion" course of the UK fleet leading to irreversible decline, ruling out the fleet's ability to meet UK sea transport needs and causing, "...general apathy in what was one of the great mercantile nations..."[6]

It can be seen that the historic importance and role of the merchant fleet, given its rapid decline from its 1975 peak, has ensured that much discussion and debate would ensue. Also, the extent of the decline has raised questions over future policy for a UK merchant fleet: what strategies are necessary for sustaining the fleet? From this perspective, this dissertation is timely in that it considers many of the issues critical to the UK fleet at a time when the future of the core fleet - its renewal in particular - were being discussed. Providing answers to this question depends very much on establishing accurate explanation of decline.

The importance of merchant shipping has been historically reinforced by wars and other national emergencies which have confirmed the dependence of the British Isles on seaborne supplies. The HM Committee of Inquiry Report into Merchant Shipping(Rochdale Report 1970) stressed this point:

> Goods must be imported to feed the population and to provide industrial raw materials; and at the same time goods may need to be exported to support armed forces overseas and to help pay for our imports.[7]

Such considerations, along with the issues of maritime unemployment and safety, have provoked controversy over the decline and, as a consequence, led to the emergence of a detailed debate and literature; and it is from this source that this dissertation is able to draw essential data in order to accurately explain decline.

The analysis also draws from the comprehensive discussions and recommendations of the two House of Commons Transport Committees which were given the brief of reporting on the decline during the mid-late 1980's. The Committees gathered evidence from a wide range of shipping and shipping related personnel and provided reports on, The Decline in the UK Registered Merchant Fleet.[8] This has provided a valuable source of opinion and information from which to consider the reasons for decline. In addition, maritime academia and industrialists have sought explanation and offered opinion on the decline in numerous articles, conferences etc. Particularly noticeable has been the views of several senior government members. The shift in government economic policy, following the Conservative election victory in 1979, was to have dramatic implications for the shipping industry, which along with other traditional industries - shipbuilding, steel, coal, automobiles - was expected to survive in the marketplace without state support. The economic advice received by the governments of the post 1979 period is typified by Professor Alan Walters' attack upon state intervention:

> ...public expenditures merely increase costs of either labour or capital, this being dissipated in inefficiency or increased rents to unionised labour or capital owners.[9]

From such perspectives, the view of the unhindered market as paramount emerges; that shipping - along with other major UK industries - would have to compete in the world market-place without state assistance. This forms a major dimension of the debate on decline in that it provides a forceful, and widely accepted, explanation for decline. The school of thought espousing this position will be referred to hereafter in this work as the market view. Given that this places great emphasis upon market performance it does appear to fit in with the global changes occurring in shipping, leading to the conviction that UK shipping has failed to compete in this market-place and, as a consequence, has declined. The basis of this argument is two-fold in that (a) the world shipping market is highly competitive and (b) UK shipping has failed to respond to this competition resulting in loss of market and decline. From this perspective, it follows that any future strategies for survival or revival of the fleet are based upon the need to improve competitiveness.

The market view can be seen as a response to the intensification in world shipping competition in the post 1975 period and elimination of the UK Fleet's predominance on important trade routes. This market view is therefore recognised in this dissertation as a coherent and powerful explanation for decline. It can be seen as emanating from orthodox neo-classical economic theory and it possesses the unity of a well established, internationally recognised framework for analysis. With its assumption of an open marketplace which places great emphasis upon cost competition, it has become the predominant answer to the decline question. The apparent inverse relationship between the decline of UK shipping and the rise of low cost world shipping fleets(see below: Chapters 9-11inc.) does lend weight to this view, in that it points to the inability to match this competition.

Whilst this dissertation acknowledges the impact of these competitive pressures on the UK fleet in the post 1975 period, it is felt necessary to extend the analysis outwards to the complex range of forces at work in the decline process. In order to establish the reasons for decline it is necessary to develop a framework which enables analysis of all the evidence surrounding decline. Building upon the impact of competition in the world shipping market, it is held here that the market view only offers a partial interpretation of decline and that other, less apparent, factors need consideration. Three main and inter-related elements of UK shipping and its environment have been identified as major elements in explaining decline:

(1) the UK fleet sectoral structure;

(2) the changing organisational structure of UK and world shipping;

(3) the changing business behaviour of UK and World shipping.

It is contended that these three elements have shaped the fate of the industry. Where they extend beyond the market view is in their qualitative nature, allowing for the analysis of the many and complex forces which have intertwined to bring decline; by way of contrast, the market view is preoccupied with the quantitative approach towards markets and competition within them. The sector study is to be made in recognition of the distinct sectors from which the UK fleet is composed. The purpose is to identify the principal characteristics influencing each shipping sector. This is needed in order to understand the reasons for decline. For example, the sharp reduction in bulk carrier tonnage contrasts with the relative stability of the container fleet. The sector study provides the basis for the two other core areas of analysis. Each sector will be shown to have its own distinct organisational structure of the companies and the environment they operate in and, as a consequence, have adopted a distinct pattern of business behaviour. What this dissertation sets out to achieve, then, is broadening the analysis beyond the confines of the market view in order to improve understanding of the decline. This is called for if the debate on decline is to achieve accuracy.

The Stakeholders' Perspective

From the perspective of the stakeholders in UK shipping, accurate explanation of decline is vital. The aim of this dissertation is to contribute towards improved understanding of decline in order to assist the stakeholders' debate. The definition of stakeholder used here ranges from the owners of shipping and trading capital to the consumers of traded goods, the UK seafarers threatened by the insecurity of decline, and the environmentalists, with their concern over maritime safety. Finally, it is at the political level where shipping policy will be created in response to the perceived performance and role of the merchant fleet. In this context the government has a stakehold in the performance of the fleet in relation to economic, environmental and strategic policy.

During the 1975-90 period a number of major issues have emerged in the debate on decline - fiscal policy, over-tonnaging, the impact of the industrial relations and maritime safety regimes - all reflect the diversity of the stakeholders' interests and all have been subjected to the market view and the solutions that it provides; what this dissertation contends is that the market view provides only a limited explanation of how these issues relate to decline, and therefore the interests of the stakeholders can only be served by providing improved understanding of decline.

The UK shipowners' can be grouped into several categories in their response to the economic circumstances of the 1975-90 period. These categories approximate to the sectoral disaggregation of the fleet. For the larger corporations the response has been either concentration in the more profitable shipping sectors - container shipping, cruise liners, flag of convenience dry bulk and tanker operations - or diversification from shipping completely. The smaller ownership groupings were more limited by their less abundant capital sources, culminating in either "flagging out"* to lower cost registries or complete withdrawal from the dry bulk and independent tankers. An area of common agreement amongst the owners is the conviction that the free market in shipping does not exist, and that state support is a necessity. The Chairman of Ocean Transport and Trading outlined the concerns of the owners in 1984:

> We find ourselves in the unenviable position of gallantly riding into battle in our underpants while everyone else is equipped with Government armour.[10]

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*The term flagging out refers to the common practice of vessels changing registry in order to benefit from a range of economic and political factors. As such, the practice has had an important impact on the UK fleet. For example, the flagging out of the BP tanker fleet from the UK to the Bermuda registry was to have a massive impact on the tanker sector. The flag of convenience dimension is explored more fully in Chapter 10.

From a shareholders perspective the choice is simply one of pursuing the highest possible return on investments; and in this context the decline of the fleet becomes the rational response to economic forces, very much in accordance with the market view. However, it is in the owners' interests to understand the factors which determine the economic conditions in which the UK fleet operates. This is particularly important in seeking to influence to influence maritime policy at government and inter-governmental level.

The position of the users of shipping services may be seen as being in favour of any outcome which reduces the price of internationally traded goods. This accords with the market view's reiteration of competitive forces. If the replacement of UK flag shipping by lower cost fleets brings about a reduction in prices it may be seen as a necessary sacrifice made in the national interest. The prospects of the island nation's increased dependence on foreign flag shipping, however, does raise questions over economic vulnerability. Concerns came to the forefront during the Gulf War(1991-2) when the military logistics were undertaken by foreign flag merchant ships; of the 146 vessels chartered by the Ministry of Defence(MOD) only 8 flew the UK flag.[11] Moreover, serious allegations were made over the charter rates fixed, seemingly far in excess of the market level. This was to provoke the scrutiny of the National Audit Office, which reported on a pricing cartel practised by the foreign owners of chartered tonnage, culminating in the MOD paying out some £38m in excess of market rates.[12] The linkage between the level of UK shipping activity and UK trade was expressed as an area of concern by the Institute of Freight Forwarders in their evidence to the House of Commons Transport Committee's study of decline.[13] Within this context it becomes imperative that the causes of decline are understood if the interests of UK traders and consumers are to be fully considered.

The perspective of the UK seafarers is very much conditioned by the employment insecurity that has accompanied decline. In 1975, seafaring was a major source of employment in the UK with large pools of labour concentrated in major ports - London, Liverpool, Glasgow, Hull, Southampton and Cardiff. In 1975 an estimated 98.000 seafarers were dependent upon the UK industry.[14] By 1990, this had fallen to an estimated 30.000.[15] The impact of decline has affected UK seafaring in two ways: firstly, in the severe reduction in employment opportunities under the UK flag, with the early curtailment of thousands of careers; and secondly, the imposition of new off-shore employment contracts and working conditions, with the emphasis on flexibility and short-term arrangements. This was specifically the experience of UK seafarers finding employment under flags of convenience(FOC) agreements. The trade union position here is one of concern over perceived diminished conditions of employment and diluted safety standards.* The questions raised by the industrial relations of decline extend beyond the simple cost comparison inherent in the market view. The employment issues also extend to the long term impact of reduced UK seafaring opportunities, in severing the links that have developed between sea and shore-based professionalism - shipbroking, ship surveying, ship management, coastguards, harbour masters and even maritime professors in academia.[16] Establishing the link between the seafarers' issues and decline does allow for the testing of the suitability of the market view to issues which extend out to the more qualitative aspects of shipping operations.

The qualitative dimension is also pertinent to the issues of the maritime environment. Increasing concerns over safety levels at sea have found their way into the debates on the UK

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*Both UK maritime unions - NUS/RMT, NUMAST - have regularly undertaken campaigns against the decline of the UK flag by claims of unsafe operations under FOC and other low cost flags. See: Union journals, NUS/RMT, <u>The Seaman</u> and NUMAST, <u>The Telegraph.</u>

fleet's decline. Major oil spills and the resulting environmental disasters - fishery stocks ruined, seabird flocks devastated, coastal beauty spots ruined - have focused attention on maritime safety.[17] This necessitates consideration of the qualitative link between the flag of the vessel and its standards of operation. Concerns, in particular, have been expressed regarding the standards of the tonnage(mainly flag of convenience ships) replacing UK flag ships.[18] This position allows for environmental concern to become part of the stakeholding in the UK fleet. If (some)foreign flag vessels have lower safety standards than those to be found under the UK flag, it follows that competitive edge is gained at the expense of safe standards. Relating the maritime safety issue to decline, the question over standards requires analysis to stretch beyond the comparative cost approach of the market view. The issues of safety and environmental risk have, therefore, formed a major element in the decline debate; by improving understanding of the demise of UK shipping the broader environmental debate can only be enhanced.

The last category of stakeholder considered is that of the State itself. The pro-market stance of HM Governments post 1979 has been outlined as an important determinant of the explanation for decline. Whilst at Cabinet level the market view prevailed up until 1990, opinion within the Westminster sphere was hardly unanimous. The all-party Transport Committee(1987-8) was very much in favour of extending the national valuation of the fleet shipping beyond the balance sheet. This includes discussion on the link between the fleet and the national interest.[19] The Transport Committee was to challenge the market view prevailing within Government and the Department of Transport, arguing that it is vital to the State's interest to maintain a sizeable merchant fleet on the following grounds:

(1) the impact on trade of a serious reduction in the fleet;

(2) the danger of being totally dependent on others to move the UK's imports and exports;

(3) the contribution by shipping to the balance of payments;

(4) employment in shipping and ancillary industries;

(5) the loss of international influence.[20]

It becomes apparent that the Transport Committee was seeking the widest possible appraisal of the fleet, recognising the contribution to strategic and macro-economic objectives. The recommended policy option to maintain the fleet does, however, strongly suggest the case for State intervention. This obviously clashes with the market view of a competitive shipping fleet.

Two areas where the question of intervention emerges are, firstly, that of the enduring over-tonnaging problem of world shipping, and,secondly, the investment crisis facing the UK fleet. The over-tonnaging(supply surplus) caused by a market mechanism which rarely attains equilibrium(see below: Chapter 13) has the effect of lowering freight rates and making it increasingly difficult for higher cost flags, such as the UK, to survive. Under these conditions the role of the State is called into question in order to improve the difficult market situation facing UK ships. Crucial to rational decision making here is the understanding of the link between UK fleet decline and over-tonnaging.

The problem of an investment dearth in UK shipping again has implications for policy-makers in that the reluctance of private sector capital to favour UK shipping has led to an ageing(as well as diminishing UK fleet). If there is to be a long term future for the fleet, securing investment becomes imperative. Traditionally, investment incentives were provided by the state. The UK industry felt that these were unwisely withdrawn following the 1984 Budget.[21] The cost to the Exchequer of providing these incentives has been estimated at £100m per 25 vessels.[22] For a Government committed to reducing public expenditure and promoting the idea of a competitive markets this has proved inimical. Influencing these polarised positions is the contrasting perception of the mechanics of the global shipping market: whilst the UK industry has charged that investment incentives are necessary in order to off-set the impact of a market distorted by protectionism and other types of political intervention,* the Government's stance is very much conditioned by the market view of open competition.** By providing analysis of the structure of the major shipping markets in relation to UK shipping, this dissertation will, therefore, contribute to the decline debate by challenging the market view led assumptions of H.M. Government in the 1979-90 period.

This consideration of the stakeholders'perspective provides a rational for this dissertation; by improving understanding of the complex range of forces which have led to decline, the quality of the ensuing debate on decline, and future policy making decisions can only be enhanced. It next remains to demonstrate the hypothesis which has been selected to achieve this contribution.

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*The General Council of British Shipping(GCBS) claimed in 1989 that international shipping markets were distorted by State intervention. It was, therefore, the role of UK Government to rectify this position by actively supporting the UK fleet. See: GCBS, A Level Playing Field for Merchant Shipping (London: GCBS, 1989).

**The debate on the Fleet's future promoted by the 1981 Seamen's Strike saw the Government calling for a more competitive response from the fleet, with operating costs compatible with those prevailing in the international market.See: M.Davies, Belief in the Sea: State Encouragement of British Shipping and Shipbuilding (London: LLP, 1992), p.287.

The Hypothesis Stated

Having now outlined the principal issues involved, and emphasised the need for an improved understanding of decline, the following hypothesis is stated in order to achieve the objective of this dissertation:

> Understanding the UK merchant fleet's decline, 1975-90, requires analysis which extends beyond the boundaries of the market view perception of a failure to compete in the open market. The required analysis, therefore, demands a framework which is conducive to the study of the sectoral, organisational,and business behaviour components of UK shipping and its global environment.

The broad, qualitative approach inherent in the hypothesis allows analysis of the range of factors which have proved causal to the decline of the UK fleet. This approach is used to extend the study beyond the limits of neo-classical economic theory in order to improve understanding of why decline occurred.

Summary and Conclusion

In this Chapter, attention has focused on the decline of the UK fleet and the discussions and debate that has emerged in response to the demise of a major industry, deemed by many as of one national importance. The principal stakeholders have been identified; the need for careful analysis of their respective positions on decline stated. The fleet's rapid decline from an apparent growth position in 1975 raises questions about why this occurred; and moreover, what possible solutions exist in reversing decline. The predominance of the market view has been identified as the problem to be overcome in explaining decline; and the need to extend the analysis beyond this market view has been stated and encapsulated in the hypothesis to be tested. It next remains to outline how this will be achieved, the methods used and the dissertation's plan of work.

Chapter One Endnotes

1.Lloyd'Register of Shipping Statistical Tables.

2.Loc.cit.

3.Loc.cit.

4."Britain Maintains Sea Safety Record," The Motor Ship, April, 1975, p.83.

5."A High Quality Fleet," GCBS, British Shipping Review 1980 (London: GCBS, 1981), p.2.

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8.House of Commons Transport Committee Reports on, The Decline of the UK Registered Merchant Fleet, Vols.1,2,3(London: HMSO, 1988).

9.A.Walters, British Economic Renaissance: Mrs.Thatcher's Economic Reforms, 1979-84(New York: OUP, 1986), p.37.

10.P.Beresford, J.Huxley, "Britain's Abandoned Ships," Sunday Times, 2.12.84. p.65.

11."MOD Charters Condemned," NUMAST, The Telegraph, June 1993, p.13.

12."NAO Urges A More Professional Approach," Lloyd's List, 10.6.93. p.3.

13.Evidence from the Institute of Freight Forwarders, House of Commons Transport Committee, op.cit, Vol.2, pp135-6.

14.House of Commons Transport Committee, Session 1986/7, Decline in the UK Registered Merchant Fleet, Minutes of Evidence, 10.12.86(London: HMSO, 1986), p.9.

15.Estimated from Department of Transport, Merchant Fleet Statistics 1990(London: HMSO, 1991).

16.D.H.Moreby, P.Springett, The UK Shipping Industry Critical Levels Study(London: BMCF/Plymouth Polytechnic, 1990), pp.158-168.

17."Black Tide Fouls Beach in Brittany," The Times, 18.3.78. and "Clean Sea Crusaders," The Telegraph(NUMAST), April, 1990, p.11.

18."Tightening the Safety Net," Fairplay International Shipping Weekly, 27/3/75. pp.38-39.

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20.House of Commons Transport Committee Session 1987/8, First Report, Decline in the UK Registered Merchant Fleet. Vol.1. Report and Minutes of Proceedings, 27.5.88.London: HMSO, 1988), p.xxvii.

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22.R.M.Frampton, The Marine Industries Development Corporation As A Way Forward: A Paper Presented on Seminar Nautical Institute Seminar on New Ways to Promote Shipping Investment. Organised by the Nautical Institute on board HQS *Wellington* 17.11.87.

Chapter Two: Research Context and Plan of Work

Introduction and Objective

The previous Chapter outlined the need to extend the range of analysis in order to improve understanding of why decline occurred; the objective of this Chapter is to signal how this is to be achieved.

Firstly, it is aimed to outline the foundations of the market view and the limits these impose on the scope of analysis. This is then followed by the illustration of the qualitative approach, and its emphasis, which is integral to the core analysis employed here. This allows for the activation of the trio of study areas providing this core - sector study, organisational analysis, business behaviour analysis. Finally, it is intended to show how this core analysis provides for an extension of the scope of the study, and how this will operate specifically in each Chapter. This will be made apparent within the framework of the plan of work.

The Market View Perspective

It is intended here to describe the foundations of the market view. This is necessary in order to demonstrate the contrast with the core analysis thus serving the demands of the hypothesis. In providing this contrast it will become evident how the core analysis employed here expands the study of decline into areas outside the boundaries of the market view.

The need to place such emphasis on achieving this contrast stems from the traditional influence that the market view has had in shaping the perception of the UK Fleet and its global environment. The composition of the market view emanates from four major sources- the historical perspective of shipping, the academic position, the evolving structure of shipping organisation and its ownership, the enduring political perception. It is contended here that these four sources of perception have coincidentally brought about the market view explanation of why the UK Fleet has declined.

The Historical Perspective

The historical perspective provides the picture of an evolving world shipping market in which competition is of paramount importance. The historic circumstances led to the growth and dominance of the UK Fleet in the 19th (and early 20th) century were to feature competitive dynamics. Maritime historian, Simon Daniels, was to detect this influence in his study of the UK Fleet's development in Victorian times when:

> ... Modest-sized cargo ships plied the seas on shoestring budgets scraping profits on any cargoes they could secure, they developed principles of shipping upon which so much the economics of shipping are based.[1]

The period alluded to by Daniels was one in which the UK Fleet enjoyed world dominance; however, competition was ensured by the amount of new activity under the UK flag.[2] The tramp-trades, in particular were the source of intense competition between UK lines.[3] The strength of the belief in the open market was very much in evidence in the debates over state intervention during World War One. The calls for war-time planning of merchant shipping logistics clearly challenged the notion of free enterprise and open competition. This was to cause something of a dilemma for leading shipowner and Board of Transport President, Lord

Runciman who felt that:

> ... No government action could overcome economic laws and any interference with those laws must end in disaster.[4]

Given the entrenched position of the market view during the period of the UK Fleet's world dominance, the precept which prevailed during the years of relative and absolute decline was one of failure to compete. The response to decline can be detected in a selection of debate ranging from the optimistic to the pessimistic. The repercussions of the prolonged seamens strike in 1966 led to formation of the "Rochdale Committee" which reported in 1970 that, although there had been some cause for concern given the apparent loss of competition.

> ...There was a new spirit of enterprise evident in the management of many shipping companies.[5]

Taking a less complacent view of the competitive performance of the UK owners, Ocean Steamship executive, J. Lindsay felt the need for an improvement, arguing that the "Rochdale Report" was a necessity given that,

> ... public concern justified the inquiry because for the previous eight years profitability had been low, Foreign fleets had been growing rapidly whilst the British fleet had stood still and there was a suspicion that British shipping management was asleep.[6]

At the heart of both positions is the emphasis on the market, given the relative decline of the UK Fleet in the post 1945 period. Such observations readily set the scene for the market view and its explanation of absolute decline post 1975. Given the historic emphasis on competitive factors, when the total gross registered tonnage began to fall rapidly from its 1975 peak of 33.1mgrt it was inevitable that the perception of competitive failure would generate. This was made even more inevitable by the academic tradition of economic thought in relation to shipping and international trade.

The Academic Perspective.

Underpinning the academic perspective is the theory of international trade. The years of the UK Fleet's world dominance coincided with the emergence of this branch of economic theory. The early works of Adam Smith and David Ricardo had clearly outlined the economic conditions under which international trade should take place and flourish. Smith's Wealth of Nations[7] described the economic pre-requisites for industrial growth. By concentrating the factors of production in areas which provided for the most efficient mix of labour, capital, land and enterprise output would increase. In Smith's time, it was the new potential of powered machinery which offered the prospects of industrial growth, given the necessary economic freedom to allow this.[8] The principle of division of labour heralded by Smith has since extended to the mechanics of international trade. Then endurance of this principle was acknowledged by American economist, J.K. Galbraith in 1987, who saw that

> "... Smith's division of labour remains a totemic source of efficiency a cliché in all discussion of international trade policy.[9]

Building on Smith's division of labour, Ricardo's analysis of international trade advocated the principle of trade specialisation in his work, The Principles of Political Economy.[10] By an unhindered approach to international trade nations would benefit from the best use of their factors of production. The endurance of these ideas has led to their appearance in the debate on the UK Fleet's decline. Maritime economist, R.O.Goss has been a particularly sharp advocate of the comparative advantage theory that stems from the traditions of Smith and Ricardo. Goss has consistently argued the case for a market led approach to UK Shipping issues. By reference to comparative advantage, Goss has reminded the supporters of an interventionist shipping policy that,

> International shipping services are commonly bought and sold in competitive markets which tend to lead to the survival of those with the lowest private costs.[11]

The emphasis on competitive advantage is seen as the result of the quest for economic efficiency. Resulting from this adherence to international market forces will be the optimum allocation of the world's shipping resources on the basis of comparative advantage. This provides a powerful source of academic explanation for the rise and fall of the UK Fleet. Given the changes occurring in the structure of the world fleet in the post-1945 period (intensifying post 1975), the decline of the UK Fleet is seen as the inevitable result of market forces: as lower cost supplies of shipping (and its crews) become available on the international market, the UK Fleet would find itself in an increasingly uncompetitive position.

The enduring pervasiveness of this branch of economic thought is complemented by the changes in the structure of shipping organisation which have accorded to the notion of an open international market.

The Evolving Structure of World Shipping

A number of factors in the technical and organisational structure have contributed to the market view. These factors have promoted the belief in an openly competitive market in which the UK Fleet has found it increasingly difficult to survive.

The emergence of an array of new maritime nations into the technology of shipbuilding and owning; the spread of maritime capital, enterprise and labour; and the collaboration of shipping organisation between developed and developing nations, are all factors which have helped to compose the picture of the open market. In 1990 the joint Government and Shipping Industry Working Party held that the new structure of world shipping approximated to the "textbook ideal" of competitive markets.[12] Such technical forces as standard shipbuilding and simplified designs for mass-produced vessels have made it possible for developing nations to enter into shipping markets.[13] In addition, the outward spread of shipping expertise and organisation from the advanced industrial nations to the developing nations can be seen as the result of the application of comparative advantage. Maritime geographer, Alistair Couper saw that the ease of "spatial interaction" between trading nations has spread economic development globally.[14] The impact of this interaction has contributed to the global spread of shipping activity. In particular, the combination of developed nation capital and enterprise with developing nation labour can be seen as a result. One of the major cost areas of vessel operation (see Appendix One). Additionally, crew costs are one of the few cost areas specific to the vessel's flag.* Table One illustrates the attraction of the international division of labour.

TABLE ONE: COMPARATIVE ANNUAL CREW COSTS 1987 (000 US$)

*The Joint Working Party between the Department of Transport and the GCBS found that there were three main cost components which varied according to flag: capital, labour, regulatory requirements. See: DoT & GCBS, British Shipping: Challenges and Opportunities(London: HMSO, 1990), p.35.

The advantages of combining the factors of production on a global basis become evident when the flag/crew mix is sought. This then provides a pervasive explanation for decline as capital seeks the lower costs of shipping operations available in the world market. Under these conditions the choice facing the UK owners will be to either economise their operations in cognisance of the cost savings offered by the international division of labour or to leave the shipping market completely. It will next be considered how the fit of this perception of an evolving world shipping structure, along with the historic and academic perspectives, was to be a very close one with that of the leading UK politicians, particularly post 1979.

The Political Perspective

The emergence of the pro-market Conservative Government dominance from 1979 onwards was seen as a reassertion of the economic faith in the market. The high inflation and apparent failure of the mixed economy, and its dependence on intervention by the state, was forcing a rethink over economic strategy in the late 1970's. Typifying the economic ideas which unleashed following the 1979 Conservative election victory was the criticisms of Lord Keith. Primarily, the point made was that Britain's economic problems were the result of the "absence of incentive both to the large established business and to the individual entrepreneur".[15] The recognition of this problem gave weight to the calls for improved competitiveness. In the new market led economy there was to be little scope for the state support of ailing industries. For merchant shipping, along with other traditional UK industries - coal, steel, textiles, automobiles, chemicals - the economic prescription was to be, sink or swim! The mood of the Conservative Governments post 1979 in relation to shipping was summarised by Trade Minister, Iain Sproat's 1983 call for increased competitiveness:

> Action to deal with the difficult conditions the merchant fleet has to face must come essentially from the industry itself, in particular from its own efforts to achieve greater international competitiveness.[16]

During the worst years of decline, the early - mid 1980's the response of HM Government/s was to call for improved competitiveness. The incoming Shipping Minister (1983), David Mitchell stated that the answer to decline was not protection and subsidy, but both sides of the industry working closely together in order to improve competitiveness.[17] By 1986 the "threat" of flag of convenience tonnage was being seen as analogous to the competitive challenge from overseas to other traditional UK industries. A senior Department of Transport official was to make this comparison.

> The growth of flag of convenience fleets with low cost third world crews is not greatly different to the growth of many other industries in the developing countries, particularly of the Far East which are now providing strong competition to the mature economies on the basis of low wage costs.[18]

From the political perspective it can be seen how Governments between 1979 and 1990 viewed the performance of the UK Fleet. This leads to the view that decline was the result of inability or reluctance to improve competition. It next remains to outline how these four conditions interact in the construction of the market view; and how these inevitably point to the conclusion that the UK fleet was ovetaken by more competitive fleets in the global market.

Towards the Market View

The source of the market view have now been outlined. The blend of historic, academic, structural and political perceptions have provided a cogent and forceful explanation of why the UK Fleet's decline occurred. The historic perspective directs attention to the market environment in which the UK Fleet had developed; and the calls for a return to its dynamic foundations was to become a theme of the years of relative - then absolute - decline. The academic perspective is fuelled by the comparative advantage thesis which sees that only shipping lines which can achieve cost competition in the world market will survive. The evolving structure of world shipping has facilitated the view that the open market exists for all and that it determines the nature and scope of shipping activity in each specific maritime nation. Finally, it has been shown how the direction of political opinion in Government circles was to coincide with these perspectives.

The net result of these perspectives is the assumption that the decline of the UK merchant fleet can be fully explained by recall to this market view. This generates a cogent account of why decline occurred; as such the fleet's epitaph is already well advanced!

Having acknowledged the extent of the market view it next remains to outline how the direction of this work will seek to extend the analysis. By investigating a wide range of factors exogenous to the market view it is aimed to demonstrate improved understanding of why decline occurred. It next remains to illustrate how this broadening of the analysis is to be achieved.

Beyond the Market View

The direction required by the hypothesis is to extend the analysis in order to consider the link between decline and a wide range of qualitative factors which provide a vital context for the improved understanding of decline. The aim here is not to replace the market view but to broaden the analysis beyond the emphasis on comparative costs. It is contended that the benefits of this approach are to achieve increased sensitivity to an array of not easily quantifiable factors. The structure in which this system will operate is provided by the core area of analysis. This is formed from:

(1) the sector study;

(2) the organisational study;

(3) the business behaviour study.

It will be made apparent that these three core areas are interdependent; and, additionally, that they enable the direction of the analysis to range beyond the confines of the market view. The sector study identifies the key organisational characteristics of the principle components of the fleet. Once this sectoral profile has been achieved it will be possible to be specific in relating the organisational and business behaviour study to each sector.

Having identified the key characteristics of each sector and recognised the uneven pattern of decline within, it follows that the UK Fleet has a highly diverse composition. One major outcome of this profile is the realisation that there are major contrasts in the 1975-90 performance of the key fleet sectors, which include tankers, dry bulk carriers, container liners, cruise ships, ferries, coastal vessels and off-shore vessels. Each operates in distinct markets under specific economic and political conditions. It may be observed that the only common factor to all these sectors is that they all represent floating assets, or liabilities! In order to test the hypothesis it is necessary to consider just how much decline in these key sectors is attributable to their specific organisation and business behaviour, beyond the market view.

The link between the sector profile and the organisational/business behaviour aspects lies at the centre of the extension of the analysis. For example, the linkage between fleet organisation, business behaviour and the dramatic decline of UK tanker tonnage in the 1975-90 period relies upon the profile of the sector provided in Chapter Four. Whilst the comparative costs of tanker operations are an important consideration here, the analysis needs to extend out to the considerable changes occurring in the organisations of the major tanker fleets and how this was to bring about a completely new approach to shipowning and operating. Although the impact of comparative costs was a determinant of the decisions made on flagging out and fleet rationalisations, it was the shift in business strategy which followed organisational change that facilitated this direction.

The integration of these three core elements demonstrates how the decisions made by the UK owners were influenced by a range of factors, both exogenous and endogenous to the market. The evolving global pattern of ownership has brought about changed criteria in the business decisions of the owners, specifically, the response to world competition including the retreat from shipowning.* As well as the changes in organisation at company level, the evolving

***The emphasis on organisational change allows for analysis of the business behaviour of the UK lines. This focuses on the evolving business culture of the shipping firms; within this context, the issues generated by the decline of the UK fleet forms part of the**

structure of world shipping needs consideration. This calls for analysis of shifts in the composition of world shipping - its ownership, financing, managing, crewing. The markets in which the UK Fleet had once been dominant had radically changed by 1975. Such developments as the rise of Flag of Convenience, and national shipping fleets were to bring changes to the traditional UK deep-sea trades; and paralleling these developments, the decline of the colonial trades and a rise in the polycentric pattern of world trade has meant that the organisation of world shipping no longer revolved around the UK fleet. One development was the shift away from the deep-sea liner trades with the Commonwealth, the movement towards short-sea European trades, brought about by European integration. This led to new forms of shipowning and organisation as the emphasis on ro-ro ferries and coastal shipping intensified in correlation with the patterns in European trade. Explaining the relationship between these trends and decline of organisational change and business behaviour. In questioning the low participation of UK lines in the growing European ro-ro trades, it will become apparent that factors other than costs are to be found as a determinant of the vessel's flag in specific trades. Another area of change has been in the structure of the cross-trades.* The participation of the UK Fleet on trades outside of the UK has always been an important facet of operations. Although UK liners were to retain a large presence on some premier routes the demise of the involvement of the UK flag tramp traders in the bulk trades was almost complete by 1990. Again the search for explanation directs the analysis beyond the

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national debate on de-industrialisation. See: E.H.Lorenz, Economic Decline in Britain: The Shipbuilding Industry, 1890-1970(Oxford: Clarendon, 1991), pp.1-23.

***Cross-trades have formed an important role in the UK fleet's performance. On such key liner routes as Australia-N.America, N.Europe-Far East, UK lines have retained a presence, contributing at times up to 70% of the UK fleet's earnings. In 1988, UK cross-trade earnings were £1678m, which was 56% of its total earnings. Source: DoT & GCBS, British Shipping: Challenges and Opportunities(London: HMSO, 1990), p.47.**

comparative cost emphasis.

The critical linkages that exist between organisational and business behaviour - specific to each key sector - will become apparent as major determinants of decline. The change in the structure of organisation, as many traditional liner firms completed the evolution from the entrepreneurial firm to conglomerate businesses, will emerge as a major catalyst of decline. As the traditional family heirloom approach to shipowning gave way to the disciplines of conglomerate financial rigour, the approach towards shipowning was radically altered. Such trends were to place great emphasis on the performance of shipping within the corporate context. Instead of the tradition and longevity of the family centred business, the new organisations demanded financial performance which would achieve parity with other industrial and commercial subsectors of the conglomerate asset portfolio. Again, the factors determining fleet activity in this context were more a result of the qualitative appraisal of shipping in the conglomerate context rather than in the comparative costs of the global market.

Other factors which may be seen as influenced by non-market forces stem from the changes in the international political regime. These include the moves towards protectionism and other state interventions into the shipping market. The emergence of developing nations in the global economy post 1960 was reflected by the growth in their merchant fleets. In particular, many of the new industrial countries (NIC's), such as South Korea, Taiwan, Singapore and Brazil, have pursued merchant fleet expansion by supportive, protectionist policies. This process has proved detrimental to the UK Fleet as the new maritime nations sought to end the dependence on the shipping services at the former colonialists by promoting national fleets. Whilst these nations were building up their fleets assisted by dirigiste shipping policies, a second wave of developing nation shipping activity was emerging, utilising the flag of convenience option. The growth of off-shore shipping organisation was to pose a serious threat to UK flag operations. The attractions of operational savings and a tax free registry were to prove a challenge to UK flag operators. For many UK lines the attraction was irresistible, leading to "flagging out" - from the UK to flags of convenience. It will become apparent that the forces shaping both the growth of open registry operation and the flagging out decisions of the UK owners were as much derived from political as from market factors.

It has been shown so far, how the core study of sector, organisation and business behaviour analysis provides a framework which extends out beyond the boundaries of the market view. This allows for the consideration of non-market factors which have contributed to the decline of the UK Fleet. It is next intended to show how this approach identifies and provides analysis of four selected issue areas which have arisen in the decline period - the changes to the fiscal regime, the over-tonnaging problem, the industrial relations issues, the maritime safety issues. All four issue areas are integral to understanding why decline occurred; and, additionally, they direct the analysis into the qualitative domain, beyond the market view.

Four Issue Areas of Decline

The selection of these four issue areas reveals a source of qualitative information which is of crucial importance to the testing of the hypothesis. Starting with the changes to the UK fiscal regime: the debate it engendered in maritime circles* provided a valuable research insight into the intricacies of modern shipping finance and its tie-up with conglomerate business networks. The response of the UK owners, can only be appreciated when related to the link between organisation and business behaviour - made specific to each sector - is made. Given this perspective, the impact of the tax changes will become apparent as a determinant of decline. Another issue area which has arisen in conjunction with decline has been the enduring over-tonnaging problems, particularly in the dry bulk and tanker sectors. Many of the causes of this problem will be identified as being politically generated, challenging the notion of an openly competitive international market, in which comparative costs are paramount.

The issues of industrial relations and maritime safety have emerged in the discussions and debate that have emerged as a result of decline. The industrial relations issues can be seen as a result of the importance of crew costs in determining competitiveness. Crew costs form a major component of the vessel's operating costs and are one of the few areas of outlay which the owners have a direct control over.** For the traditional UK owners, the structure and operation of maritime industrial relations had evolved over a number of years. This resulted in industry wide agreements of pay and conditions. As with the issue of safety, the industrial relations element imposed certain standards which can be seen as an inescapable cost item for the UK owners. Any analysis of the decline which seeks accurate explanation

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***The fiscal reforms brought about following the 1984 UK Budget caused heated discussion both within the industry and in political and maritime academic circles. The information this generated has proved valuable to this research in that it raises questions over the nature of the competitiveness of the UK fleet vis-a-vis investment. The link between tax regime and decline is considered more fully in Chapter 12**

****See Appendix One for vessel cost structures.**

will need to appreciate the structure of industrial relations and how it affected the economic performance of UK ships. Questions raised in the analysis of the industrial relations system will concentrate on its historical structure and development, how this helps to explain decline.

Maritime safety has become part of the decline issue as there have been many allegations that the UK ships are being replaced by ships operating under less stringent safety standards. The safety issue becomes intertwined with the economics of market survival. If UK flag ships are forced to bear the costs of increased levels of safety standards their competitors will enjoy a cost advantage, providing they practice reduced levels of safety. If this is proved to be the case, the market view of an uncompetitive UK Fleet is found wanting in that it fails to acknowledge the increased financial burdens of a well regulated flag, as opposed to the less regulated flags of many of the new maritime nations.

The outline of the qualitatively based core has demonstrated the wide dimension of analysis employed in this research; and how this extends beyond the limitations of the market view. The following plan of work demonstrates the method used in applying this core analysis.

The Plan of Work

Following the above outline of the research context, the intention next is to display the range of literature pertinent to this dissertation. This follows with Chapter Three's literature survey which aims, firstly to enlarge upon the literature base of the market view. This requires some analysis of seminal works from the maritime academia, industrial opinion, civil servants in the Department of Transport, and the views of senior Government members. It will become apparent how this collection of literature and opinion subscribes closely to the identified concepts of neo-classical economic theory, stressing the assumptions of open competitive markets. As a consequence, this leads to the market view of the competitive failure of the UK Fleet.

The Literature Survey is then extended outwards in order to example the wide range of sources which contribute to the qualitatively based core analysis. This includes statistical and industrial sources, the works of international political economists* and the broad range of evidence thrown up by concern over decline, in particular that submitted to the House of Commons Transport Committees on decline (see above: p.4) Additionally, a number of experts have been interviewed, ranging from financiers and executives to academics, master mariners and trade unionists.

Chapter Four is instrumental to the core thesis of this work in that it provides a profile of the diverse sectors that make up the UK Fleet. This involves a review of the statistical (measured by tonnage) performance of principal sectors, 1975-90. In addition, consideration of such factors as routes, trades, levels of competition, organisation structures and shipping technology. All of these elements contribute to the specific characteristics of each sector; and it is aimed to link these to the performance of each sector in the 1975-90 period.

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*The school of international political economists have been particularly keen to expand their studies beyond the confines of the distinct academic disciplines. The contention is that by broadening the analysis, improved understanding of world events and their issues is achieved. This approach has proved particularly inspirational to this work as it helps lay the foundations for extending beyond the market view. See: S.Strange, "Who Runs World Shipping?" International Affairs, vol.52. No.3. July 1976, pp.346-67.

The development of this sector study will then provide a basis for the other two core areas of analysis - organisational structure, business behaviour. Chapters Five and Six trace the link between the historical development and evolution of major UK liner firms and the changes that this has registered upon business behaviour. With many of the traditional companies making the long term transition from Victorian enterprises to modern conglomerates, the link between organisational change, withdrawal from shipping investments and decline, is of crucial importance to this dissertation. The evolving histories of companies from all sectors, points to changes in business behaviour which were inevitably to affect the amount of tonnage under the UK flag. The intention is to demonstrate that the forces behind these events cannot be merely explained by the market view, that it is necessary to understand the link between shipowning organisation and business behaviour in order to explain decline. In addition to the evolving organisation of the liner sector two, other categories of shipping organisation are identified by the sector profiles.

Chapters Seven and Eight consider the organisation and business behaviour of the entrepreneurial company and the vertically integrated company, respectively. Whereas the traditional liner company featured family lineage, many of the companies in the bulk and independent tanker sectors remained entrepreneurial in their approach towards shipping economics. In order to understand the dramatic collapse of these UK sectors post 1975, it is necessary to analyse the organisational and business behaviour changes within world bulk and tanker shipping, post 1975. This context helps to explain the resulting economic problems facing the UK owners.

The objective of Chapters Nine, Ten and Eleven is to extend the organisational and business behaviour analysis to the growth of developing nation shipping. Chapter Nine considers the historic organisational changes which have influenced the work market-place, ranging from flag of convenience operations, developing nation shipping enterprise and state owned/protected developing nation fleets. These sources of shipping activity have dislodged the hold that the UK, and other traditional maritime nations, had on world trades. The intention here is to demonstrate that the forces behind this shift are part of a historic process. The employment of colonial nationals as ratings on UK ships from the 19th century onwards, was an early example of the global organisation of shipping. The widespread use of FOC operation by US owners in the post 1945 period can bow be seen as a precedent for the later business behaviour of a section of UK companies. And the continuing entrance of new registries into world shipping markets points to the long term process of emerging developing nation and the decline of developed nation fleets.

Chapter Ten builds on this analysis of the shifts in the historic structure of world shipping. By considering the organisation and business behaviour inherent in flag of convenience operation, it is possible to identify the non-market, as well as market-factors which have contributed to its growth as well as its detrimental impact on the British flag. Inevitably, the emergence of a shipping regime which allows tax avoidance, allows sub-standard operations and poorly trained crews, engaged under conditions far inferior to those under the British flag, will raise questions over standards of business behaviour. Whereas the market view sees the competitive aspects of a lower cost supply of world shipping, the qualitative analysis employed here considers comparative standards of operations between FOC and UK flag ships.

Chapter Eleven provides analysis of the growth of national shipping in the developing nations, particularly in the liner sector. Again, this was to have a detrimental impact on the UK liner fleet. Of particular interest is the involvement of government in the financing and protection of national fleets. The evidence here is that the resulting loss of markets for UK lines was caused brought about not by market forces, but by the impact of state intervention.

Chapters Twelve to Fifteen provide for analysis of four main issues that have emerged in the debate on decline - fiscal policy, over-tonnaging, industrial relations, maritime safety. Chapter Twelve considers the evidence thrown up by the issues of fiscal policy. This features the market view, that the UK tax regime needs to reflect open market conditions. The aim in this Chapter is to show how the changing organisation and business behaviour of the UK companies and the markets that they operate in, points to the limitations of the market view.

Chapter Thirteen considers the evidence thrown up by the over-tonnage problem which endured through the 1975-90 period. The link between over-tonnaging and decline has been well stated by the evidence from the BMCF's, Why the Ships Went [11] study, what this Chapter seeks to show is how the problem has been caused by non-market factors. The business behaviour of shipping financiers, coupled with generous state support of shipbuilding, has conspired to distort the market. Given these conditions, it is aimed to demonstrate that the difficulties facing UK owners were generated not by market forces, but by the organisation and business behaviour of world shipping.

Chapter Fourteen provides analysis of the evolving industrial relations system. As one of the few operational cost areas that shipping management can exert influence, crewing has become a major issue in relation to decline. The aim is to challenge the markets view's perception that British crews have not been successful in competing with developing nation crews, that a comparative advantage exists favouring the latter. The evidence drawn from the evolving structure of the UK system, coupled with the existence of a social welfare system which prevents incomes falling beyond defined poverty levels, shows the limits that are placed upon the international competitiveness of British crews, particularly in low value/low risk sectors. This demonstrates the inappropriate use of the market view in explaining this area of decline.

The highly regulated safety regime that UK shipping operates under also limits its competitiveness. In a world market which allows substantial amounts of sub-standard unregulated ships, the higher costs of maintaining the standards demanded by UK registry. Chapter Fifteen, therefore, provides analysis of the dual standards of safety which exist between regulated and unregulated flags. Given the existence of these dual standards, comparison of competitive standards is inequitable. Again, the point being made is that the market view ignores critical qualitative factors.

Finally, Chapter Sixteen sets out the findings of this work. By this stage it is intended that the wide range of evidence and analysis will have provided the basis for achieving the terms stated in the hypothesis. By co-ordinating the findings of each Chapter the aim will be to demonstrate the convergence of these factors which have led to decline.

Summary and Conclusion

This outline of the research context and plan of work illustrates the contrasts between the quantitatively based market view and the core analysis provided here, with its emphasis on the qualitative.

The foundations of the market view have been identified as stemming from a blend of historic, academic, structural and political sources. Whilst these provide a picture of an open world shipping market, one in which the UK Fleet must compete or perish, the core analysis allows the search for a range of non-market factors to be included. From this perspective, the core analysis of sectoral, organisational and business behaviour analysis, will seek to enhance the already considerable literature on decline by providing a wider, more qualitative approach. It is contended here that if there are to be any future strategies aimed at restoring or even stabilising the fleet, accurate understanding of why decline occurred is vital.

The following Chapter provides analysis of the principal literature sources which reflect, firstly, the market view, and, secondly, the broad range of sources from which the core analysis is derived.

Chapter Two Endnotes

1.S.Daniels, In the Wake of the Cachalots: Master Mariners of an Island Race(Eastleigh: Daniels, 1992).

2.S.G.Sturmey, British Shipping and World Competition(London: Athlone, 1962),pp.12-35.

3.op.cit.pp.250-62.

4.A.J.P Taylor, English History, 1914-1945(Harmondsworth: Penguin, 1965), p.41.

5.HM Committee of Inquiry into Shipping Report: Command 4337(London: HMSO, 1970),pp.59

6.M.Davies, Belief in the Sea: State Encouragement of British Merchant Shipping and Shipbuilding(London: LLP, 1992), p.203.

7.A.Smith, The Wealth of Nations(Harmondsworth: Penguin, 1973).

8.op.cit.pp.109-116.

9.J.K. Galbraith, A History of Economics: The Past as the Present(Harmondsworth: Penguin, 1987), p.69.

10.D.Ricardo, "On the Principles of Political Economy and Taxation," in The Works and Correspondence of David Ricardo edited by Piero Straffa(Cambridge: CUP, 1951).

11.R.O.Goss, "The Decline of British Shipping: A Case for Action? A Comment on 'The Decline of the UK Merchant Fleet: An Assessment of Government Policies in Recent Years,'" Maritime Policy and Management, vol.20 no.2 April-June 1993.

12.DoT & GCBS, British Shipping: Challenges and Opportunities(London: HMSO, 1990), p.35.

13.M.Stopford, Maritime Economics(London: Harper Collins, 1988), pp.286-289.

14.A.D. Couper, The Geography of Sea Transport(London: Hutchinson, 1972).

15.Lord Keith, "Industry, the City of London and our Economic Future," in D.Coates, J.Hillard, The Economic Decline of Modern Britain: The Debate Between Right and Left(Brighton: Harvester, 1986), pp.67-76.

16.I.Sproat, Parliamentary Debates, Hansard. 21.03.83. pp.520-1

17.M.Davies, Belief in the Sea op.cit. p.297.

18.House of Commons Transport Committee Session 1986-7, Decline in the UK Registered Merchant Fleet, Minutes of Evidence, 10.12.86.(London: HMSO, 1986).

Chapter Three: Literature Survey

Introduction and Objective.

In explaining the decline of the UK fleet a wide range of literature needs consideration, stretching from works supporting the market view to those that help provide an alternative context, enabling a more qualitative approach. This is necessary in order to show, firstly, the literature foundations of the market view, with its emphasis upon the perception of the quantitatively defined, competitive aspects of the decline; and, secondly, the diverse literature base upon which the qualitative approach of the core analysis is constructed. In making this comparison it is aimed to demonstrate the range of academic, industrial and political literature which provides the basis of the market view. These fit clearly into the theoretical framework of assumptions of competitive markets and comparative advantage. As a consequence, the causes of decline are shaped and interpreted within the context of orthodox neo-classical economic theory.

The second, third and fourth sections of literature considered here reflects the aim of the hypothesis in extending the analysis beyond the boundaries of the market view. This encompasses the selected core areas - sectoral, organisational, business behaviour - elements which have been identified as crucial to the understanding of decline.

In addition to written texts, interviews with selected experts have been conducted. These range from financiers and academics to seafaring personnel, shipping managers and trade unionists. Again it will be seen how the opinions offered reflect both the market view and the broader, more qualitative approach.

The structure of this Chapter then allows for the analysis of four main areas of literature encompassing:

(1) The market view;

(2) the sectoral approach;

(3) organisational analysis;

(4) business behaviour analysis.

Starting with the examination of the literature basis of the market view. This includes the work of leading maritime academics, which provides for a theoretical foundation of the market view. In addition, the statements of industrialists and senior government ministers features a powerful market view explanation for decline. Together this mixture of theoretical, industrial and political opinion leads to the conclusion that the UK fleet's decline is the result of its inability to compete and survive in the global shipping market, post 1975. It will become apparent how the market view literature lends itself to a convincing explanation of decline, one which has prevailed in many circles of UK shipping economics and politics. It is the outcome of this literature's analysis of decline which provides the challenge of this dissertation: to extend the analysis out to the qualitative elements influencing shipping in order to improve understanding of why decline has occurred.

The contention of this dissertation is, therefore, that market view literature only leads to a partial explanation of decline; and that it ignores the many and complex forces at work in the decline process. The accuracy of this market view literature is therefore tested against the evidence which is developed by the qualitative approach. The intention is to demonstrate that the market view only leads to a reiteration of the assumption that firms which do not succeed in the marketplace are uncompetitive and therefore inefficient. The withdrawal of

UK shipping lines from the market, seen from this perspective, becomes a casualty of their inability to compete; and from this, it is seen that improved competitiveness is the only recourse to UK shipowners struggling in the world marketplace. By developing the scope of analysis utilising the broad literature source which has been selected in order to develop a qualitative approach, it will be demonstrated that decline can only be understood if its many and complex qualitative elements are considered; and that the problems facing UK owners cannot simply be swept away by suddenly embracing an enhanced adherence to the neo-classical theory of the market view.

The Market View Literature

The market view has been identified in this dissertation as a major influence on the way the UK fleet and its decline is perceived. The boundaries of this approach extends to the economic assumption of the primacy of shipping markets. As a consequence, the market view has usually proved dismissive of any alternative approaches which have sought to widen the boundaries of shipping analysis beyond its perception of the market place.

The following selection of literature aims to demonstrate the quantitative nature of the market view and its role in explaining decline. An early example of modern shipping economics and its adherence to quantitative methods was provided by Thorburn's 1960 work, The Supply and Demand of Water Transport [1] Using supply and demand analysis - which is a fundamental of neo-classical economic thinking - this work develops a detailed model of the world shipping market by identifying thirty six supply and twenty four demand conditions. Thorburn is able to provide a quantitative analysis of the major cost and revenue determinants of the shipping market mechanisms. Thorburn's work should, however, be seen within the context of its time. As one of the earliest works in the shipping economics discipline, its quantitative analysis provides a basis for broadening the boundaries of shipping research. Whilst this dissertation acknowledges the importance of such supply and demand data, it is contended that this only serves to reiterate the quantitative approach. When applied to the decline, this perspective informs on the relatively high costs of the UK fleet, but fails to explore the many other qualitative factors at work.

At this stage, it is aimed to demonstrate how the market view literature leads to the conclusion that the UK fleet has failed in the marketplace. A reading of Svendsen's, 1958 work, Sea Transport and Shipping Economics [2] helps to provide the tools of neo-classical micro economic analysis of shipping markets. As a contemporary of Thorburn, Svendsen also stresses the competitive dynamic in the global shipping market. Such quantitative elements as crew costs, fuel consumption/costs and vessel speed are seen as the important determinants of market success.

This dissertation seeks not to challenge the importance of such market factors as outlined by both Thorburn and Svendsen, but moreover, seeks to take the analysis of the decline a stage further by building on their quantitative foundations. This then enables an extension outwards towards the less easily qualitative determinants of decline.

The development of the market view can clearly be seen in works following Thorburn and Svendsen. Writings by Goss demonstrate the case for an open market and against state intervention. Goss' 1968 work, Studies in Maritime Economics [3] reflects the changing maritime economics agenda. Whereas the two earlier works cited had restricted themselves to the micro economics of shipping, Goss' work can be seen as responding to the macro economic changes at work influencing shipping markets during the mid 1960's. The changes in the political world order during this period was to bring the emergence of developing nation fleets, as the once colony nations sought to gain economic independence by building up their own merchant fleets(see below: Chapter Nine). This process was perceived by Goss as a threat to the market mechanism as it normally involved state intervention in the financing and operating of the national fleets. The argument against state intervention revolves around the market view that inefficiency will be the result of such interventions as they involve politicians and bureaucrats, rather than entrepreneurs in decision making in shipping economics. Instead of decisions rooted in the economic realities of the marketplace, political considerations enjoy a primary position, leading to distortions and market inefficiency.[4] Goss' position provides a pertinent example of the market view and its assumption of optimum market efficiency, given a unhindered shipping market. Such market perceptions demand increased competitiveness, which is seen as the only possible option facing the UK fleet in order to ensure economic survival.

Goss' later works were to build on this market view; whilst his earlier writings had dealt with the question of state intervention practised by the UK fleet's global competitors, following works concentrated on the internal issues of UK fleet decline. Again the context is very much provided by the market view. In the essay, "Sense and Shipping Policy"[5] Goss considered the alternatives open to the UK fleet in order to prevent decline, proving particularly dismissive of the calls by the owners to restore investment allowances which allowed tax breaks following new tonnage orders; Goss' response was that this could only result in market distortion, leading to increased income for the UK owners, but not providing any net increase in UK tonnage. The argument is that new UK ships would not replace those competing and sailing under foreign flags, adding that,

> ...this may be thought surprising since British and foreign ships are generally excellent substitutes for one another...but certainly there is no evidence for there being any high cross-elasticities of supply with respect to the fiscal treatment.[6]

Goss' analysis can be seen as influenced by the market view that state intervention is imprudent, in that it only serves to distort the market. The use of the elasticity concept illustrates the use of quantitative methodology in that it measures the mathematical relationship between shipping rates, costs and shipping supply. [*] This qualitative dimension proves to be an important element in the market view of decline, particularly as it assumes an open market in which shipping lines enjoy fair competition. The influence of Goss' position, in providing the challenge to calls for state intervention, can be appreciated as a major influence of the market view, leading to the conclusion that competition is the key to survival for the UK fleet; and, ergo, that decline is the result of failure in the global shipping marketplace.

Whilst it is outside the brief of this dissertation to argue the case for or against state intervention, it is the market view premise of an open market that is challenged. This premise

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[*]Goss'reference to the cross elasticity of supply clearly demonstrates the quantitative assumptions of the market view. The quantitative absence of any evidence of a link between tax incentives(to UK fleet investment) and its share of the international market was identified by Goss. The cross elasticity of supply, in this context, measures: Percentage Change in the Supply of Foreign Shipping/Percentage Change in the price of UK Shipping. Goss' contention is that despite favourable investment terms the response of UK owners vis-a-vis foreign competitors was limited. Whilst the outcome of this methodology appears to nullify the case for UK tax incentives, it is argued here that it fails to consider the qualitative dimension of shipping investment. In Chapter 12, the link between organisation and business behaviour in relation to the tax regime is considered as a major factor in decline.

is evident in Goss' essay, "The Decline of British Shipping: A Case for Action? A Comment on 'The Decline of the U.K. Merchant Fleet: An Assessment of Government Policies in Recent Years.'"[7]

The assertion in this essay is that the UK fleet has declined because of its inability to survive in the world market, given that:

> International shipping services are commonly bought and sold in competitive markets which lead to the survival of those with the lowest private costs...the relevant principle is that of comparative advantage.[8]

This particular essay demonstrates the main assumptions of the market view. The emphasis upon comparative advantage points to the success of the lower cost shipping registers, at the expense of the higher cost registers. From this position, the decline of the UK fleet is the inevitable result of competitive international forces. Goss espouses the market view to respond to Ledger and Roe's criticism of UK Government shipping policy, post 1975.[9] Whilst Ledger and Roe argue that the Government policy has overlooked the advantages of maintaining a merchant fleet - national economic and strategic needs, employment and balance of payments protection - Goss' case rests upon efficacy of market forces and, conversely, the detrimental economic impact of state intervention. The assumption is very much one of the dynamics of the marketplace in which the UK fleet needs to survive or perish!

One of the few UK shipping sectors that has achieved a degree of relative market success has been that of the container sector. Gilman's work, The Competitive Dynamics of Container Shipping.[10] This work heralds the dramatic leap forward in container ship technology, accrediting the competitive process to the dynamic of innovations that occurred in major shipping routes from the mid 1960's onwards to the market. Improvements in cargo capacity, fuel and crewing efficiency are explained by Gilman as the result of competition on major container liner routes: North Europe-East Coast USA/Canada; West Coast USA-Far East/Pacific Rim are two of the principal examples. From this position, the market view provides a picture of the predominance of the competitive process, in which leading UK lines have proved successful. Again, the assumption is that it is the marketplace that engenders the key to economic survival for the UK shipping companies.

Jansson and Schneerson's study, Liner Shipping Economics,[11] has provided a clear exposition of the market view. This work is particularly critical of any market distortions in the liner sector, arguing the case for an open market which find the most economic use of global supplies of labour and capital:

> The best division of labour in international sea transport is obtained when the most efficient operators become price leaders.[12]

Similarly, Metaxas', The Economics of Tramp Shipping,[13] concentrates on the market mechanism at work in the trampship trades. The central assumption is that the competitive process dominates the major bulk commodity flows - coal, iron ore, grain, bauxite/alumina, phosphates. Under these conditions, competition is seen as the guarantor that the lowest cost vessels are successful in the bulk trades, with the benefits - low sea transport costs - accruing to international trading partners. This accords with Kindleberger's reworking of comparative advantage theory, with a nation's factor endowments determining the structure of its trade.[14]The outcome of this position is that each trading nation will concentrate its economic activity in areas where it has an abundance of factors, land, raw material commodities, capital, labour, entrepreneurship:

> ...different goods require different factor proportions, and different relative factor endowments; therefore countries will tend to have comparative advantage in producing the goods that use their abundant factors more intensively.[15]

Relating this to the structure of global shipping markets, the mixture of developed nation capital factors and developing nation labour factors, inherent in flag of convenience operations, is explained. The assumption made by Kindleberger is that this free flow of factors takes place in the type of openly competitive markets as envisaged by such maritime economists as Goss, Gilman and Metaxas. This then leads to the judgement that UK flag shipping has lost out in competitive markets owing to its relative inefficiency in factor markets.

Taking a more empirical approach, Sturmey, in his(1962) seminal work, British Shipping and World Competition,[16] came to the conclusion that the relative decline of the UK fleet in the 1945-1962 period was due to its inability to either enter into or compete in the major growth trades - oil and dry bulk. Sturmey proved to be a major critic of the UK owners, charging that relative decline was the result of their investment conservatism which rendered UK ships out-dated, and thus uncompetitive in the global market place, By their insistence on existing shipping technology and well established trades in which they had always dominated, the UK owners were, Sturmey charges, ignoring the new opportunities that design innovations and new growth trades offered them; as a consequence, relative decline was seen as inevitable. Whilst Sturmey's work provides a vital critique of the business failings of the UK owners, and does recognise the twin threats of nationalism and flag of convenience operation in the world market, it must be stressed that Sturmey's analysis extends only as far as the recognising the failure to exploit the new opportunities; the qualitative explanations which point to the reasons behind why the UK owners stuck to their tradition of liner shipping and failed to exploit the new market opportunities is not considered. Sturmey's position was to be reiterated in his 1990 paper, "British Shipping and World Competition Revisited".[17] Again the emphasis is upon the competitive failure of the UK owners between 1914 and 1956 when the fleet declined from 45 to 16 percent of world tonnage.[18] The following (annotated)six factors critical of the UK owners were offered by Sturmey:

(1) the failure to diversify into the booming tanker market;

(2) the reluctance to make the transition from steam to diesel propulsion;

(3) the failure to respond to competition by building faster vessels;

(4) the loyalty to UK shipyards when better and/or cheaper tonnage was available from foreign yards;

(5) the failure to recognise the cost advantages of standardised tonnage;

(6) the lack of self criticism, with the owners always ready to divert blame.[19]

Although the scope of Sturmey's research raises many questions over the performance of the UK owners and their lack of competitiveness; looking beyond the market failings of the owners is not attempted. The value of Sturmey's insight lies in his raising many questions over decline. This provides an excellent basis for extending the investigation beyond the recognition of the failings of the UK owners to the less apparent forces at work in each shipping sector, its organisation and business behaviour.

So far the market view literature has provided an impression of a competitive model of world shipping, one which bestows economic benefits upon trading nations. This model can be seen as fitting smoothly into the neo-classical economic concepts - of open competition and comparative advantage.

The assumption of competitive markets has been identified as the model of global shipping markets which ensure that the most efficient, lowest cost, firm is successful in the market place and the least efficient, higher cost, firm is forced out of business. Applied to the world shipping market, the assumption holds that ships which generate the lowest costs win the freight contracts, those with higher costs are forced out of the specific trade and eventually their owners can only contemplate flagging out or selling out. The flagging out process involves re-registering the vessel under a flag which enables, lower costs, such as low wage labour, or tax haven facilities. Under these conditions, the decline of the UK fleet is explained by its inability to compete under the UK flag; and, again, this fits the market view that decline is due to failure in the market place. Furthermore, the large share of world tonnage enjoyed by such low cost flags as those of Panama and Liberia is seen as a practical example of competitive success based upon comparative advantage.

The use of the theory of comparative advantage has also been identified as influencing the market view. This theory holds that the competitive process leads to benefits of increased economic welfare for the nations involved. In this context, the use of the lowest cost ships - irrespective of which nations flags they are registered under - is held to be economically expedient as this allows nations to concentrate their economic activities in the production processes in which they are the most cost efficient. The market view, therefore, holds that the decline of UK shipping and its replacement by lower cost fleets brings the economic advantages of comparative advantage to the UK and its trading partners. Given this theoretical position it becomes incumbent on the UK fleet to attain similar standards of competitiveness if it wishes to survive.

The twin market view positions of open competition and comparative advantage can be seen as alive in the debate over decline. Colvin and Marks provide a clear example of where these positions can be observed in, British Shipping: The Right Course.[20] This points to an explanation of decline as the result of British governments intervening in, and thus distorting, shipping markets. The prescription for reversing the decline of the UK fleet is create open market conditions:

> What shipping need and what government must help to provide is more competition and a more efficient performance. In an economy based on free enterprise more freedom and more enterprise are the remedies.[21]

Taking a similar view of the need to restore competitiveness, the maritime strategy lobby group, the British Maritime League(BML), has also blamed interventionist governments for distorting the forces of maritime supply and demand, with too many ships being encouraged into already saturated markets. In 1986, the BML Annual Report argued that the decline of the UK fleet could only be reversed by restoring world competition:

> The key to arresting the decline and hopefully rebuilding the UK registered fleet remains as it has always been profitability, and that can only be achieved by bringing the size of the fleet more closely into line with the volumes of world trade to be carried.[22]

The explanation of decline is identified in these two works as the result of barriers to free trading. This extends the market view to the structure of world shipping markets and the way they are distorted by political interventions. This perspective is of critical importance to the development and the testing of the market view. The assumption that the problem of distorted markets can easily be overcome, allowing UK ships to compete and benefit from improved competitiveness is fundamental to the market view. What the qualitative approach aims to demonstrate is that the market view leads only to a limited explanation of decline; and, as a consequence, any future prescriptions for reviving the fleet will be flawed.

A further derivative of the market view identified is that of the global approach towards the vital components of shipping economics - capital, crews, expertise, enterprise, cargo generation and vessel registration. Yannopoulos' essay, "Shipping Policies for an Open World economy"[23] argues the economic case for this global approach which manifests in the form of the open registry (or flag of convenience) system. The market view here invisages a global shipping industry which serves the interests of world trade. The report, Tankers and the Flags they Fly,[24] published by the US oil giant Exxon Corporation has argued the case for such a global approach, featuring the perception that the benefits of these operations spread symmetrically to all international participants. The Liberian Shipowner's Council (LSC), has challenged those developing nations intent on regulating shipping as part of their economic development strategies,* arguing that the open market is inherent in FOC operation:

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*The coordination of merchant fleet investment with national economic development policies, has created a new perception of shipping's role. Considerations include, export strategies, employment creation, balance of payments and currency conservation. See: A.Benham, "Political Factors and the Evolution of National Fleets in Developing Countries," Journal of Maritime Studies and Management, No.3, Jan 1976, p.135.

> Open registries represent one of the world's last bastions of free enterprise in the world of shipping. The aim of open registries is very clear-cut and direct: to provide a competitive, alternative means of transporting goods by sea.[25]

Shipping financier, Paul Slater, has provided a market address which has also focused attention on "market realities," continuing in similar vein to the LSC, in his paper, "Politicians Endanger Hopes of Market Recovery."[26] This stressed the need for an internationally open market. This would solve the problems of over-tonnaging and labour inefficiency and bring about a competitive marketplace. Open registry shipowner, Erling Naess takes the case a stage further by arguing that it is the private enterprise global industry that has improved the safety and operations of oil shipments. In Naess', Autobiography of a Shipping Man [27] the claim that the open market can rectify the industry's problems; and that state intervention is not necessary, given that the "...record of measures taken by the tanker industry to reduce oil pollution was most impressive."[28] The assumption made by Naess is that the competitive process, having brought improvements in the safe handling of oil cargoes, can provide optimum economic efficiency.

The perception(as well as advocation of) an open international shipping market was very much evident in the interview held with Denholm ship manager, (the late) David Underwood.[29] Interviewed as the director of the worldwide Denholm Ship Management Agency, David Underwood argued the case for UK shipping to become more global in its competitive outlook. By considering such strategies as flagging out, transferring vessels to ship management agencies, and the employment of developing nation crews, the UK industry could respond to the competitive pressures of the global market. From this position, the market is open and rewards will accrue to "foot-loose" international shipping capital and organisation. Failure to respond to these circumstances is therefore seen as the inevitable route to decline.

So far, the market view has pointed to the lack of competitiveness in UK shipping and the need to restore the position by providing a more competitive environment. The global organisation inherent in flag of convenience operation, with its mixture of developing nation registry and crews and developed nation capital and freight control, has been heralded as an example of such economic efficiency; and it is against such a competitive backdrop that UK shipping is required to survive. For the UK Conservative Governments of the 1979-90 period such a viewpoint was to hold considerable appeal, given their political commitment to the open market. It is therefore possible to appreciate the contribution of government opinion to the literature; and, moreover, the influence of the theoretical basis of the market view on this opinion.

As to be expected, the decline of such a major traditional industry as merchant shipping was bound to raise controversy and questions in the political arena. Given the economic ideas and policies of HM Governments from 1979 onwards, it is not surprising that a market view was adopted. This is evident in the views of leading ministers. Prime Minister Thatcher in 1986 charged that it was the seafarers' union, the National Union of Seamen(NUS)* that was to blame for decline, in that it had hindered competition in the marketplace,

> The NUS has priced itself out of employment. Consequently the work has gone elsewhere...[30]

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*The National Union of Seamen(NUS) merged with the National Union of Railwaymen(NUR) in 1990, forming the National Union of Rail, Maritime and Transport Workers(RMT). See: NUS, "Vote for Merger," The Seaman, April 1990, p.1.

The Prime Minister's advice to the union was to embrace the market view in the interests of the industry:

> I do not believe it would be right to conclude that the time has come for us to abandon free trade principles... Were Government to embark on a round of protectionism and subsidy for shipping it could only be to the detriment of the UK industry.[31]

It is clear from this statement that the market view is employed to explain decline: that the union had not responded to the global challenge of foreign flags and foreign crews. The monopoly status that the maritime unions had traditionally enjoyed in the supply of crews was seen as anathema to the market view; and, along with all other UK areas of trade union organisation, was to be affected by the reforms to employment legislation during the 1980's. The rationale for this being the attempt to stimulate competitiveness by an open market for labour.

Transport Minister, David Mitchell(1984), responded to UK concern over decline by reiterating the market view of the need for, "...fair and open markets..." in order to promote worldwide trading opportunities for the UK fleet.[32] Again it can be seen how the market view prevails in the government approach towards decline. Secretary of State for Trade, Norman Tebbit, saw that the global market would inevitably lead to ships leaving the UK registry, seeking the economic benefits of open registry:

> It seems to me that if British owners can switch their ships to increase their profitability then it seems eminently sensible to me that they should do just that.[33]

The perception of the open market and the need to compete in order to survive can also be seen to have permeated the Department of Transport. In the Department's report (compiled jointly with leading shipping executives), British Shipping: Challenges and Opportunities,[34] the shipping market was portrayed as highly competitive:

> In many respects the shipping market approximates to the textbook ideal of competitive markets. Entry and exit to and from shipping markets is usually relatively easy. There are not many natural barriers to competition.[35]

With such assumptions of a competitive market in shipping, governmental interpretation of decline is centred around the market view that the UK fleet has failed in the global marketplace; and that only by improving its efficiency will it be able to survive.

The span of the market view - from maritime academics, lobby groups, financiers, government ministers - is evidence of its pervasiveness. It therefore provides a powerful school of thought on how the global shipping market is economically structured and, moreover, that the UK fleet has failed to compete in this environment. The market view, therefore. reiterates the need to achieve a competitive fleet in the open market if survival, and possible recovery, is to be achieved.

Having outlined the theoretical underpinnings of the market view and how it has conditioned opinion of decline, it next remains to extend the analysis out towards the more qualitative evidence of decline. The contention of this thesis is that the market view only provides a partial explanation, limiting concentration on the quantitative evidence of the competitive process. In this context, the literature of the market view only serves to replicate the evidence of decline, failing to explore the complex forces behind the decline process. Furthermore, it is held that a broader, more qualitative analysis is necessary in order to understand how the range of sectoral, organisational and business behaviour factors have conspired to bring about decline. The literature which allows for analysis of the diverse sectors of the UK fleet and its statistical evidence of decline is now provided.

The Sectoral Base Literature.

Having considered the extent and the influence of the market view literature, leading to the quantitative analysis, it next remains to present the literature base which provides the foundations of the qualitative approach. This starts with literature source of the sectoral analysis. In explaining decline accurately, the key sectors of the UK fleet need to identified and analysed. This provides a basis for the consideration of UK and international shipping organisation and its business behaviour. The sectoral approach allows for the recognition of the distinct sectors of shipping, each with its own statistical and economic characteristics, leading to an irregular pattern of activity in the 1975-90 period.

The link between shipping sectors, patterns of organisation and business behaviour is an essential one for the understanding of the decline. A vital source of sector definition is provided by Svendsen. Having considered Svendsen's earlier contribution to the quantitative literature, his later work, <u>The Internationalisation of Shipping Enterprises</u>,[36] provides a basis for sectoral analysis. By identifying the key international shipping sectors and goes onto make the important link between ownership, organisation and business behaviour. The provides a framework for the analysis. Svendsen's recognition of the organisational trends in shipping gives insight into the environment in which decline has occurred. This includes the internationalisation of ownership and organisation, leading to such developments as liner fleet consortia, bulk shipping pools, joint investment and ownership ventures between developed and developing nations and the emergence of open registry operations.[37] The important contribution of Svendsen's work to the analysis of the UK fleet lies in the emphasis placed on the contrasting organisational characteristics

In his 1978 work, The Concentration of Capital in Shipping and the Optimum Size of Shipping Companies,[38] Svendsen features th e importance of sectoral analysis in assessing the organisation and business behaviour of world shipping. By relating the size of the shipowning company to the amount of capital tied up in fixed investment in the sectors, Svendsen considers the optimal size company. Writing at a time of rapidly increasing vessel size and increased concentration of capital, four major areas of change on the world shipping market were identified:

(1) the building of constantly larger and more expensive vessels;

(2) the spreading practice of contract business, in which shippers demand that very large quantities will be shipped...;

(3) the concentration of the Japanese merchant fleet into six large groups...;

(4) the depression in the freight market since 1974.[39]

Svendsen's observations provide an important foundation for the sectoral analysis. Concentration in the market place leading to less competition from larger capital intensive shipping lines was bound to have implications for the UK Fleet. This needs particular consideration in the case of sectors where the organisational structure of the UK companies was relatively small. At a time of the higher capital costs of larger vessels, the ability of the smaller shipping companies to build new tonnage and compete with the larger concentrated organisations is called into question. It will be necessary to consider the link between organisation in each sector in relation to the decline process. In Chapter Four the profile of the key UK Fleet sectors provided will demonstrate the relatively small business size of many of the British companies particularly in the tramp/bulk sectors. Given the movement towards global concentration identified by Svendsen, it becomes evident that the smaller UK lines would find it difficult to survive the twin pressures of a depressed freight market and the increasing level of concentration in world shipping. The link between a shipping company's organisation, market success (or failure) and the specific economic conditions which prevail in the key shipping sectors can be seen as integral to the search for explanations of the UK fleet's decline.

The assumption of the world shipping fleet as an homogeneous product is inherent in the theoretical base of the market view; Glen's study of the oil tanker market, however, identifies the extent of differentiation in the market.[40] This dimension allows for analysis which disaggregates the composition of the oil tanker spot market, pointing to differentiation in routes, vessel sizes and gross profit margins. Glen's paper provides a useful contribution to the sectoral approach in that it highlights the variance within the aggregate market. Along with Svendsen's insight, Glen's study enhances the need for a sectoral study in order to discover the reasons behind decline.

In order to confirm the sectoral trends at work in the 1975-90 period, recourse to the statistical data is needed. Lloyd's Register of Shipping Statistical Tables,[41] provides a quantitative complement to the qualitative literature. This allows for the combining of the tonnage statistics pertinent to each shipping sector with the organisational classifications. For example the ninety one percent decline of the UK flag bulk fleet, between 1975 and 1990, can be related to the changes in the pattern of ownership and market diffentiation outlined by Svendsen and Glen, respectively. In particular, the trends of both globalisation and concentration within key sectors become evident. Closer analysis of ownership can be attained by recall to such annual publications as Lloyd's Register of Shipping List of Shipowners,[39] and Fairplay International Shipping Yearbook.[40] These works provide information on the ownership of the shipping companies, allowing for the tracing of the transition from the many small and regionally oriented trampship companies to the fewer, but much larger bulk pool operators. Such evidence is vital to the efforts to understand the cause of UK decline and underpins the need to develop a qualitative analysis. This then helps to identify the less apparent, but nonetheless influential, forces which lie behind the decline of UK tonnage in this sector.

The evidence provided to the House of Commons Transport Committee*, Decline in the UK Registered Merchant Fleet, also provides a base for the sectoral approach. Featuring a collection of interviews (and statements) with shipping managers from the key sectors, the Transport Committee evidence provides insight into the market conditions facing UK lines during the decline period; and, moreover, the response of these companies to these conditions. This allows for consideration and comparison, of the business decisions taken in the key sectors. The evidence shows that the market conditions prevailing (for example) in the deep-sea bulk sector were very different from those in the short sea ferry sector.

The value of the above literature lies in the recognition that there are specific shipping sectors within the aggregated numbers/tonnage of the UK fleet. These sectors are susceptible to the specific market characteristics, organisational and business behaviour circumstances which prevail in their distinct areas of operation. The contrasts between (say) a multinational oil corporation tanker fleet and a one ship owner-captain coastal operation, highlights this point. It next remains to build on this sectoral literature and to consider the literature of which contributes to the development of the organisational analysis.

The Organisational Analysis Literature.

The literature in this section provides an organisational context from which to consider decline. The selected literature stretches from a broad definition of world economic organisation to that of shipping organisation at ownership and organisational levels. This literature source is essential to the qualitative approach in that it provides the foundation from which the business behaviour of the Fleet, 1975-90, is built. In seeking explanation for the decline it is necessary to appreciate the changes at work in economic organisation at all levels and it will be seen how this takes the research context beyond the boundaries of the market view.

Starting with the literature of the evolving world economy and its organisation; it is imperative that the decline of the UK fleet is seen within the context of new economic patterns of activity. Neo-classical economic theory has explained the pattern by the comparative advantage process.. This provided the view that nations would concentrate their economic activities on the production of goods and services in areas where they have enjoyed comparative/absolute advantage over trading partners. Critical to the success of this process is the assumption that an open market will prevail and that governments will cherish the principle of world competition based upon free trade. Providing a challenge to this comparative/absolute advantage concept, Porter's, <u>The Comparative Advantage of Nations</u>,[41] forces a revision of the way economists explain trade.

Porter's work is valuable to the thesis of this dissertation in that it provides a theoretical basis for the evolving pattern of world economic organisation and its implications for the UK fleet. Porter identifies hitherto undetected determinants at work in the global location of economic activity. This insight identifies the economic development of nations (post 1945) which patently lack the factor endowments that the comparative /absolute advantage concept would prescribe as necessary for their development. The industrialisation of South Korea is cited as a case of economic development; regardless of the lack of a domestic credit supply, South Korea has been successful in building up capital intensive industries - steel, cars, computer memory chips.[42] This is explained by the global mobility of economic factors, in this case that of developed nation capital movements to South Korea. The outcome of such global mobility allows nations to build up "clusters" of related industries. Such examples of internationally competitive related industries are evident in Denmark, where dairy products, brewing and industrial enzymes enjoy a complementary connection. Another example provided by Porter is that of Singapore's port services and ship repairs.[43]

Such examples of "clustering" prove a useful perspective on the evolving world maritime fleet, particularly given the emergence of Japan, South Korea, Hong Kong and Singapore as major fleet owners/controllers. Likewise, the growth of such national fleets as Brazil, China and India can be seen as integrated with the development of steel and shipbuilding in these nations. Finally, the rise of flags of convenience operations, with their global network of capital, labour, flag and management, can be seen as a result of such "clustering" around the twin forces of USA capital and commodity control and global sources of Third World labour, open registry flags and global ship-management. A typical example of the mix in this network would be, Filipino labour, Panamanian Flag and Greek management.

The global economic trends as identified by Porter have also provoked questions about the extent of equity in developed- developing nation relationships, Frobel (et.al) in, The New International Division of Labour,[44] has argued that developed nations exploit their relative economic strength in relationships with the developing nations. Frobel's charge is that capital ownership and control rests firmly in the developed nations; and likewise profits are retained there. The developing nations become limited to the supply of low value factors - raw materials, labour - and as a consequence receive only a fraction of the total revenues accruing from the finished product.[45] This insight into the perceived iniquities of the developed-developing world economic relationships begs question of the nature of open registry shipping arrangements. The developed nation capital control contrasts with the developing world crew supply and registry facility; and it can be seen that Frobel's thesis casts some uncertainty over the market view that the open registry system is truly open and a manifestation of the unhindered forces of supply and demand. The conditions outlined by Frobel suggest an hegemonic economic relationship between develop nation economic organisation and the complaisant developing nation suppliers of crews and tax haven flags.

The structure of such global economic organisation has been outlined by Cafruny's doctoral thesis, Ruling the Waves: the Structure of Conflict in the International Shipping Regime,[46] This work provides analysis of the spread of multinational commodity owning corporations

(MNC's)* in the post 1945 world economic order. The link between this development and the organisation of substantial amounts of world tonnage in the same period is highlighted by Cafruny. Tracing the link between the MNC's and open registry operation, Cafruny notes the influence of US and Japanese MNC's in tanker and bulk shipping markets. The claim made by Cafruny is that these economic relationships are characterised more by the domination of the MNC's than the open market mechanism, as envisaged by the market view.[47]

One outcome of the iniquitous developed-developing nation economic relationship in shipping as outlined by Cafruny is the opposition of the latter to the dominance of the former. This opposition can be seen as rooted in the polemical economic relationships defined by Frobel, with the developing nations demonstrating concern over their subservient role in the partnership with the MNC's of the developed world. The vertical integration that these commodity owning MNC's have created allows for their total control of the process flow, stretching from raw material extraction to transportation and final processing and distribution. This was the situation discussed by Ranjaragan in his study of LDC trades, Commodity Conflict.[48] Of particular interest to this thesis is Ranjaragan's study of the deep-sea iron ore trade between India and Japan. As a case study in developing nation-developed nation trade, the study reveals the asymmetrical nature of the economic relations between the two nations. Despite India's political and economic determination in developing a national fleet which

*The spread of the MNC's has become a controversial area of debates in world economic development. It is important to the study of world shipping as it points to the dominance of the MNC's in the commodity exports of the developing nations. The control exerted over shipping has been identified by UNCTAD. See: UNCTAD, Control by Transnational Corporations Over Dry Bulk Cargo Movements, TD/B/C4/203/Rev 1 (New York: UN, 1981).

would participate in its iron ore and other deep sea trades, the Japanese multi-national corporations preference for flag of convenience tonnage prevailed; even after "protracted negotiations", India only managed to secure fifteen percent of the trade for Indian flag ships.[49] Again the question arises of exactly how open the bulk trades actually are; how does the market view of a highly competitive global market match such empirical evidence?

The concern of the developing nations over such multi-national corporation domination in their commodity export trades is demonstrated by shipping's inclusion into the new international economic order(NIEO)* at the United Nations. The United Nations Conference on Trade and Development(UNCTAD) report, The Economic Consequences of the Existence or Lack of a Genuine Link Between Vessel and Flag of Registry,[50] explores the critical relationship between the MNC's and the ownership and control of flag of convenience shipping. UNCTAD's contention that important bulk and oil trades are not open to anything like the competition envisaged by the market view, given the dominance of the MNC's in all aspects of their vertically integrated trades.

Another work which has provided an alternative to the market view of world shipping is supplied by Knudsen's, The Politics of International Shipping.[51] This work provides an important contribution to the political economy of shipping. Although Knudsen does not discuss the UK shipping specifically, he is able to provide a comparative analysis of the way

*The NIEO movement stems from the political and economic conviction of the developing nations that the world economy is structured in favour of the developed nations, its MNC's in particular. The challenge of the NIEO is important to this work in that it features the criticism of neo-classical economics, and its assumption of open markets. See: J.N.Bhagwati, The New International Economic Order: The North-South Debate (Cambridge, Mass: MIT Press, 1977).

that shipping is perceived in both developed and developing nations. This shows how in the developed nations shipping is viewed as purely a function of derived demand, and how in the developing nations as important industry with a key role in economic development planning. Partly, Knudsen explains, this is due to the historical role of shipping within the world economy. The link between the UK fleet and the British Empire is clarified by Knudsen's analysis of developed nation shipping and the way it is perceived by the developing nations as instrumental in the colonial process.[52] Given this perspective, it was inevitable that once independence had been achieved the former colonies would wish to develop national shipping lines; and this then explains why on the traditional colonial routes - UK to West Africa/India - the national lines have successfully substituted UK ships in the liner sector. Supporting Knudsen's analysis, Ademuni-Odeke's work, Shipping in International Trade Relations [53] shows how the rationale for this development is as much politically driven as it is economic. Again the literature helps to broaden the analysis beyond that provided by the market view, with the importance of qualitative non-market factors identified. The decline of the UK liner sector, therefore, needs to be seen within the context of this particular example of political will, as much as that of the competitive process.

So far, the literature of the organisation of the world economy and shipping's evolving pattern of ownership and control has been shown by the literature as determined by a range of qualitative factors. The spread of industrialisation, the industrial "cluster" process and the new international division of labour, has provided a context for a new organisational structure of world shipping which was bound to have implications for the U.K. fleet. On the one hand, the rise of open registry operation in the tanker and bulk trades has been reflected in the literature, with particular emphasis on the dominance of the MNC's; on the other hand, the growth of national shipping, particularly in the liner trades on the ex-colonial routes, has been portrayed in the literature as part of a political, as well as an economic process. Both sectors of the world fleet, and the way they have development can be seen as critical for the UK fleet. The perspective provided by the literature reporting this development forces a reassessment of the market view by focusing on the qualitative elements at work in international shipping markets.

The context of world economic trends and their impact on the world maritime economy has provided a focus for the decline within the international organisation framework. It now follows that the evolving pattern of fleet organisation is featured in the literature, firstly, in order to relate this pattern to the trends in international organisation and, secondly, to demonstrate how this source helps to provide a basis for understanding the business behaviour of the key fleet sectors.

A major study into the relative decline of the UK fleet was carried out in 1970 by the H.M.Inquiry into Shipping[54] which became more popularly known as "The Rochdale Report".* In addition to identifying many of the international pressures on the UK fleet, the report encouraged the development of capital-intensive operations. This included larger and more technically advanced vessels particularly in the(then) containerising liner trades. The problem of financing capital-intensive vessels was considered by the report and it was

*The Rochdale Report followed in the aftermath of the 1966 Seamens' Strike. The Committee of Inquiry were appointed in July 1967 by the President of the Board of Trade, Douglas Jay. The Committee's brief was to report on the efficiency and modernisation of the UK fleet; and to recommend which action taken by the shipowners, the seafarers and the Government would best serve the needs of the industry in these respects. See: HM Committee of Inquiry into Shipping Report, Command 4337.(London: HMSO, 1970).

recommended that the U.K. owners should enter into consortia This was seen as a way forward with the owners pooling their capital, as well as their expertise, in order to finance the new generation of technically advanced ships.[55] From an organisational and business behaviour context, this consortia process cannot be understated as an influence in the decline process. The severance of the family control of shipping lines brought about by these organisational changes has wrought changes in attitude by owners, operations and shareholders.

The process of evolving shipping organisation can be traced in many of the shipping line histories. Examples include, Stoker's, The Saga of Manchester Liners,[56] Mitchell and Sawyer's, The Cape Run,[57] and Dear's, The Ropner Story.[58] From such works the evolution of ownership organisation from small family enterprises in the nineteenth century to the conglomerate structures of the 1975 - 1990 periods can be traced. Stoker's history of Manchester Liners features the rise of one of the most successful U.K. container lines, which enjoyed a premier position in the North Atlantic trades. The evolving 4pattern of ownership organisation that accompanied success also contributed to the absorbtion, and final disappearance of the company's identity, within the anonymity of conglomerate organisation.

Mitchell and Sawyer's study of Union-Castle Line again points to the correlation between ownership organisation and decline. The concentration process and eventual diversification by the parent company, British and Commonwealth, can be seen as the culmination of evolving ownership organisation, resulting in almost complete diversification from shipowning.

The link between ownership organisation and business behaviour can also be clearly seen in Dear's study of the Ropner line. The transition from a regionally based (strictly) shipping enterprise to a successful, publicly quoted, London based conglomerate, can be seen as a result of the gradual relinquishment of ownership and control by the Ropner family. Dear shows how, "...in the years following the Second World War the non-family directors began to play an increasingly important role."[59] Such evidence of organisational change at company level allows analysis of the evolving priorities of shipping decision makers, as the family connections declined and more emphasis was placed on profitability in both the global and non-shipping markets.

The link between evolving ownership organisation and entrepreneurial decline was very much in evidence in Ian Denholm's paper, "The Decline of British Shipping: A Personal View."[60] Still heading the successful Denholm Shipping Group, Mr. Denholm is ideally placed to trace the process of organisational development from the time when his own grandfather entered into the shipping industry by purchasing his first vessel for £2000![61] The evident trends of capital concentration in shipping are shown in this paper to militate against small-scale shipping activity. This provides an important perspective from which to consider the demise of many of the regionally based trampship/independent tanker owners in the 1975-90 period.

The last area of organisation considered is in the field of maritime industrial relations. The cost and efficiency of crewing arrangements has already been identified (see above p.51) as an area of critical economic importance by the market view. In order to assess the relationship between industrial relations and decline it is necessary to consider the evolving organisational framework. Partly this change in the industrial relations framework can be seen within the global context and partly in the ownership context of organisations. Sletmo's paper, "Shipping's Fourth Wave: Ship Management and Vernon's Trade Cycles", outlines the "...transnationalisation of shipping through flagging out and the greatly increased dependence upon manpower from the developing countries."[62] Sletmo's analysis demonstrates the impact that the global shipping market has upon industrial relations, with ship management and crews drawn from a transnational pool. Under these conditions, the industrial relations environment becomes characterised by short-term employment arrangements, with crewing agencies (function of ship management) providing the link between owners and crews. In this sense the link between the traditional family owners, with their paternalistic approach towards industrial relations, is replaced by a more fragmented relationship, given the anonymity inherent in the modern business corporation.

The qualitative impact that the transnationalisation process had upon industrial relations at sea is discussed in Lane's, <u>The Grey Dawn Breaking: British Merchant Seafaring in the Late Twentieth Century</u>,[63] This work explores the relationship between evolving ownership organisation and industrial relations. Much or Lanes's research rests on interviews and anecdotal evidence drawn from seafarers. The emphasis on company loyalty, pride and esteem which had become a feature of the paternalistic family owners and the attitudes they promoted in their crews, disappeared as the distance between employer and employee increased and the uncertainty of employment in the new arrangements increased.[64]

Within the context of such changes in the organisation of industrial relations at a transnational level, the UK. industrial relations structure began to dissolve. The UK. industrial relations structure, under the umbrella of the National Maritime Board(NMB), which provided for a bipartite organisation of employers and employees. McConville's, The Shipping Industry in the United Kingdom [65] outlines the workings of the NMB and its impact as industrial relations under the UK flag. The emphasis on a dialogue, on standards and stability of employment opportunities, is shown to be a feature of industrial relations in the post 1945 period and up until the mid 1970s. In order to understand the nature of industrial relations organisation it is necessary to appreciate the importance of the NMB system and its impact on UK shipping economies.

Whilst McConville's work provides analysis of the moves towards centralisation in the organisation of industrial relations, the maritime trade union press have recorded its abandonment. Both NUMAST's, The Telegraph[66] and the NUS', The Seaman[67] have devoted much consideration to the decentralisation of maritime industrial relations during the 1980's. The movement from centralised to decentralised industrial relations organisation is an important dimension of the decline process. In particular, the unions were keen to safeguard the employment conditions which had been established in the post 1945 period. The abolition of the centralised system was seen by the unions as at threat to the standard of industrial relations that had developed in this period. In 1989, for example, The Seaman was to report on the NUS branch calls in Manchester and Liverpool for a defence of, " The benefits and welfare that seafarers have struggled for, for over a century."[68] What the literature selected on the industrial relations organisation provides for this thesis is the understanding of the economic pressures placed upon U.K. flagged and crewed ships in the post 1975 period, and the impact that this had upon the fleet. In order to understand and explain decline it can be seen as necessary to consider the impact of the changing industrial relations organisation. The organisational analysis literature has pointed the research in the direction of the environment in which the UK fleet operates. The shifts in the structure and policy of the various layers of organisation can now be seen as a crucial dimension in understanding the decline. It next remains to consider the range of literature which provides the basis for analysis of the business behaviour of the UK fleet within the outlined context of organisational change.

Business Behaviour Literature

The changes in the organisational structures of UK and world shipping need to be as the catalyst for the changes in the business behaviour of the UK fleet and the sector markets in which it operates. This has particularly been true of the sectors in which UK ships had once held the position of market leadership and had enjoyed a period of relative stability in the two decades following 1945. Marcus' study of the breakdown of the conference system* on the intensive North Atlantic routes typifies this linkage between organisational change and business behaviour change. The emergence of new entrants onto the North Atlantic, many operating outside of the conference system, placed increased pressure on UK lines in Marine Transportation Management. [69] Marcus makes analysis of the 1970's rate war that followed the arrival of the non-conference, Cast Line, onto major North Atlantic routes. The outcome of this increased competition was the eventual rationalisation of the capacity, with some UK

*The liner conference system has evolved from the very inception of steamship technology in the mid 19th century. Briefly, its role is to prevent both the ruinous excesses of price-war competition and shipowner's monopoly on major trade routes. By providing a forum for shippers as well as shipowners the rationale is to maintain a quality service at reasonable and stable freight rates. Goss' has provided a succinct definition: "Shipping Conferences are generally price fixing and(often, but not always) market sharing, which attempt to regulate cargo liner services on most of the world's trade routes." Memo by Professor Goss to: House of Lords Select Committee on the European Communities Competition Policy: Shipping(London: HMSO, 1983), p.147.

lines leaving the marketplace completely. As the stability of the conference system gave way to the uncertainty of the enhanced competition, the UK lines found it impossible to meet profit targets.[70]

Gibney's study of the Far East-North Europe container trades in Container Strategy,[71] also provides evidence of the destabilising effect of increased competition caused by the entrance of new lines. Far East lines, operating outside of the conference system, were also increasing the economic pressures on UK lines, again resulting in rationalisation. Although competition - as envisaged by the market view - appears apparent as the cause of the withdrawal of UK tonnage, the literature also points to the extent of government subsidies and easy credit facilities which made this competitive onslaught possible.

Graham and Hughes' 1985 work, Containerisation in the Eighties,[72] demonstrates the increasing technological, organisational and competitive burdens facing modern liner companies. This helps to explain the trends towards consortia, rationalisation and diversification that have contributed to decline. Such factor such as the growth of a maritime political order in many developing nations, culminating in the United Nations' Liner Code.[73] With its express purpose of encouraging more developing nation participation in liner shipping, the Code can been seen as a political adjustment to the economic structure of developed-developing nation trade. As such the Code encourages additional supply, resulting in reduced market share for the traditional liner companies.[74] Lending weight to the view that many of the economic difficulties which have faced the UK owners in the post 1975 period, the General Council of British Shipping(GCBS) have outlined the extent of unfair competition in the world market. The 1989 report, A Level Playing Field for Merchant

Shipping,[75] draws attention to the extent of protection received by many of the UK fleet's major competitors. The assumption behind the GCBS position is that UK flag ships will always come second in a competitive situation with protected or subsidised ships; and talk of improved competitiveness becomes academic whilst such an "uneven playing field exists" The GCBS position raises questions over the accuracy of the market view. By pointing to the non-market forces at work influencing the world shipping market, the GCBS have attempted to "...dispel the widespread myth that the international shipping market is one of which Adam Smith would approve."[76]

Outlining the destabilising impact of over-supply in the dry bulk sector, Shibata's report for Seatrade, "Sanko Spilling into Political Arena,"[77] demonstrates the expansionist business behaviour which has prevailed in this sector. Such over optimistic behaviour has ensured over-supply and has proved detrimental to many UK owners, contributing to the fleet's decline. What Shibata's report reveals, however, is that the intense competition that over-supply has generated was the result of government support in Japan and the Far East. This had the effect of distorting the market as it encouraged over-supply. Kim's Doctoral Thesis, Shipping Investment and Allocative Efficiency in Korea,[78] draws attention to the extent and importance of state support for shipbuilding in South Korea. Again, it can be seen that the qualitative literature challenges the market view assumption.

The long term trends in the organisational structure in the ownership of UK shipping has also brought changes in the field of business behaviour. An early signal that the UK owners were changing their business is contained in William's(et.al.) work, Why are the British Bad at Manufacturing?,[79] which not only provides a perspective of declining UK industry, but also contains the essay, "Shipbuilding-Demand Linkage and Industrial Decline."[80] The focus is on the severance of the link between the UK owners and UK shipyards. As the UK shipowners evolved away from family control, towards conglomerate and/or international organisation, the traditional regional allegiance with the shipbuilders ended. Better credit terms and often lower prices were offered by the foreign yards; and for these outward looking firms the economic choice was always going to take preference over traditional allegiances with local shipbuilders.

The change in business behaviour noted by Williams(et.al) can be seen as signalling the moves towards a global approach by the UK owners. This was to culminate in the replacement of national crews with lower wage developing nation crews and the flagging out of ships to off-shore registries. Understanding the forces at work in this shift in business behaviour helps to explain decline, particularly the amount of UK tonnage which left the UK registry in the 1975-90 period.

The quantitative literature base extends to the company reports and journals of the shipping companies. These provide insight into business policy and future strategies, allowing for the analysis of their changing business behaviour. As the UK companies have evolved, their publications have reflected the impact on business behaviour. For example, it is possible to trace the transition of British Petroleum's(BP) tanker fleet, from a prestigious key component of the UK tanker fleet to a subsidary off-shore operation. BP's tanker fleet had enjoyed a market leader status in the UK tanker sector in the post 1945 period. The monthly house journal, BP Shipping Review,[81] has provided valuable insight into the changing emphasis of BP tanker operations-away from vertical integration and towards the profit centre approach of the subsidiary, profit centre, BP Shipping. As the shipping company became distanced from the parent multinational oil company, more emphasis was placed upon cost efficiency which extended to operational decision to flag the fleet out to the open registries - Bermuda and Gibraltar - and to substitute UK national ratings and junior officers with low wage nation developing nation and East European crews.

In tracking the business behaviour of shipping companies an important qualitative factor in the decline process is revealed. A review of the house journal, Ocean News[82] and annual reports of the Ocean Transport and Trading Group,[83] provides insight into the demise of two of the UK fleet's premier cargo lines, the Blue Funnel Line, and the Elder Dempster Line, which in 1975 operated some 63 ships(see below pp.155-8). What the company literature reveals is the transition from a traditional, Liverpool based, family controlled shipping line, to an international conglomerate; and, moreover, the shift in business behaviour that accompanied the organisational changes saw the preferences of shareholders - increased dividends - supplant the tradition of shipowning, with its low profit prospects. Again, the explanation for decline of the Blue Funnel can be seen as rooted in the shifts in organisation and resulting business behaviour. It becomes apparent that the investment opportunities that became available as conglomerate organisation intensified were to prove detrimental to a long term commitment to a large liner fleet.

Throughout the 1975-90 period, the UK and international shipping press has monitored the decline. Much use has been made in this dissertation of the market reports and company features provided by, Lloyd's List,[84] Lloyd's Shipping Economist,[85] Seatrade,[86] Fairplay International Shipping Weekly.[87] These all provide useful information on evolving business behaviour of UK and international shipping.

The market view of decline and possible recovery of UK shipping features in the debates surrounding the changes to the UK tax regime in 1984. The implications of this will be discussed more fully in Chapter Seven, but at this stage it is pertinent to show how the literature can provide some insight into the business behaviour of the UK companies, following the tax changes. Despite the Chancellor's assertion that the changes would stimulate competitiveness and innovation,[88] the decline of the UK fleet continued unabated. Sloggett's work, Shipping Finance,[89] helps to provide context to the tax issue. Although not dealing with the decline issue specifically, Sloggett's models of company cash flows under differing tax regimes provide for analysis of the business behaviour of the larger business units of the UK fleet. What proves important to this research is the comparison between the tax position pre and post the 1984 Budget and how this relates to the structure of business organisation. The important difference here is between the smaller business unit and the conglomerate organisation. Whereas the impact on the former unit is shown to be minimal, for the latter the ability to off-set tax liabilities against group earnings has a detrimental impact on cash flow. For the many UK lines which had made the transition to conglomerates the tax changes were to become a major influence on their business behaviour, explaining why many of them chose to continue to divest their UK shipping assets.

The literature on the impact of decline on the maritime industrial relations regime has already been considered. The nature of the moves away from a centralised industrial relations system can be seen in the changed business behaviour of the UK companies in this field. Marsh and Ryan's history of the National Union of Seamen(NUS), The Seaman,[90] has reported on the difficulties caused by the new attitudes in shipping management, particularly in the field of industrial relations. As the UK companies sought to respond to the commercial pressures of the post-1975 period organisation, emphasis was placed upon reforming the industrial relations system. The result included a dilution of leave entitlements, manning levels and pay standards and moves towards agency employment with off-shore agreements.[91] The literature on the industrial relations changes in this period points to the limitations of the competitive process under the UK flag. The standards of pay and conditions which had been established under the centralised industrial relations system in the post-1945 period could not be easily replaced by the open market arrangements envisaged by the market view. Typifying the campaigning literature is The Telegraph's report on the deteriorating employment conditions on North Sea oil support vessels, "Time to Repay the Debt."[92] The report condemns the dilution of safety standards, long hours, poor on-board conditions, reduced leave periods and multinational crewing. This and similar articles points to the changing industrial relations on UK ships during the decline period.

The final area of business behaviour literature considered is that of maritime safety.

The question of safe standards has been frequently considered in the maritime press; a typical example is provided by Michael Grey's Ports Report in Lloyd's List, "Standard of Ship Cargo Gear has Deteriorated."[93] Such evidence of declining standards raises questions over the efficacy of low cost shipping; are competitive pressures leading to the dilution of safety standards? In 1987, NUS related the issues of safety to the economic pressures exerted by the process of decline. This projects the issues of safety into the analysis, particularly the link between the costs of safe operation and economic performance. For example, The Seaman saw that the *Herald of Free Enterprise* disaster was the result of the excessive commercial pressures on the crew. It was claimed that the competitive pressures on the Dover-Zeebrugge ro-ro service lead to working methods which,

> ..were apparently designed only to shorten turn around times, regardless of the risks to passengers and crew.[94]

Such critical observations serve to broaden the analysis of decline out to boundaries of safe operation. This raises crucial questions over the cost-safety equation. As operations under the UK flag have traditionally carried out to a high standard of safety(this is verified by comparative flag accident statistics(see below: Figure.44), does this mean that UK ships face greater safety expenditure than their less safety conscious competitors? In a world market which features a wide variance in the safe standards of operation, the higher cost, safety conscious operator, will face difficulties in competition with low cost, low safety operator, in marginal markets.

What this review of the literature of business behaviour has revealed is the link between decline and the changes in the way the shipping industry operates. The changes to business behaviour in each shipping sector needs to be appreciated within the context of shifts in shipping organisation.

Summary and Conclusion

Having outlined the varied literature base of this dissertation, it can be seen how the contrasting approaches to the decline of the UK fleet are obtained. It has been shown how the market view of the decline is rooted in neo-classical economic theory and the way it is interpreted in many academic, business and political circles which have been predominant in UK opinion on shipping. The assumption of an open competitive world market prevails, leading to the charge that the UK fleet has failed to compete.

The case against state intervention in the interests of economic efficiency is clearly stated in the market view; and from this position, the key to survival is to liberalise markets and enhance competition. The contention of this thesis is that this market view is based upon limited, inaccurate, assumptions about UK shipping and the world market it operates in. By restricting the analysis of decline to the reiteration of competitive failure, the less obvious factors which have caused decline are over-looked.

In order to extend the analysis of decline, it is necessary to consider the qualitative evidence of decline. The literature base provided here, firstly, allows for the recognition of the sectoral characteristics of the UK fleet to be identified against the context of decline. This includes description of the tonnage statistics and operational characteristics of each key sector. Secondly, the literature of organisational analysis allows for the consideration of how the organisational changes have affected and influenced each shipping sector. Thirdly, how these organisational changes have created a shift in business behaviour in UK and world shipping. By combining these three literature sources the key to understanding decline is achieved.

The qualitative literature base is therefore utilised in order to take the analysis beyond the confines of the market view, towards the many and complex factors which have led to decline. Within this context, this dissertation will contribute to the maritime literature by the employment of the core analysis of sectors, organisations and business behaviour. The

contention is that recall to this core analysis is vital if understanding decline is to be achieved.

The following Chapter commences the core analysis by the study of the key sectors of the UK fleet in the 1975-90 period.

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Chapter Four: A Sectoral Profile Of UK Shipping.

Introduction and Objective

In order to develop the analysis, it is necessary to identify the distinct shipping sectors from which the UK fleet is comprised. The aim is to demonstrate the contrasting characteristics of each sector and how these relate to decline. Understanding why decline has occurred is dependent upon analysis of the specific circumstances which impact on each sector. This is necessary given the wide variance in the organisation and business behaviour of each sector precludes any easy generalisations. Required is a statistical analysis of the principal fleet sectors and the main factors influencing shipowning in these areas. This emphasis on distinct sectors enables a comprehensive profile, ranging from the changing pattern of world trade, and technological developments in vessel size, cost and performance and the organisational structure of the UK fleet and its environment. In short, the qualitative factors which have influenced the size and composition of the UK fleet.

It will be shown how each sector is distinct in its organisational and business behaviour construct. In order to understand decline, it is, therefore, necessary to disaggregate the UK fleet into distinct sectors. This then signals the role of the qualitative study which extends beyond the market view in order to establish the specific reasons for decline in the .

key fleet sectors.

The analysis starts with the historical context of long term decline which was inevitable given the extent of the UK's industrial leadership from the industrial revolution onwards. Just as other industrial nations were to challenge UK industrial supremacy in steel, chemicals and engineering etc, the rise of foreign shipping was to bring the relative decline of the UK fleet. The shift in the direction of trade which accompanied European integration and the development of North Sea oil fields plus the reduction of the Persian Gulf-N.Europe oil trades, was also bound to cause some decline as less tonnage was required for the drastically reduced distance of the UK fleet's routes.* What this Chapter will seek to achieve is the separation of these factors, leading to inevitable decline, from the organisational and business behaviour factors which have been identified as unique to each distinct sector. This should then reveal the uneven spread of decline across the fleet's major components.

The Statistics of Decline

The statistical performance of the UK fleet, 1975 -1990, shows a clear trend of decline. Using the aggregate tonnage of the fleet over this time series it is possible to record the performance size of the fleet. Table Two shows a decline from the 1975 peak of 33.1 m.grt to 6.7 m.grt in 1990. The picture of decline focuses clearer when the UK fleet is compared against the world fleet during the 1975-90 period. Figure One demonstrates the UK's sharp decline against the long term growth of the world fleet. The UK fleet had continued to grow in the 20th Century, up until 1975. However, as measured in relative terms, decline occurred, post 1890, as other nations challenged the dominance of the UK fleet. This is illustrated in Figure Two which gives the UK aggregate tonnage and its relative share of the

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*In 1975, the average length of haul(ALH) of UK trades was, Imports, 5825 nautical miles, Exports, 2037 nautical miles; by 1990 these had fallen to 2800 and 1420, respectively. Source: GCBS, British Shipping Statistics(London: GCBS, Annual) and Business Statistics Office, Business Monitor MA8, Nationality of Vessels in UK Seaborne Trade,(London: HMSO, Annual).

FIGURE ONE: UK AND WORLD FLEET 1975–90(M.GRT).

FIGURE TWO: UK FLEET TONNAGE AND AS % WORLD FLEET(M.DWT).

world fleet, post 1890. It can be seen that relative decline has continued unabated from 1890 onwards - from a massive 49.5 per cent to just 1.6 per cent of the world fleet in 1990.

TABLE TWO: BRITISH FLEET TONNAGE, 1975-90 (M.GRT)

Given the extent of the UK's early world leadership in all forms of industrial activity, it was inevitable that overseas competitors would eventually begin to narrow the gap. This held true for shipping just as well as it did for other leading UK industries - automobiles, steel, shipbuilding, textiles, coal - and may be seen as part of the de-industrialisation process occurring in the more developed industrial nations. It is the process of absolute decline in the UK fleet which calls for careful and detailed analysis. This is particularly so when consideration is made of how the fleet registered an 83 per cent increase between 1950 (17.2m.grt) and 1975 (31.5m.grt).[1]

Also, provoking questions on why decline occurred is the disparity between the level of UK trade and the share carried under the UK flag. This is illustrated in Figure Three which makes the comparison by the use of index numbers, with 1975 as 100. The graph contrasts the index for UK trade standing at 132 in 1990, whilst the UK flags share has fallen to 58 and 41 for imports and exports, respectively.

FIGURE THREE: INDEX OF UK FLAG SHARE
OF UK TRADE(BY WEIGHT), 1975 =100.

Within the confines of statistical decline lies a range of differing rates of fleet performance in accordance with the various sectors which compose the total fleet. In this context, the core analysis seeks to identify the wide range of forces which have shaped the size and composition of the UK fleet.

By tracing the history of UK shipping back to the inception of steamships, 1850, the changing statistical position of the fleet can be appreciated. The UK fleet's historical world position, derived from Lloyd's Register of Shipping Statistical Tables is now presented chronologically:

1850-1967	**WORLD TONNAGE LEADER**
1850-1890	**ABSOLUTE AND RELATIVE GROWTH**
1890-1975	**ABSOLUTE GROWTH AND RELATIVE DECLINE**
1975-1990	**ABSOLUTE AND RELATIVE DECLINE.**

The Need for a Sectoral Approach

In making any assessment of the fleet's statistical performance a consideration of the principal sectors of shipping operations is called for. It will be seen that these sectors have developed their own unique economic characteristics. It can be said that the aggregate fleet is made of a wide range organisational and operationally distinct sectors. If, for example, comparison of the large scale multinational operations of BP Tankers, with the Avonmouth based coaster owners, Runwave Ltd is made, appreciation of the extent of the contrast is possible. Whereas BP's multi million pound operation has been developed to support the strategic importance to the parent company's worldwide oil interests, employing (in 1990) a tanker/support fleet of 39 vessels which totalled over 1.7m.grt,[2] the two vessel Runwave fleet - amounting to just 900 grt - survives in the small coaster European market with operations controlled from a small quayside office.[3]

Further comparisons can be made between the deep sea container liner operator, with regular publicised worldwide services and the bulk vessel tramp operator seeking profitable cargoes from any worldwide location or the North Sea oil rig supply vessel owner and the conglomerate cruise liner operator. The point being made here is that although such disparate units are aggregated in order to construct a total fleet tonnage, it is vital to embark on a sectoral analysis in order to gain a more representative perspective. It is, therefore, proposed to provide a sectoral analysis which extends to the statistical, economic, organisational and operational characteristics of the following groups, categorised by ship type - tankers, bulkers, cargo liners, passenger cruise liners, the short sea sector divided between, coasters, supply boats and ferries.

The Tanker Sector

The analysis starts with the tanker sector which has proved the most erratic - booms and slumps - sector; but was, nevertheless, the largest component of the UK fleet in 1975. Traditionally, the tanker industry is controlled by the large oil majors whom employ a mixture of owning their own vessels and chartering tonnage from the large supply of independent carriers; and it is the oil majors ability to pivot their tonnage needs between these two categories that can cause instability.[4] Certainly volatility has been the case in the post 1945 period, and in the 1973-1980 period, in particular. The strong demand for oil in the post 1945 period saw a rapid growth in the world tanker fleet - more than 1000 per.cent- from 15.0m.grt in 1950 to 175.0m.grt in 1980.[5] In the same period, the UK tanker fleet grew in excess of 300 per.cent.[6]

Although the UK tanker had grown from 3.0m.grt in 1950 to 16.0m.grt in 1975, by 1990 the sector had declined to just 2.3m.grt.[7] Table Three shows the 86.6 percent decline between 1975 and 1990.[8]

TABLE THREE: THE UK TANKER FLEET 1975-1990.(M.GRT)

Figure Four displays the relative performance of UK tankers against the world tanker fleet, with the declining percentage share being clearly evident. Both sets of figures allow for the analysis of the rise and decline of the UK tanker fleet within the global context. By firstly considering the demand position and influence on technology, developments in large tanker design and construction can be appreciated. These factors are relatively new within the modern merchant marine context. Although tanker technology stretches back to the late 19th Century,[9] it was the developments post 1945 which led to tanker business becoming the major component in not only the UK fleet but also the world fleet. The sector is dominated by crude oil carriers, but in addition, product carriers - lubrication oil, petrol and vegetable

FIGURE FOUR: UK AND WORLD TANKER FLEET
1975–90(M.GRT)

oils - as well as gas carriers are grouped into the statistics. The strong demand for oil in the post 1945, period up until the mid 1970's, saw a constantly increasing world tanker fleet; tankers were rapidly getting larger and the average length of voyage was constantly increasing. Whereas the large tanker of the 1950's was in the 12,000 grt range, tankers with a grt of 350,000 were in existence by the early 1970's[10]; and the average voyage length increased from 4300 to 7400 nautical miles between 1963 and 1975.[11] The evidence points to a booming demand and a highly elastic supply during the two decades up to 1975. Intensifying the trend towards larger, lower cost, vessels a series of political dislocations to world trade have led to increased demand for large vessels. The tanker shortages brought about by closures of the Suez Canal brought about a premium for larger vessels taking the alternative routing via the Cape of Good Hope - which almost doubled the voyage distance from 6400 to 11,000, nautical miles - on the important oil trade between the Persian Gulf and Europe. The 1956 Suez crisis saw some operators enjoying abnormal profits,[12] and the upheavals of the Six Day's War in 1967 saw tanker rates rising from $6.50 to $31.0 per tonne, proving a particularly lucrative period for the Greek tanker entrepreneurs - Livanos, Niarchos, Onassis.[13*]

The strong demand for oil in this period led to two distinct patterns of fleet growth; the rise of entrepreneurial activity evident by such flag of convenience fleets as those of Onassis and Niarchos and those of the oil majors - Exxon, Texaco, Shell, BP, Mobil, Chevron, Total. It has been estimated that the oil majors control about 80 per cent of oil production and 50

*The Greek shipping entrepreneurs proved particularly adept at tanker market expansion during this period. This contrasts with the limited response of the UK owners to the opportunities in the growth market. As such, this has been seen as an early example of the competitive failure of the UK owners. See: S.G.Sturmey, British Shipping and World Competition(London: Athlone Press, 1962), pp.220-233.

per cent of tanker charters.[14] The desire of the oil majors to balance their tonnage requirements between own account and chartered tonnage led to considerable opportunities for shipping enterprise. Shipping entrepreneurs such as Livanos, Niarchos, Naess and Onassis were able to set up sizable tanker fleets on the strength of long term charters to the oil majors.[15] During this period it became evident that British lines (other than those of the oil majors) were reluctant to take advantage of these opportunities, Sturmey has been rather scathing, arguing that the traditional British Cargo owner ignored the opportunities to diversify into the lucrative tanker business of the 1950's and 1960's.[16] Although there were notable exceptions to this provided by P&O and Cunard's diversifications into tankers, it has been estimated here that in 1975, 66 per.cent of UK tanker tonnage was owned by the oil majors;[17] and it was this pattern of ownership which proved vulnerable when the strong market conditions gave way to the oil slump of the mid 1970's, particularly as the oil majors had concentrated investment in the VLCC* sector which turned out to be the tonnage range hardest hit by the slump.[18]

The price shocks brought about by the OPEC interventions in the 1970's coupled with the changing pattern of oil production, notably the development of North Sea oil. The overcapacity resulting from the 1973 oil shock can now be seen as the result of over investment based on the optimistic, speculative projections of the boom years of the tanker trade up until this time. The profit mechanism, inherent in the market view, was very much in evidence in 1973, with a 197m.dwt of new tankers on order, almost a doubling of the

*The Very Large Crude Carrier(VLCC) was the naval architects response to the booming demand for long distance oil carriage in the decade up to 1975. The VLCC tonnage, in excess of 250,000.dwt, provided for economies of scale on principal oil routes: Persian Gulf-Japan, Persian Gulf-N.Europe. See: H.L.Beth et.al, 25 Years of World ShippingLondon: Fairplay Publications, 1984), pp.28-37.

existing fleet of 213m.dwt.[19] The problem was, however, the slump in demand, falling from 11.403 to 5.440 billion annual tonne-miles between 1977 and 1985.[20] The overcapacity problem has persisted in the tanker industry throughout the 1970's and into the 1980's; in 1983 some 56m.dwt of world tanker tonnage (18 per cent) and 3.7m.dwt of UK tankers (22 per cent of the UK tanker fleet) was laid up[21] In the British Maritime Charitable Foundation's (BMCF) study, it was found that owners representing 94 per cent of the UK tanker tonnage disposed of between 1978 and 1983 claimed that overcapacity was central to their decision.[22]

In addition to the overcapacity crisis, changes in the location of oil production, closer to the European and US markets. Explorations in Mexico, Alaska and the North Sea came on stream as alternatives to OPEC sources. Long Haul Middle East to Europe/USA declined as, a result, by 47 per cent and VLCC demand fell by 50 per cent in the 1978-83 period[23].

Analysis of the business behaviour of the tanker owners will be undertaken in Chapter Eight's study of vertically integrated shipping; and the problem of matching supply to the changes in demand will be considered in Chapter Thirteen. At this stage, however, it is pertinent to consider the extent of tanker decline in relation to these market pressures. Although it is clearly evident that some decline was inevitable, but the 85 per cent reduction in British registered tankers is well in excess of the decline in demand. Figure Five shows the declining level of participation UK flag tankers in UK oil trades. Given the growth of Domestic production in the North Sea, it might have been expected that British owners would have enjoyed some respite from decline; this turned out to be not the case.

FIGURE FIVE; UK TANKER % SHARE IN
UK OIL TRADES(BY WEIGHT), 1975–90.

Understanding the reasons for this failure is integral to challenging the market view. What the evidence of the failure to win higher market share in the North Sea points to is the absence of a significant source of UK shipping enterprise. This explanation will be further pursued in Chapter Seven's analysis of the entrepreneurial elements of UK shipping.

The extent of the decline in the tanker sector, it will be argued, can only be partly explained by the market view; it will therefore be necessary to seek further explanations, analysing the business behaviour of the oil companies, in response to the organisational, changes within the 1975-1990 period.

In addition to the economic issues of the tanker industry, social economics have become increasingly influential in dealing with the environmental issues of tanker's oil pollution. Environmental disasters such as those caused by the *Amoco Cadiz* and the *Exxon Valdez* have raised the political profile of the industry. The extent of this opinion and its relationship to decline will be considered in Chapter Fifteen.

This short introduction to the tanker industry enables appreciation of the essential mixture of organisational and business behaviour characteristics which have determined the size and composition of the sector in the 1975-90 period.

The Dry Bulk Sector

The dry bulk sector is dominated by five principal cargoes - iron ore, coal, grain, bauxite-alumina, phosphate rock - and a pattern of market control similar to that of the tanker industry exists with a small number of multinational commodity owning concerns exerting their influence in the market place.[24] The sector is heralded by many pro-market shipping people as a model of open market efficiency; this position is strongly challenged by a substantial body of developing nation maritime opinion.[25]

As with tankers, dry bulk vessels have grown in average size in the last two decades. The economies of scale inherent in large bulk vessels have done much to promote the world trading of relatively low value bulks. For example, the per tonne price of shipping iron ore between Brazil and Japan fell from $7.80 in 1960 to $4.90 in 1970;[26] and even by 1989 it was still possible to be shipped at $9.50,[27] a considerable reduction on the 1960 rate in real terms. A major determinant of this tendency of improving cost efficiency is the increased size of bulk vessels, ranging from the 65,000 dwt Panamax size to the 300,000 dwt Capesize category.[28]

Unlike the tanker industry, there is not a tradition of the commodity owners owning their own vessels, preferring to charter tonnage from the global pool of low cost tonnage. One feature of the sector is the penetration by corporate finance; tax allowances available to ship owning corporations enticed these organisations into bulk vessel ownership (see below: p.185-8). The commodity trades to which the bulk trades serve, can be characterised by their oligopsomistic - nature many sellers and few buyers. This holds true for the commodity exporting nations as for the suppliers of bulk tonnage, with both facing large multinational commodity trading organisations.[29] This situation leads inevitably to competition between the suppliers, resulting in overproduction of commodities, over capacity of ships. Table Four shows the decline of the UK bulk sector between 1975 and 1990.

TABLE FOUR: THE UK BULK FLEET 1975-1990.(M.GRT)

Although the demand for sea borne bulk has grown consistently in the period under review, the tendency to overcapacity is also clearly evident in the sector. This has led to falling freight rates and higher cost UK owners leaving the market, with tonnage declining from 8.2m.grt in 1975 to 0.7m.grt in 1990, a decline of 91 percent.[30] Figure Six illustrates the decline within the context of the world bulk fleet performance; and it is apparent that an inverse relationship has developed with UK bulkers in decline and the world fleet growing rapidly. Figure Seven shows the declining participation of UK bulkers in UK trades. The BMCF study revealed that 75 per cent of bulk owners involved in selling ships in the 1978-83 period blamed overcapacity. [31] In 1975 the sector was feeling the negative impact of over capacity following the boom years of the early 1970's; representative of the slump was the 83 per cent decline in freight rates on the important US Gulf-Antwerp/Rotterdam bulk trade between the 1973 high of $21.50 and the 1975 low of $3.60.[32] As with the independent owner sub-sector of the tanker industry, the bulk industry is characterised by its entrepreneurial leanings. The heritage of the industry stretches back beyond the era of steam tranships scouring the world for cargoes to the days of the 19th

FIGURE SIX: UK AND WORLD BULK FLEET, 1975–90(M.GRT).

FIGURE SEVEN: UK BULKER % SHARE OF UK
BULK TRADES(BY WEIGHT), 1975–90.

century "free traders", shipping entrepreneurs who found themselves in competition with the government protected chartered companies.[33]

In the 19th century the trend for ownership at all levels of the organisational and operational spectrum became evident, with ships changing hands between owners on a sliding scale which was very much determined by the size, wealth and experience of the owner. The larger, wealthier owners kept ahead in the technology stakes by constantly upgrading their fleet. The free traders bought up relatively new tonnage from the chartered owners, after operating these vessels for a couple of years they were then passed down the sliding scale to lower cost operators.[34] This trend is still very much evident today with the life of ships being extended by the willingness of low cost operators to balance the disadvantages of dated technology against the economic advantages of low capital costs, allowing easier market entry. Whereas the 19th century supply chain was restricted to mainly European and Scandinavian fleets, the post 1945 situation saw the chain extending globally with a distinct tendency for developing nation owners to enter into the second hand market.[35] During this period the business of "ship-trading" advanced, with speculation in the sale and purchase market adding to the supply chain of bulk carriers.[36] Coupled with the speculative of shipping investment and the availability of easy shipbuilding loans these factors have contributed to the overcapacity crisis. Likewise, analysis of the structure of the bulk trades and the impact of the market control by the multinational commodity owning organisations is called for in order to consider the impact these factors have had on the UK bulk fleet. In Chapter Nine the global shipping market, featuring the bulk sector, is analysed. This provides for an extension of the analysis beyond the market view perception of an openly competitive dry-bulk market. In particular, this will allow for the consideration of the qualitative factors influencing the performance of the sector. This will include analysis of the disappearance of the entrepreneurial British owner as well as the demise of the bulk vessel owning shipping conglomerate.

The General Cargo/Container Liner Sector

The next sector to be profiled features of the more successful elements of UK shipping. As one of the more technologically advanced, capital intensive, sectors of UK shipping, it might be expected that the container shipping, as it replaced conventional cargo shipping, would be one of the areas that a high cost flag-such as the UK could prosper. The "container revolution", starting in the mid 1960's rendered the conventional cargo liner design labour intensive and technologically obsolescent on major trade routes between developed nations. The purpose built, fully cellular was to greatly improve efficiency. Developments in the size of vessels, cargo capacity and dramatically increased turnaround times had led to just one fully cellular container vessel replacing up to six or seven conventional cargo liners.[37]

The investment performance of UK liner shipping appeared promising in the 1970-75 period when the fully cellular fleet grew by 264 percent, from 0.37m. to 1.35m.grt, an increase in excess of 250 per cent.[38] This suggests that the position of the liner sector in 1975 was economically healthy: the shifts in technology away from cargo liners and cargo passenger liners were well established; and the moves towards UK liner consortia,[39]a direction which had been advocated by the "Rochdale Report." Table Five shows the relatively stable performance of UK container lines and the decline of the cargo liner.

TABLE FIVE: THE UK CARGO LINER/FULLY CELLULAR FLEET, 1975-90 (GRT).

Figure Eight provides the relative statistical profile of the UK container liner fleet against the world container fleet. The price to pay for the efficiencies of the container liner system was the increased capital cost of the shipping and port/inland delivery related technology; and it was to be the cost of investment in this technology that led to a series of mergers between the UK liner operators.[40]

The rapid shift in technology was to prove financially difficult for the owners. In the cargo liner/cargo passenger liner sector ship design had evolved slowly from the early steamship days of the late 1800's. The liner of this era would be expected to have a service life of twenty to thirty years with a UK line. This design stability is illustrated in the following graphical illustration of ship design in Figure Nine. It was the emergence of container technology in the major deep sea trades that radically altered this design continuum. Typifying this is the experience of Cunard Line's fleet investment. In 1966, immediately prior to the container revolution, Cunard ordered seven of the *Parthia* class of 5000. grt cargo vessels for its North Atlantic freight services. Although this class of vessel was capable

FIGURE SEVEN: UK BULKER % SHARE OF UK
BULK TRADES(BY WEIGHT), 1975–90.

FIGURE EIGHT: UK AND WORLD FULLY CELLULAR
LINER FLEET, 1975–90(M.GRT).

FIGURE NINE: EVOLVING UK LINER DESIGNS

of container carriage its design restraints led to stowage difficulties and labour intensive cargo handling. By the early 1970's this class had been replaced by the 12.000-15.000. grt fully cellular Atlantic class ships. Cunard had entered into consortium on its North Atlantic trades with, Dutch, French, German and Swedish lines - forming Atlantic Container Line (ACL) - and had withdrawn from break-bulk cargo handling on this premier route. By the mid 1980's the next generation of ACL container vessels - replacing the first generation-were in the 35-58,000.grt range.[41]

During a time of rising shipbuilding costs the economic burden of technological change was to lead to rationalisation in such consortiums.[42] Added to this, the changes in the world political world - particularly the decline of the British Empire - was to place further economic pressures on UK liner operations. Appendix One provide cost data on liners.

The modern container line has its roots in the passenger cargo liner organisations which built up in the 19th century. The demands of the British Empire led to shipping companies setting up fast, frequent, scheduled cargo services to the Colonies. The strategic importance of these trades called for liner shipping to be given a special status in UK shipping. Government intervention in the form of postal subsidies which helped to secure the supply of large fast vessels which could be utilised to serve the British military interest.[43] The need to maintain fast, prestigious services led to high capital and operational costs which needed stable revenues in order to secure profit, however, these were jeopardised by the extent of competition. The industry's preferred response was to limit ruinous competition via the employment of the cartel conference system.[44] The conference system has survived and is still very much in evidence today with principal routes to USA and Canada, Africa, the Middle East, Australia and New Zealand covered. Despite the stability engendered by the conference system, changes in the world political order at a time of rapid technological change have placed great pressure on the liner system.

Firstly, the decline of the British Empire obviously reduced the demand for services to the Colonies; in addition, the newly won political independence of these nations was paralleled by the desire for economic independence. This was to extend to the growth of new developing nation liner fleets and for a United Nations Code of Conduct for liner conferences which called for a 40 -40-20, cargo sharing arrangement.[45] This was to be an agreement which allowed for trading nations to share the shipping element of their trades 40 per cent each, with the remaining 20 per cent of trade being made available to cross trading fleets.[46]

In Chapters Five and Six the link between UK liner organisation and business behaviour within the context of the problems of technological and political changes is considered. Chapter Eleven provides analysis of the link between the changes in the international organisation of liner shipping and the demise of UK liners. Specifically, these Chapters will attempt to extend the analysis of these developments beyond the confines of the market view, in order to reveal the range of factors involved and the resulting impact upon the UK liner sector.

At this stage, it has become apparent that the context of decline in the liner sector derives from a mixture of technological and politically driven pressures. The difficulties facing the owners was further exacerbated as trade switched from the long distant Colony trades to the short-sea European trades, following Britain's entry into the European Community in

1973.[47]

The evidence, however, is not of complete demise. In 1990, UK liner shipping was still very much in evidence on principal European trade to the American Continent, Africa, the Far East, Australia and New Zealand (see: Chapter Five). Figure Ten shows the relative stability of the sectors participation in the UK trades. Diversification into capital intensive container fleets was seen as a way of off-setting the UK's relatively high wage costs via the use of labour saving technology.[48] The success of this strategy is, however, called to question when consideration is given to the fact that container vessel tonnage accounted for 42.1 per cent of the West German fleet and only 14.3 per cent of the UK fleet in 1990.[49] It appears that the performance of UK liner fleet is uneven with some lines withdrawing completely from the market, whilst others have retained a prominent position in premier routes. Explaining this seeming dichotomy will be attempted in Chapters Five and Six, which offer detailed consideration of liner companies and the wide range of factors influencing their business.

The UK Cruise Liner Sector

Although the cruise liner sector declined post 1975, as with the cargo liner sector the pattern is by no means even, with UK lines still enjoying market leadership in certain niche markets. The emergence of international air transport, post 1945, had serious implications for passenger shipping; however, by 1975 the sector was almost completely diversified into cruising.[50] Between 1975 and 1990 the number of British registered passenger liners declined from 25 to 8;[51] and Table Six shows the reduction in tonnage from 518.000 to 237.000 grt.

FIGURE TEN: UK FLAG % SHARE OF UK
LINER TRADES(BY WEIGHT), 1975–90.

TABLE SIX: THE UK CRUISE LINER FLEET, 1975-90(000 GRT).

Figure Eleven compares the sector's statistics against the world passenger fleet, 1975-90. It can be seen how the world's fleet has rapidly grown since 1980. Statistical analysis of this growth reveals the predominance of lower cost flags - Soviet, Greek, FOC - entering into the market; this contrasts with the UK fleet's concentration in the higher value cruise market. The continued world success of the premier cruise ships, *Queen Elizabeth.2* and *Canberra*, amounting to over 50 per cent of the sector's tonnage, is highly pertinent to the analysis as it provides an awareness of the extent of diversification from straight passenger liner services. The market leaders, Cunard and P&O, have been able to market their traditions, to which the British seafaring dimension is seen as integral, particularly in the lucrative US/Caribbean and Japanese tourist markets.[52] By achieving a product differentiation based upon the traditional UK passenger liner expertise, the two market leaders have benefited from the UK fleet's unique traditions. P&O Cruise Line's marketing features the status of the UK flag and expertise;[53] and when Cunard embarked upon a cost saving operation replacing UK national catering ratings with lower wage Third World personnel they faced a consumer resistance. Many of the American passengers expressed a preference for the continuance of the British link. The tradition in the Cunard Line was for regular passenger to build a long standing preference and rapport with British Senior Waiters.[54]

FIGURE ELEVEN: UK & WORLD PASSENGER LINER FLEET(M.GRT), 1975–90.

The performance of this sector is of importance in answering questions over decline and the long term survival of the UK fleet. Cruising is regarded as a growth industry; and the sector can be seen as representing a move towards a more value-added market than traditional merchant shipping. Given the twin tendencies in mature economies towards activities which, firstly, target high added value earnings and, secondly, the development of service sectors, as a replacement for the declining industrial sectors, it becomes apparent that the cruise lines have adroitly taken their opportunities. It is also of interest to note that both market leaders share conglomerate organisational characteristics. Further analysis of the link between the cruise sectors, organisation and business behaviour will be provided in Chapters Five and Six.

The Short Sea Sector

Given the relative decline of deep sea trades, and the shift to European trading, it would be reasonable to assume that the UK shortsea sector would benefit. This is particularly the case given that the competition stems predominantly from European (thus high cost competition), rather than global competition.[55] In order to test this assumption it will be necessary to divide the total sector into subsectors - coastal bulkers, ferries, off shore supply vessels. From the perspective of the market view, UK coastal shipping should prove competitive against European fleets which have similar or higher costs. The trading distance of shortsea bulk vessels is between Scandinavia and North Africa.[56] Principal cargoes are crude/petroleum oil, coal, chemicals, feedstuffs, grain, steel, scrap and timber.[57] Table Seven shows that between 1975 and 1990, the UK coastal fleet declined by 46 per.cent from 754.000 to 407.000grt.

TABLE SEVEN: UK COASTAL FLEET,1975-90(000 GRT)

Despite this decline there have been some optimistic signs, with some firms expanding in highly competitive markets with the state of technical efficiency constantly improving. One unique characteristic of the sector is its partnership with UK shipbuilders. Of particular success has been the low air draught *Hoo Trader* and *Yorkshire Trader* class of river-sea traders which have been able to compete with similar sized German and Benelux vessels in the important Rhine, Seine, Scheldt and Meuse trades.[58] The shortsea tanker sector was able to restrict its decline to just 7 per cent between 1978 and 1983.[59] Figure Twelve illustrates the relative stability(compared to the UK deepsea entrepreneurs) of the UK coastal fleet and the fleet's of its principal competitors. Dominant in the European trades is the German fleet which has historically benefited from a mixture of cabotage,* family ownership and a supportive investment and fiscal regime.[60] Despite the strengths of the German coastal fleet UK owners have been able to achieve similar levels of efficiency. The British Motor Ship Owners' Association has unfavourably compared the support of UK Government

*Cabotage is the practice of reserving a nation's domestic coastal trade for its own flag ships. With the exception of the UK, which has allowed open competition in the post-1945 period, cabotage has traditionally been enacted in European waters. See: M.Davies, Belief in the Sea: State Encouragement of British Merchant Shipping and Shipbuilding(London: LLP, 1992), pp.191-4.

with the economic performance of its members:

> ...research in West Germany has shown that the operating costs of a new UK shortsea vessel are competitive with those of West Germany in all areas under the direct control of the shipowner...These costs amount to about 40 percent of the total costs... The other 60 percent concerns the financing of the vessel and is influenced by the UK Government's fiscal regime. Here we are hopelessly uncompetitive...In other words, British coastal operators have got their proportion of operating costs right, but the Government has got the share of costs under its control badly wrong.[61]

Figure Twelve also reveals the sharp growth in the Danish coastal fleet which accords with the creation of the off-shore Danish International Ship Registry which offers quasi-flag of convenience status.[62] This evidence shows the competitive characteristics of the UK coastal fleet. The market share of the UK fleet in European trades is illustrated in Figure Thirteen. Although the trend in market share is downwards, further analysis of the coastal operators in Chapter Seven(see below: pp.179-184) reveals a vibrant entrepreneurial element in the sector. Explaining the relatively sound performance of the UK coaster fleet calls for some analysis of the organisation and business behaviour of the principal companies. This is to be undertaken in Chapter Seven's consideration of entrepreneurial UK shipping companies. Additionally, a small number of coastal operators have embarked upon Business Expansion Scheme (BES) projects which will also be analysed in Chapter Twelve.

The Ferry Sector.

The ferry sector has been one of the brighter spots of UK fleet activity. Passenger car and roll on roll off (Ro-Ro) freight traffic has been expanding rapidly. The House of Commons Transport Committee reported on an increasing market in the decade up to 1984. Continental traffics increased by 9.percent for passengers and 15.percent per annum for freight during

FIGURE TWELVE: COMPARATIVE EUROPEAN COASTAL FLEETS(000.GRT), 1975–90.

FIGURE THIRTEEN: UK FLAG SHARE OF UK EUROPEAN TRADE
(BY WEIGHT), 1975–90.

this period.[63] In the same period, it was reported that the British registered ferry grt has increased by 35 per cent, from 403,000grt to 547,000 grt.[64] Table Eight shows the growth in the fleet up until the mid-1980's.

TABLE EIGHT: THE UK FERRY FLEET, 1975-90(000 GRT)

Although there is an apparent decrease during the 1980's, it will be important to consider the impact of organisational and business behaviour changes, particularly following the privatisation and restructuring of British Rail's Sealink fleet in the 1980's.[65] Figure Fourteen illustrates the leadership of the UK in European tonnage in this sector. Growth in the French ferry sector can be explained by the development of the state supported Brittany Ferries/Truckline fleet. In addition to the traditional passenger-freight routes dominated by the UK lines, a number of new freight only services have been developed in the post-1975 period; explaining why mostly these opportunities fell to foreign flags requires some analysis of the organisational and business behaviour characteristics of the sector.

The sector has benefited from two demand factors: the increased trend for passenger leisure and the trade growth with Europe for freight traffic. UK ownership is dominated by just two carriers: Sealink-Stena Line and P&O European Ferries The former has its roots in the fleet

FIGURE FOURTEEN: COMPARATIVE EUROPEAN SHORT–SEA
FERRY FLEETS(000,GRT), 1975–90.

owned by British Rail, until privatisation in 1983/4. P&O's expansion has been via the buy out of Townsend-Thoresen Ferries in 1986. An earlier attempt by Townsend-Thoresen to take over Sealink,[66] and joint attempts by P&O and Sealink to form a cartel in opposition to the Channel Tunnel have both been rejected by the Monopolies and Mergers' Commission.[67] Analysis of both companies pricing tariff reveals that a duopolistic situation exists (see below Appendix 2). Throughout the 1980's, early 1990's, both have embarked upon extensive programme for their major routes. This includes investing in new tonnage on the Dover Straits trades in preparation for competition with the Channel Tunnel.[68]

Although the two UK ferry lines are dominant on the premier Dover-Calais/Boulogne, Dover-Zeebrugge routes, it is noticeable that foreign flag cross-trading vessels have featured in new services. Examples include, Kent Line, Dartford-Zeebrugge(FOC), Exxtor Line, Immingham-Rotterdam(FOC), Brittany Ferries, Plymouth-Santander(French flag).[69]

Further analysis of the two UK companies will be made: P&O in Chapter Six, Sealink in Chapter Eight; and, in the light of the *Herald of Free Enterprise*, Zeebrugge disaster, the limits of competitiveness that can be achieved under the UK flag will be considered in Chapters Fourteen and Fifteen.

The Off-Shore Supply Vessel Fleet

The last sector to be considered is that of the offshore supply vessel (OSV) fleet. The exploitation of oil reserves in the North Sea and other international locations provided new opportunities for British registered vessels needed for the supply and safety of the off-shore oil rigs. The development of North Sea oil called for new technologies and skills.[70] The rapid growth of this sector began in the late 1960's. In 1972, at the out-set of the North Sea expansion, the UK fleet consisted of 86 vessels totalling 162,000grt, by 1980 it had grown to 197 vessels, totalling 294,000grt.[71] By 1990 however, decline had occurred, with many of the smaller vessels (120 approximately) leaving the registry, a 27 percent loss of 79.000grt in the decade.[72] Table Nine records the rise and fall of the sector.

TABLE NINE: THE UK OSV FLEET, 1975-90(000 GRT).

Figure Fifteen shows the growth in the sector up until 1980, as well as the steady incursion of the Norwegian OSV fleet into the market. A comparison between the supply and demand of UK and Norwegian flag OSV's is worthwhile here as it reflects the difference in the respective maritime economics policy between the two nations. The Department of Transport's research into the amount of available British and Norwegian registered OSV's between 1980 and 1985 revealed that in all the years sampled, the Norwegian fleet supply was always in excess of demand, averaging a surplus of 47 vessels per year. [73] This surplus has allowed the Norwegian owners to penetrate up to 25 per cent of the UK sector market, whilst at the same time UK penetration of the Norwegian sector has been virtually nil.[74]

FIGURE FIFTEEN: UK & NORWEGIAN OSV FLEETS(000.GRT), 1975–90.

The success of the Norwegian fleet in penetrating the UK sectors has been attributed by both the Transport Committee and the National Union of Seamen as a result of the favourable support provided by the Norwegian Government.[75] The result of this has been acute over-tonnaging. The failure of the market to rectify this problem in the off-shore market has major implications for testing the market view and is considered in Chapter Thirteen's analysis of the over-tonnaging issue. Having discussed the major UK fleet components, it next remains to summarise the evidence and its value towards achieving this aims of this dissertation.

Summary and Conclusion.

This collection of sectoral profiles allows the opportunity to extend the analysis to the organisation and business behaviour elements prevalent in each component of the UK fleet. It has been possible to identify the extraneous factors involved in the decline - the broad range of factors which have affected the fleet. The economic, historic and technological distinctions, pertinent to each sector, have been outlined. The statistical analysis of the decline has revealed not only the decline of the key deepsea sectors, but also their relative decline against the world fleet.

The uneven spread of UK fleet decline can only be explained by analysis of the qualitative factors involved. For example, the continuing selection of UK flag for P&O's container fleet, whilst choosing the Hong Kong flag for its bulk fleet, will be considered in Chapter Six. It is aimed to show that the logic of this selective business behaviour is based on qualitative decisions.

The relative performance of the more stable ferry and offshore sectors questions the ability of the fleet to successfully diversify into new markets. The success of the Norwegian, Danish, Dutch and German fleets, with their costs equal to, or higher than, UK vessels in penetrating these trades, suggests that non-market factors are at work. This raises questions over the appropriateness of the market view and its axiom of increased cost competitiveness.

Additionally, given the emphasis on qualitative factors - standards in industrial relations and maritime safety - shaping the organisational and business behaviour context of UK shipping, it will become evident that there are many qualitative barriers to achieving the cost competitiveness which exist in unregulated shipping markets.

In the following Chapters the evidence and analysis of this sectoral profile will be used as the base for the analysis of organisational change and its impact upon business behaviour. This should then provide for the testing of the hypothesis by building on the qualitative evidence in the following Chapters whilst drawing from the profile of shipping information provided in this Sectoral Profile.

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Chapter Five: Organisational Change in the Traditional Liner Companies.

Introduction and Objective

Building on the previous chapter's sectoral profile, it is next proposed to extend the analysis to the evolving organisational characteristics of the UK fleet and its impact on business behaviour of the most traditional and prestigious component of the fleet. In particular, consideration is made of the changing organisational structures which have, in turn, influenced managerial goals and style, resulting in new business strategies. These changes, it is argued, are central to understanding why decline has occurred in this organisational grouping. Furthermore, it will be contended that this organisational change provides an understanding of the direction of the traditional liner owners in the 1975-90 period.

It is aimed to demonstrate the relationship between changes in shipping organisation, the business behaviour of the companies and the size of the UK fleet. This provides explanation for the increasing moves away from the family traditions of shipowning, towards rationalisation, divestment and diversification.

It is contended here that the organisational perspective deepens the analysis beyond the market view and allows for appreciation of the complex interaction of change at both international and company level and the impact this has had upon the UK liner fleet.

This approach calls for analysis of the factors influencing shipping decision making in the post 1975 period. Understanding the decisions of UK shipowners to invest, rationalise or withdraw completely from the industry can only be achieved if the link between organisational change and business behaviour is made. This raises questions over the limits of the market view, in particular in explaining the correlation between organisational changes and the decline of the fleet.

Although this study is interested in determining the impact of these changes on the business behaviour of the industry post 1975, it is necessary to delve into the formative history of the leading UK lines in order to gain a perspective which helps to increase understanding of this behaviour. In particular,the decisions taken by the owners during the post 1975 period.

The organisational analysis starts with the traditional liner companies which have traditionally formed the mainstay of the British fleet. This Chapter looks generally at the organisation of the liner fleet. Chapter Six considers, specifically, changing organisation in four major liner companies.

From Family Firm to Conglomerate

Chapter Four's profile discussed the historical development of the liner trades from the early colonial stages, it next remains to analyse the changes which have occurred in the business organisation of the liner companies and how this has resulted in change in business behaviour, leading to decline.

It is possible to identify common business traits in the development of the liner companies and in the transition to conglomerates. The historical trends can (at least) be traced back to the early entrepreneurial beginnings of the 18th and 19th centuries, when single ship owning family concerns were set up on limited capital and pioneer technology.[1] The traditional

British liner firms were set up as a result of business enterprise identifying international trading opportunities, yet within the control of family ownership.*

The Family Heritage in Liner Shipping

A characteristic of the liner companies was that of the family heirloom. This is illustrated by the family entrepreneur, Robert Stoker who was the driving force behind the highly successful North Atlantic trading Manchester Liners fleet. Identifying the market opportunities provided by the opening of the Manchester Ship Canal in 1894 and pioneering a family dominance in the Canal's executive up until the late 1970's:

> He was less concerned with the Ship Canal than with a company identified with himself and intended as a source of orders for his shipyard as well as a fief for inheritance for his son.[2]

Such insights are important as they help to provide understanding of the business behaviour of the traditional owners. The family tradition can clearly be identified in the debates of economic historians on the role and behaviour of the British industrial entrepreneur in shaping UK industrial development.[3] Whilst it can be seen that the early entrepreneurial stage featured innovative design and considerable business acumen, later periods were more characterised by the consolidation of market position by mergers.[4] The model of the "plutocrat" business man emerges during this period

*The link between family ownership and business behaviour has been a topic in modern economic history debate. In particular, the demise of entrepreneurship in the UK has been blamed on the prevailing class structure in Britain. See: M.Wiener, English Culture and the Decline of the Industrial Spirit(Cambridge: CUP, 1993).

TABLE TEN: THE TRADITIONAL UK LINER COMPANY FLEETS, 1975-90(No.VESSELS & 000.GRT)

when entrepreneurial drive and vision gave way to prestige and the material and cultural trappings of large scale business.[5]

This perspective points to the transition from the family "Fiefdom" to the modern business corporation.[6] This provides a major influence on decisions leading to decline.In addition to the example provided by the Stoker family tradition in Manchester Liners, the Holt family(Blue Funnel), Ellerman family(Ellerman Line), Weir family(Bank Line) all provide examples of this tendency When the core membership of the UK liner sector in 1975 is analysed, the extent of the evolving organisation becomes evident. Table Ten contrasts the tonnage changes in between 1975 and 1990 for eleven of the top UK liner firms, all of which can be traced to a family ownership heritage. Figure Sixteen illustrates the importance of these main lines to total fleet tonnage in 1975, accounting for almost 20 percent. By 1990, these lines - minus four which had left the market - had intensified their share of the UK fleet. Figure Seventeen shows the leading seven lines now owning over half the UK fleet.

Industrial sociologist, Tony Lane has provided analysis of the particular type of "plutocrat" which existed in UK shipping, combining paternalism with a rigid hierarchical regime both within the company offices and on board the ships.[7] From this it is possible to build up a picture of the family firm and its business behaviour. Under these conditions shipowning became an extension of social status and family prestige. This is not to say that profitability was ignored but is more accurately seen as a adjunct of the life style of shipowning.[8] A former director of P&O captured this ambient dimension aspect in the tasks of ownership in the post 1945 period:

> The whole process of shipowning was a delightful profession. Ships were beautiful artifacts. The chairman's wife could design the curtains for the captain's cabin. Champagne bottles were smashed against the ship's side when she was launched. All in all it was a charming existence and a very comfortable one and there seemed no reason for it to change.[9]

Such evidence points to the "gentlemens' club" style of ownership and management. The UK liner companies enjoyed secure Empire trading routes, there was tacit agreement not to compete between many of the British lines and there was the added protection brought about by membership of the conferences.[10] These were the days before the advent of international competition , the growth of air travel and the technological revolution in unitised freight handling and carriage. The managerial environment was, therefore, characterised by a view of stability and long term market security. Sturmey has documented the investment conservatism of the liner owners[11] and Hope has added that the owners were:

> Slow to employ university graduates, other than members of the families which had established many of the major companies and slow to promote able people to directorship.[12]

The profile of the managerially conservative, complacent, lines operating in secure markets, clearly rules out entrepreneurial definition of the liner owners; and, the low profitability of the companies - in relation to shore based industries[13] - supports the view of the"plutocrat" shipowner.

Towards Conglomerate Organisation

The dichotomous position of the large liner firms intent on protecing their family dynasties did, however, conflict with the moves towards industrial concentration and the ever widening split between capital ownership and professional management, outside of the family sphere. As the liner firms grew and became more dependent upon increased finance raising and improved levels of the type of professional management which was more typical of the shore based organisation.[14] Typifying the transition of the traditional liner organisation is the experience of the Furness Withy Group. In 1975, twenty one vessels were directly owned by the Group. By 1985 the Group had diversified almost completely into bulk and container

FIGURE SIXTEEN: ELEVEN LEADING UK LINER FIRMS AS % OF TOTAL UK FLEET 1975(M.GRT).

FIGURE SEVENTEEN: ELEVEN LEADING UK LINER FIRMS AS % OF TOTAL UK FLEET 1990(M.GRT).

ship management(seven vessels)[15] with actual vessel ownership retained by a mixed portfolio of industrial and financial businesses, shown in Table Eleven.

TABLE ELEVEN: THE FURNESS WITHY MANAGED FLEET & OWNERSHIP 1985.

The movement of Furness Withy away from a traditional shipping owner to the ship managers of vessels demonstrates the organisational changes which occurred in UK shipping in the post 1975 period.

As ship managers for this diverse group of owners, Furness Withy's priorities needed to change, away from those of the longevity of the family business to the profit needs of international business. Under these conditions shipping investments would have to achieve returns which were compatible with non-shipping assets. This points to the link between changes in shipping organisation, business behaviour and decline. If UK flagged shipping could not achieve the required returns under these conditions, it would be faced with divestment. This was the outcome of early diversifications into the tanker markets. Prior to 1975, tanker investments had been viewed favourably by such leading liner companies as P&O, Ocean Transport and Trading, British and Commonwealth, Cunard.

The changes in organisation, therefore, brought about a different managerial approach. In analysing the characteristics of liner shipping management it is felt that recall to the theory of management science will prove useful. Theoretical models of organisational management are used as a basis in explaining the behaviour of organisations; and it is contended here that the changing patterns of liner ownership and management allow for the application of two central models of organisational culture:

(1) The Role Culture Model;

(2) The Task Culture Model.[16]

The former allows for the analysis of the particular managerial characteristics of the traditional, family oriented, liner company such as Furness Withy, pre 1975. Role culture provides an explanation for the inherently conservatism of organisations where the stability of markets and technology has bred a degree of complacency in management outlook. This results in a conservative approach towards business behaviour with the stability and longevity of family control attaining a paramount position in decision making.[17]

The task culture model points to a style of management which ignores the tradition and paternal ethos of family oriented management. As the traditional liner owners increasingly made the transition towards business conglomerates, with a deepening of their capital bases by investment diversification, their managers were required to take strategic decisions which were compatible with the overall corporate objectives. At times this would necessitate decisions which forced shipping assets into a secondary role, with more profitable investments taking a preference. The run down of P&O's cargo liner fleet at a time when conglomerate diversification into property development was pursued, typifies this movement.[18]

During the 1975-90 period it is evident that the traditional liner companies were in the process of organisational change which was to lead away from the role culture style of management towards the task culture style. In order to relate this context to the decline issue, it is proposed to analyse the changing organisational structure and business behaviour of selected major components of the UK liner sector. In the following Chapter, four mini case studies on leading liner companies are offered-P&O, Ocean Transport and Trading, Cunard Line, Manchester Liners. These have been selected, with the intention of providing some analysis of the organisational changes and how they have affected business behaviour during the post 1975 period. In 1975, these four firms owned 4.6m grt, accounting for 14 percent of the total UK fleet.[19] By 1990 only P&O and Cunard Line remained in shipping; the other two lines had completely withdrawn from the industry. Total tonnage between the two lines stood just under 2.5m.grt, but accounting for 37 percent of the total UK fleet.[20]

Summary and Conclusions

This Chapter has considered the historical structure of UK liner shipping and how it led to particular organisational characteristics and business behaviour. The changes occurring within the liner companies was to necessitate a shift in managerial priorities with profit margins becoming paramount, very much at the expense of the traditional lineage needs of the family firm. Management theory has proved useful here in identifying the transition between the role culture of the traditional family firm to the task culture of the conglomerate.

By 1975 it was apparent that the traditional family firms in the liner sector were well into the transition stage towards conglomerate organisation; and it was this organisational shift which signalled a new approach to the business of operating ships. This provides explanation for the 3m.grt decline(1975-90) in the leading liner companies; as the traditional liner owners increasingly diversified their capital - accompanied by a more profit oriented approach to the management of assets - the historical link with shipping became diluted, even severed!

It is next proposed to demonstrate this link between organisational change, business behaviour change and decline, drawing from the evidence of the four selected major liner companies.

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Chapter Six: Organisational & Business Behaviour Change in Four Major Liner Companies

Introduction and Objective

The evidence drawn from the experience of the four selected companies is now analysed within the context of organisational change and its impact on business behaviour. The aim is to demonstrate show how the evolving organisational structure has become a major causal factor in the process of decline.

P&O have been selected as a traditional liner company which has been successful in making the transition into a modern international business conglomerate without losing its massive predominance in the UK fleet. By way of contrast, Ocean Transport and Trading provides evidence of a traditional firm which has made a complete diversification away from shipping, its fleet dwindling away completely in the 1975-90 period. Cunard Line's diversification illustrates the performance of a shipping line which itself becomes taken over, becoming just one segment in the investment portfolio of a major business conglomerate. Finally, Manchester Liner's experience is that of a traditional family oriented firm which became incorporated into the global network of Far Eastern shipping enterprise.

P&O: From Shipping to Multinational Conglomerate

As the largest surviving UK shipowner, P&O are an obvious candidate for any study of UK shipping, particularly as the company has been able to manage diversification whilst maintaining a large fleet comprised of cruise liners, bulk carriers, container ships and ferries. In this context, P&O is one of the success stories of UK shipping. Figure Eighteen demonstrates the relative stability of P&O between 1975 and 1990. Figures Nineteen and Twenty endorse the increased importance of P&O to the composition of total UK fleet tonnage. These show that P&O owned 8.1 percent of the UK fleet in 1975 rising to 30.1 percent in 1990.

A brief history of the firm extends to the Royal Charter* granted to P&O in the 1840's.[1] Building up its strengths in the Far Eastern trades, P&O were able to consolidate their position via the takeover of numerous shipping lines which although fully owned by the parent company were allowed considerable autonomy in the operation and management of their fleets. It was not until the 1970's that the parent company began to take a more centralised, corporate role, resulting in considerable rationalisation. Appendix Three contains a "family tree" of the P&O, showing clearly the consistent trend of capital concentration throughout the Twentieth Century. P&O's management culture had traditionally been pre-occupied with the image and prestige of its large passenger liner fleet, preferring to distance itself from the more profitable, but less prestigious, cargo ships.[2] It was not until the mid 1970's that the numerous cargo fleets were rationalised into P&O Dry Cargo Division. Before such changes could occur it was necessary for the management culture to change. The company had traditionally been operated on lines very much resembling the role culture model identified above. Sir William Currie, company chairman between 1938 and 1960, typified the business conservatism associated with this role, proving reluctant to make the changes that many of the the company's younger executives thought necessary.

*The Royal Charter status provided the Line with lucrative mail and military cargoes; and it was upon this early support that it was able to successfully build a foothold in the Middle/Far East trades. See: D&S.Howarth, The Story of P&O: The Peninsular and Oriental Steam Navigation Company(London: Weidenfield & Nicholson, 1986), pp.23-36.

FIGURE EIGHTEEN: P&O FLEET, 1975 & 1990.

FIGURE NINETEEN: P&O AS % UK FLEET 1975(M.GRT).

FIGURE TWENTY: P&O FLEET AS A % UK FLEET 1990(M.GRT).

the company's younger executives felt necessary. Sir William hung on to power in the face of increasing opposition from the younger executives. P&O biographer, Howarth, explained this as,

> ...It was simply that shipping and particularly P&O was his life. Several previous Chairmen had gone on longer than he...remaining until the dropped dead in office.[3]

From this period onwards, it was possible to observe the moves towards conglomerate structure; in 1971, consultants were called into review the management structure leading to a castigation of the attitudes found in key personnel, with various uncomplimentary terms - feudal, Victorian, autocratic - being banded.[4]

Although the traditional image of P&O is rooted in luxury passenger ships, diversification into, tankers, bulkers, dry cargo and ferry sectors has been a noticeable feature of the group's strategy. Equally noticeable, during the post 1970's period has been the transition towards a widespread investment portfolio, ranging from shopping centres to catering subsidiaries What can be observed in the group's recent history has been the inverse relationship between fleet decline and the growth of the conglomerate portfolio.

Sectors rationalised include the Dry Cargo Division, tankers and bulkers; and it can be appreciated that these are the lower value added sectors operating in erratic markets. Outlining the need for a stringent review of the economic performance within the group, Director, Mr. Alec Black, has charged:

> In P&O because we have so many areas of investment opportunity, clearly capital is competing between those various opportunities within the group. I think that shipping has to be looked at in that way; it is not something we just do because of our historical association with shipping.[5]

This helps to explain the 1990 structure of the P&O fleet with its strengths in deepsea container shipping, shortsea ferries and passenger cruising and fixed contract bulk shipping. The withdrawal from the risk laden tanker and general cargo markets demonstrates the changes in business strategy within the conglomerate, with the investment emphasis being placed upon the traditional strengths of P&O. In all four areas, of P&O's post 1975 investment strategy, the conglomerate was able to benefit from its traditional image and expertise; and moreover these trades place a premium upon such quality factors as, professionalism,speed, reliability, customer service - rather than price.[6] If economic logic is applied to this it is possible to identify the more secure, stable, sectors of shipping have been targeted. In particular sectors in which the economic penalties of UK ownership and registration are less critical; the more risk prone sectors - conventional dry cargo, tanker and short term charter bulk shipping have been rationalised. P&O's core deep sea container routes - Middle East, Far East, Australia/New Zealand - are all premium deep-sea trades. For example, the express Europe-Far East service involved a "Trio Group" conference relationship in the 1975-90 period between the UK lines, P&O/OCL* and Ben Line, the German, Hapag Lloyd Line, and the Japanese, NYK and the Mitsui-OSK Lines. The mid 1980's Trio itinerary is illustrated in Figure Twenty A. The emphasis in this arrangement was very much upon service quality factors.[7] Despite the cost penalties of high quality, nationally registered, tonnage and high wage national employment of crews, these lines maintained their market supremacy on one of the world's premier liner routes, with P&O making a major contribution.[8]

In P&O's other areas of major involvement - ferries, cruise ships and fixed contract bulk shipping - it can be seen that the extent of competition is limited. In many of the

FIGURE TWENTY A: TRIO LINES EXPRESS JAPAN SERVICE, MID 1980'S

UK-Continent and UK-Irish trades* an duopolistic situation existed between P&O European Ferries and Sealink, once the former had taken over the intensive Dover Straits operations of Townsend Thoresen in 1987.[9] In the cruise trades P&O shares the European market with Cunard Line; and in the bulk trades, P&O vessels are fixed to long term contracts of affreightment, which once agreed upon guarantees earnings over periods in excess of fifteen years. In addition, the bulk fleet is registered under the UK dependency flag, Hong Kong, which confers tax benefits and is more conducive to the employment of low wage developing nation crews.

The evidence of P&O's development points to the transition from the traditional liner operator to the modern business conglomerate which is able to mobilise its considerable maritime heritage, as well as its conglomerate strength, towards growth opportunities in shipping. Having achieved the position from where P&O can concentrate on its strengths, it became inevitable that the company would seek to divest itself from the less stable, risk prone shipping sectors - general cargo, short term bulk charters. Thus it can be seen that the moves towards conglomerate organisation was accompanied by a shift in business behaviour, with the task culture approach to management coming to the forefront.

As the company evolved away from purely shipowning, as management moved from its traditional role culture to the task culture demanded by a large international conglomerate,

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*On the premier ferry routes, Dover Straits - Dover-Calais/Boulogne - English Channel - Newhaven-Dieppe, Portsmouth-Le.Havre, Ulster Seaways - Stranraer/Cairnryan-Larne - P&O and Sealink have experienced a duopoly market. See: MMC, Cross-Channel Car Ferries: A Report on the Existence, or Possible Existence, of a Monopoly Situation in Relation to the Supply in the UK of Cross-Channel Car Ferry Services and on a Proposal to Enter into Agreements for a Joint or Coordinated Supply of Such Services(London: HMSO, 1989).

the emphasis on shipping sectors meeting group targets were to become more pronounced. The new direction was very much in evidence in Sir Jeffrey Sterling's inaugural speech in taking over from Lord Inchcape at P&O:

> I intend to decentralise the business of P&O...we therefore want entrepreneurial managers who run their businesses on the basis of profit and cash flow criteria agreed with the centre.[10]

The shipping performance of P&O in the 1975-90 period does raise questions over the market view's diagnosis for the revival of the UK fleet: to intensify competitiveness. The evidence from P&O suggests that where the conglomerate has been able to target its managerial energies on success is in deepening capital concentration in higher value added sectors and rationalisation of its low added value sectors. The dominance of P&O in UK container shipping can be explained its major role in the Overseas Containers Line(OCL) consortium with the British and Commonwealth Group, Furness Withy, Shaw Savill & Albion Line and the Ocean Transport and Trading Group. The steady strengthening of P&O within the OCL consortium points to the business policy of concentration. In the short sea ferry sector, P&O's growth has been via the takeover of the Townsend Thoresen Line. In the cruise liner sector, P&O have been able to develop the lines tradition and prestige as well as the buy out of the Italian cruise line, Sitmar. P&O's bulk fleet features the use of large bulk vessels under long term contracts of affreightment.

The evidence of P&O's development does point to the transition from the traditional liner operator to the modern business conglomerate which is able to gear its heritage as well as its conglomerate financial strength towards stable shipping markets. Having achieved this position, it became inevitable that the company would seek to divest itself from the less stable, risk prone shipping sectors - general cargo, short term bulk charters. Thus it can be seen that the moves towards conglomerate structure were accompanied by a shift in business behaviour, with the task culture approach supplanting the role culture of traditional shipowning.

From the evidence of P&O's selected shipping investment programme in the 1975-90 period it is apparent that such options were exclusive to other UK lines. In the deep sea container trades P&O's expansion has been at the expense of the other UK lines in the OCL consortium. By taking a stake in Ocean Transport and Trading in 1985,[11] P&O were able to embark upon a process of market concentration in the container liner sector which culminated in the takeover of the UK's leader box operator, the Overseas Container Line(OCL).[12] The takeover was to confirm the conglomerate's leadership in UK liner shipping. The Sunday Times went so far as to state that, "If Britain has any serious future in shipping it now lies with P&O."[13]

During a period of rationalisation brought about by the technical advances in fully cellular container ships and the rise of developing nation liner fleets on principal liner routes(see below: Chapter 11) there was very little market opportunity for other UK lines to continue their operations. In the cruise line market, the inroads of low cost Greek and Soviet tonnage[14] meant that only the top end of the market was available for UK lines. Hence, P&O was able to exploit its prestigious image whilst at the same time the financial strength of the conglomerate provided investment funds for new cruise liners. Again - with the exception of the Cunard Line - few UK lines were in a position to develop in the cruise sector following the collapse of passenger shipping, post 1965 caused by the growth of jet airliners.*

P&O's expansion in the short sea ferry sector can also be seen as exclusive to the conglomerate with opportunities limited to key routes: Dover Straits, English Channel, North Sea, Irish Sea. Given the tendency towards concentration in the passenger and freight ferry sector it would prove difficult for other UK lines to enter into the growing ferry markets post 1975. In the dry bulk sector it was the combination of P&O's financial strength and the willingness of a select group of shippers to charter tonnage over long term periods. This led to a large modern bulk fleet which by 1990, contained seventeen vessels, totalling 2.5m,dwt(including seven vessels close to completion).[15] This provides a mean average of 147,000dwt. The smallest vessel in the group was 109.488dwt. With 88 percent of the its bulkers built in or after 1985,[16] P&O could claim to have a large modern and efficient fleet. This contrasts to other UK bulk firms which lacked the investment potential for big ship fleet development. In Chapter Seven the financial problems facing the typical UK bulk ship owner, post 1975 was considered(see above: pp.171-7). This suggests that only a conglomerate grouping of P&O's dimensions could have embarked upon such an expansion. Between 1975-90, total P&O fleet declined by 600,000 grt. This provided a 1990 total of 2.03m.grt. If flagged out tonnage in the bulk and cruise sectors is subtracted, a UK flag P&O fleet of just under 1.0m.grt is estimated. From this it can be seen how organisational change, and its resultant influence on business behaviour, has provided a major explanation for 1.6m.grt reduction in the UK flagged fleet.

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*The "Rochdale Report" had by 1970 clearly identified the inverse relationship between the growth of long distance jet air travel and demand for UK passenger-cruise tonnage; and moreover diversification into cruising was recommended as a suitable alternative for the UK passenger lines. See: HM, Committee of Inquiry into Shipping Report, Command 4337(London: HMSO, 1970), pp.87-96.

Providing a contrast to P&O, the experience of the Ocean Transport and Trading group is next considered as an example of a traditional liner group which has diversified completely away from shipping.

Ocean Transport and Trading Group: From Market Leader to Market Exit

The Ocean group was formed from just two shipping components, Elder Dempster Line and the Blue Funnel Line. Both built up sizeable monopoly imperial trades to West Africa and the Far East, respectively. In 1975 they formed the third largest cargo fleet under the UK flag with a total tonnage of 571,336 grt.[17] The business history of Elder Dempsters features development from a,

> ...relatively small firm of shipping agents...under the entrepreneurial control of Alfred Jones to a mighty monopoly that controlled not only the shipping of West Africa, but many aspects of its trade and economy as well.[18]

Whilst the scale of Elder Dempster's West African operations necessitated a transition from the entrepreneurial stage to a more concentrated organisation, the role culture model of management was to persist. The major inter-war collapse of the Royal Mail group - of which Elder Dempster were a major component - brought about an increased managerial and financial interdependence with the Blue Funnel Line.[19] The Holt family had remained at the head of the Blue Funnel Line from 1865 up until 1965. Control of the company was vested in a small number of family relations[20] when the merger with Elder Dempsters was completed, necessitating the setting up of the public limited company, Ocean Transport and Trading in 1970.[21] The ending of the Holt family dynasty can be seen as coinciding with an era of change and uncertainty. By the 1970's the markets of both lines were under threat: Elder Dempsters were beginning to feel the impact of the demands of the West African nations to participate in their own trades. Ghana set up its Black Star Line in 1957 and in 1959, the Nigerian National Line was created with the help of Elder Dempster's thirty three per cent share ownership.[22] For the Blue Funnel Line the advance push for containerisation on the Far East routes was a major challenge to the resources of the line. The controversial *Priam* Blue Funnel ships were commissioned on the verge of the 1960'S container revolution. The vessels were to have a dual cargo role combining (limited) container capacity with conventional stowage. As such the *Priams* were costly and labour intensive.[23] This was met with a revival of Sturmey's earlier charge of investment conservatism(see above: pp.45-7) by persisting with traditionally based cargo liner designs and ignoring the incipient container revolution. Official Blue Funnel biographer, Falkus, noted the impact of containerisation which,

> ...edged Blue Funnel ships from their established routes. Inexorably, the conventional Blue Funnel fleet was reduced.[24]

The group's response to these twin pressures can be categorised into the following areas: withdrawal from the West African routes and Far East cargo liner operations - as West African national lines and the Chinese national line, COSCO, became increasingly active - and the formation of a joint consortium with P&O, British and Commonwealth, and Furness Withy in the Overseas Container Line(OCL), which concentrated on the Far Eastern and Australia/New Zealand services, and lastly, but most significantly, diversification into non-shipping investments.[25] In 1969, there was an attempt to break into the promising product tanker market with the setting up of the joint venture with P&O, the Pan Ocean group.[26] Although the initiative was short-lived as a shipowning project, the storage and distribution elements of the products trade survived and formed a key component of Ocean's diversification strategy. This complemented Ocean's main thrust in diversification from shipping towards a range of distribution, freight, environmental and marine services.[27]

It was to be the comparison of group sectors financial performance within the diversified structure that began to militate against corporate commitment to shipping. By 1980, the problems of the group's shipping activities were to manifest, paling in contrast with its diversified activities:

> For the third half year in succession, results have been unsatisfactory, particularly in the group's liner trades. UK land-based activities progressing well, but impact of oil price increases on levels of world trade will add further to liner trade problems.[28]

In 1988 the group announced investment with a sum total of £50m in its various sectors to the exclusion of its shipping assets, whilst simultaneously warning that shipping's returns were not "acceptable".[29] The group had already sold off its share in OCL to P&O for £92m in 1986 and in 1989 the remnants of Elder Dempster were sold to the French Delmas-Vieljeux Line.[30] The last of the Blue Funnel lineage, Barber Blue Sea, were ships sold to "Scandinavian Buyers".[31] Summing up the extent of the transition into conglomerate activity, the Group's sale of the Barber Blue Sea ships was justified by the task oriented management in that,

> ...the sale had yielded funds for investment in the Groups's new growth activities and that the move had been well received in the City.[32]

The opportunity costs of shipping when directly compared to more profitable investments in the Ocean portfolio can be seen as providing the rationale for the group's business behaviour in disinvestment from shipping. This process needs to be seen within the context of the move towards the profit objectives of the modern public limited corporation's task oriented business behaviour. As the shifts in shipping technology, coupled with the emergence of national shipping, rationalisation and diversification became the logical response from the newly incumbent task oriented management. The net result of evolving organisation was the loss of 571,366 grt(see above: Table 10) to the UK registry and the disappearance of two of the oldest, most prestigious, components of the liner sector. It next remains to consider an even more famous liner company, Cunard Line.

Cunard Line: Expansion in the Face of Decline.

The modern history of the Cunard Line bears witness to the economic pressures placed upon the traditional liner owners. The company were able to build up their North Atlantic operations on the strength of government mail contracts; and had remained secure in its belief that there would always be a place on the North Atlantic for such an important carrier. Cunard's tradition in passenger services to the USA and Canada, was certain to feel the adverse impact of the revolution in post 1945 air travel. With its prestigious history rooted in such famous ships as the *Queen Mary, Queen Elizabeth* and the *Queen Elizabeth* 2, the tradition of excellence in the company was seen as the key to economic survival. As a consequence, management clung to the view that the Cunard tradition would off-set the difficulties of the changing market place.[33] The purchase of Eagle Airlines typifies the prevailing attitude: it was felt that Cunard's unrivalled passenger experience would be transferable to air transport.[34] Increasingly, however, it became apparent that the tradition of excellence in running passenger ships could not ameliorate the intensifying financial crisis during the 1960's.[35] In 1966, losses amounted to £14m. The impending financial disaster was prevented by the line's takeover by the large conglomerate, Trafalgar House who paid £27m for the company in 1971.[36] Although Trafalgar House have been able to successfully market the Cunard tradition, particularly in the buoyant cruise market, rationalisations have occurred in the dry cargo and tanker fleets. It is apparent that the financial criterion within such a "blue chip" conglomerate as Trafalgar House would rule out the lower value added tanker and dry sector investment. In Cunard's evidence to the House of Commons Transport Committee, the economic pressures of a UK flag/crew products tanker, inevitably leading to disinvestment.[37] Where non-passenger ship investment has remained is in the container sector in the form of the Cunard-Ellerman partnership, plus the consortia shareholdings that Cunard possesses in the Atlantic Container Line(ACL) and the Associated Container Transport line (ACT).[38] The result of Cunard's selective investment and take-over srategy has been a growth in total fleet tonnage. This is illustrated in Figure Twenty One.

The transition of Cunard from a traditionally managed, prestigious, passenger carrier, to a profitable component of the Trafalgar House empire, illustrates the corporate forces at work in British shipping. The emphasis on all conglomerate units within Trafalgar House achieving corporate goals was demonstrated by chairman, Sir Nigel Broakes in 1989:

> ...We spun Fleet Holdings off eight years ago and, earlier this year we spun off Hardy Oil & Gas. We would unbundle anything that doesn't fit. What is important is that companies become involved in business for proper commercial reasons, not for self-aggrandisement.[39]

This approach has led to emphasis on the value added investment sectors, whilst divestment has occurred in the lower value added sectors, such as bulk and tankship ownership. These were divested as part of "unbundling" process, outlined by Sir.Nigel. This again points to the very selective approach to shipping by the modern, diversified, UK owner. This

FIGURE TWENTY ONE: CUNARD FLEET, 1975–90.

approximates to the changes in business behaviour which have accompanied organisational change. The dismissal of the 600 UK national catering staff from the Queen Elizabeth 2 in 1986, to be replaced by an international mixture of lower paid concessionaire crew, points to a more stringent approach by management towards costs.[40]

As with the evidence from the analysis of P&O, it is evident that the changing organisational structure of the Cunard Line has allowed the company to continue to build on its international reputation in the cruise liner trades whilst adjusting its economic objectives in order to eradicate low profit activities.

The takeover of the Ellerman Line and its fully cellular fleet typifies the business behaviour of the conglomerate. The takeover provided for the attainment of three strategic goals:

(1) capital deepening by increasing the technology base of its fleet with modern tonnage;

(2) rationalisation of lines on major liner routes - N.Europe-Middle East, N.Europe-Australia;

(3) enhanced participation in new Cunard trades - N.Europe-Far East, N.Europe-S.Africa.[41]

Whilst this takeover obviously suited the business strategy of the conglomerate and contributed to a net increase of 51,000.grt in the Cunard Fleet, the demise of the Ellerman fleet brought about a loss of 188,000.grt(see above: Table 10). Although the net impact on the UK fleet is a reduction of 137,000.grt, it can also be seen that the organisational changes at Cunard have facilitated consolidation in the high value liner sector, thus enhancing the technological profile of the fleet.

In the evolutionary process which has brought the move away from family ownership and led towards diversification, both Cunard and P&O can be seen as conglomerates which have simultaneously caused a net decline in the UK fleet tonnage and a positive contribution to its capital base. Business behaviour has led to capital concentration in the high value sectors. This process inevitably resulted in rationalisations and net decline within the aggregate UK fleet. Conversely, the conglomerates led the UK fleet's advance in selected growth areas. By way of contrast, the final company to be analysed in this Chapter, Manchester Liners, features the fate of a (once) market leader which lacked the financial support inherent in conglomerate organisation.

Manchester Liners: From North Atlantic Leader to Corporate Absorbtion.

The inclusion of the Manchester Liners case study allows for analysis of the business behaviour of one of the lesser known(in comparison with the high profile P&O and Cunard Lines) liner companies, historically operating under the umbrella organisation of the Furness Withy group and eventually submitting to the financial power of the Hong Kong shipping entrepreneur, C.Y. Tung.

What makes Manchester Liners so pertinent to this research is its considerable business achievements as a medium sized, family dynasty, traditional liner company, with historic linkages in the Manchester industrial region.[42]The historical development of the line follows the pattern of the evolving family enterprise, very much under the control of the family "dynasty"(see above: pp.131-3). The line was to become a market leader with its regular services to the Great Lakes and US and Canadian East Coast ports and providing the first fully cellular container ships on the prime North Atlantic routes.[43] By the late 1960's the company had twenty vessels on the route.[44] The increased size of second generation cellular vessels did prove something of a dilemma, as the size restrictions of the Manchester Ship Canal prevented any vessel above 500 TEU from transiting the waterway; the company's response, however was to extend operations to additional ports which could accommodate the larger second generation 1000 TEU vessels. It was in the investment of this new, larger tonnage, that the ingenuity of the firm's strategy was revealed.

The international shipping building community were quick to explore the market potential of containerisation. Overseas yards targeted Manchester Liners as a source for lucrative new orders.[45] The offers of easy credit had the effect of spurring Parliament into action in order to offer some form of protection for the British shipyards. The company were able to benefit from the Shipbuilding Assistance Act which provided subsidisation for the building of four new fully cellular vessel s plus an accompanying set of 10,000 containers at a total cost of £16m.[46] All new orders made in British Yards attracted a 20 per cent subsidy and this was increased to 25 per cent in 1967.[47] For the second generation vessel investments, the peculiarities of the UK tax regime were identified as an investment incentive. This involved Manchester Liners partnering, indirectly, the large multinational industrialists, Pilkington Brothers. The investment problem facing Manchester Liners was that of increased capital costs: in 1968, the 527 TEU vessels cost £3.1m, by 1975 a 936 TEU vessel was priced at £12.5m.[48] The arrangement with the Pilkington group ensured access to the necessary capital funds; whilst mutual interest was secured by the ability of the industrial group to benefit from the tax breaks which the association with Manchester Liners provided.

The link up illustrates just how much cognisance Manchester Liners had taken of modern business networks which involved a complex interlocking organisation with Pilkington subsidaries(see Appendix 4). Although the association was eventually ruled out by the House of Lords,[49] the attempt does illustrate the extent of the firms eagerness to survive in the economically critical 1970's. An attempt was made by the Cast Line group to buy out Manchester Liners in 1974/5, this was challenged by the company and ruled out by the Monopolies and Mergers Commission, which found that the takeover would operate against the public interest.[50] The MMC were to commend the company on its efficiency in providing regular and direct services from Manchester.[51] Within five years of the MMC's defence the company was taken over as part of the C.Y. Tung buy out of Manchester Liners majority shareholder, Furness Withy.[52]

The evidence of Manchester Liner's rise and decline highlights the plight of the traditional, medium size, UK liner company. Having successfully entered into the technology race to containerisation and made the transition to larger, more cost effective vessels, Manchester Liners could be heralded as a competitive success. The rejection of the investment link up with Pilkington Brothers by the House of Lords serves to illustrate the financial problems faced by the company; in a market increasingly dominated by consortium and conglomerate shipping the high capital costs of integrated container networks proved prohibitive. The financial problems of the line were exacerbated by the introduction of non-conference competition onto the prime North Atlantic routes(see below: pp.258-62). The company became vulnerable when the C.Y. Tung group became the majority shareholder. lacking the family commitment which was part of the Manchester Liners tradition, the Hong Kong based company were quick to rationalise, leading to the virtual disappearance of the company from the shipping industry.

What the experience of Manchester Liners shows is the problems facing a medium sized line at a time of fast moving technological and intensified global competition. Up until the early 1970' it appeared that Manchester Liners had successfully combined organisational evolution as a family and regionally oriented firm with technological transition into containerisation. The attempted partnership with the multinational, Pilkington, demonstrates, the willingness of the line to examine the opportunities provided by modern business networks. In short, Manchester Liners can be seen as an innovative, dynamic, shipping company. Explaining why this did not secure enduring success in the market-place, why Manchester Liners are no more, resulting in a post 1975, 133,750.grt reduction in the UK registry[53] has required analysis that extends beyond the market view.

The twin pressures of rising capital costs and increased global competition, including that from state/corporate supported fleets, and lacking the financial power of the conglomerate owners, the line became a victim of its own trading success in that it was taken over as part of a route rationalisation process by Tung's Overseas Orient Line(OOCL). It can, therefore, be seen it is the affect of organisational change and its impact on business behaviour that holds the key to understanding the disappearance of Manchester Liners from the UK registry. The nature of business behaviour in this context points not only to the globalisation of shipping capital but also the extent of the difficulties facing the small/medium size UK owners.

Summary and Conclusion

This study of four traditional liner shipping companies does illustrate the evolution from the family dynasty organisation with its paternalistic commitment to ships and their crews, towards a much more mercenary profit maximisation approach. Both P&O's and Cunard's rationalisation of dry cargo and tanker fleets can be seen as a result of partial diversification away from shipping towards conglomerate activities. The changes in management outlook involved in this organisational change process can be seen to have engendered a transition towards profit maximisation, with the traditional role cuture style of management continuity swept away by the more dynamic goal oriented task culture. Similar forces can be seen to be at work within the organisational core of the Ocean group and Manchester Liners, with profitability becoming paramount, leading to diversification into more profitable activities(Ocean group) and capital concentration and rationalisation(Manchester Liners). The common factor affecting these four liner firms, making them representative of the majority of liner firms during the 1975-90 period, is the simultaneous impact of organisational change, technological shifts and market changes.

The move from a role culture approach to a more task oriented management can be seen as the catalyst for a change in business behaviour and as such can be seen as a major cause of decline. Historically, the traditional liner companies had developed as "fiefdoms," with family pride and longevity been maintained even as they made the transition towards public companies. The changes in organisation occurring post 1975 led to the lines placing more emphasis upon economic performance with the inevitable rationalisation of low profit assets, thus leading to large scale decline of tonnage.

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Chapter Seven: The Entrepreneurial Shipping Companies

Introduction and Objective

In contrast to the traditional liner company, many of the smaller lines in the dry bulk and tanker sector remained as identifiable entrepreneurial shipping businesses up until 1975. In Chapter Four, the regionally based, family controlled, trampship owners were outlined in the bulk sector. The twin impact of organisational and business behaviour change on this entrepreneurial component of the UK fleet is now considered.

The aim is to provide analysis of the following, distinct categories of shipping enterprise: the independent bulkship and tanker owners. This requires making the distinction between deepsea and coastal operators, and UK and the overseas owners which had taken advantage of the UK tax regime. In addition, institutional enterprise in the form of banks and insurance houses utilising shipping for fiscal purposes. Also, analysis will be made of the organisation and business behaviour of the new wave of shipping investors who took advantage of the business opportunities provided by the Conservative Government engendered enterprise economy of the 1980's, in the form of the Business Enterprise Scheme (BES).

The Tramp-Shipping Tradition

Although it can be seen that there is considerable variety in these selected categories of ownership, they do share the characteristic of the entrepreneurial firm, stemming primarily from the historic tradition of highly competitive tramp-shipping. Many of the leading UK tramp-ship lines had survived in the post-1945 period in the face of intense FOC, Greek and Norwegian competition.[1] Chapter Four's profile of the bulk sector outlined the entrepreneurial characteristics of firms which have identified market opportunities, have demonstrated competitive capabilities, and have featured management styles more akin to the profit maximising task culture style of management. As such, these entrepreneurial lines are placed closer to the market view's perception of competitive shipping. The analysis provided here, however, will seek to show that a complex of organisational and business behaviour factors have interacted; and how this has led to decline in UK shipping enterprise. Whilst the question of competitiveness is of critical importance to survival in the bulk and independent tanker sectors, it is necessary to consider the organisational and business behaviour factors which determine market success or failure. Table Twelve contrasts the bulker and tanker fleets of the leading shipping enterprises, 1975 and 1990. Within the pattern of decline occurring in eight of the ten leading UK entrepreneurial fleets lies the organisational and business behaviour shifts identified in the hypothesis stated in this work. The entrepreneurial leader in tonnage terms, Denholm Ship Management, was already well advanced in diversification by 1975. Having scaled down their directly owned fleet, Denholms were leaders in the moves towards ship-management and the use of flags of convenience. The trend was to spread to the remaining UK entrepreneurial companies. By 1990, only the London Overseas Freighter/Tanker Line remained as UK flagged direct owners. In order to understand the sector's demise it is necessary to analyse changing organisational structures which were to impact on business behaviour. The trampship and independent tanker sectors can be seen in sharp contrast to liner sector in the extent of competition faced, the volatility of freight markets and enduring problem of overtonnaging.

The economics of overseas firms and financial institutions investing in UK flag tonnage adds a further organisational dimension within the entrepreneurial context.

TABLE TWELVE: LEADING UK DEEP-SEA ENTREPRENEURIAL FLEETS, 1975-90(000.GRT).

The importance of these leading entrepreneurial lines to the UK fleet's total tonnage is illustrated in Figures Twenty Two/Three. It can be seen that the leading entrepreneurs owned 13.3 percent of the UK fleet total in 1975, rising to 14.9 percent in 1990. Testament to the organisational and business behaviour changes at work is the switch to FOC's in this period: in 1975 an estimated 80 percent of tonnage owned by the leading entrepreneurs flew the UK

AS % OF TOTAL UK FLEET 1975(M.GRT).

FIGURE TWENTY THREE: TEN LEADING UK ENTREPRENEURS AS % OF TOTAL UK FLEET 1990(M.GRT).

flag, by 1990 this was around 8.4 percent.[2] This requires some consideration given to the organisational and business behaviour factors. In Chapter Four, the characteristics of the bulk sector were outlined, it next remains to consider their changing organisational structures and the impact of this on business behaviour. The business histories of many of the leading tramp ship operators parallel the liner companies in the adherence to the family oriented organisation. Differences are apparent, however, in the task centred approach towards owning and managing ships, with less emphasis placed upon the prestigious factors and more attention given to economic survival in the market-place; and whereas the liner companies possessed impressive head office accommodation in the City of London or on the Liverpool waterfront, the trampship families were much more regionally oriented located in the industrial ports - Cardiff, Bristol, Glasgow, Newcastle, Hartlepool. The extent of the regional ties that these companies had was exampled by the cautious approach of the Hartlepool trampship owners, Ropners, in relocating in London. The move was seen by the family as the most important in its whole history, heralding a new direction of business behaviour as the company made the transition towards conglomerate status.[3] For the majority of the entrepreneurial UK owners such a move was not feasible given the mixture of family and regional tradition, and, more importantly, the limited financial resources which would have made relocation/diversification prohibitive.

Analysis of the BMCF's study of the decline of the traditional bulker owners reveals a common pattern of regional ownership and inability to diversify away from bulk shipping ownership.[4] Traditional owners such as the Newcastle based Stag Line, the Cardiff based Reardon Smith Line and Glasgow's bulker consortium, Scottish Ship Management, all shared the characteristics of the family firm, devoted almost exclusively to owning and operating bulk vessels. These companies also shared the fate of total demise, with a loss of 42 bulk vessels to the UK flag between 1975 and 1990.[5] The demise of the Glasgow bulk fleet of Lyle Shipping provides a clear example of the difficulties facing owners attempting to survive in the bulk sector. As late as 1981, Lyle Shipping were heralded by the Lloyd's Shipping Economist as one of the few exceptions in the UK bulk sector: as a UK flag operator prospering in the highly competitive world bulk trades, proving an example for others to follow:

> The record of Lyle Shipping shows just what can be achieved by a modest sized company with energetic management and an entrepreneurial approach to its business.[6]

The attempt of Lyles to gain stable employment for their Scottish Ship Management joint ownership fleet illustrates a transition in organisational approaches away from the family business unit towards consortium. The joint pressures, however, of a bulk market collapse and increased capital charges was within a few years to bring the demise of Lyles.[7] A similar fate overtook the Cardiff based Reardon Smith Line which attempted to make the transition towards consortium with their joint enterprise with the state owned, Irish Shipping, Celtic Bulk Carriers.[8] The 1980's downturn in the bulk trades, exacerbated by endemic overtonnaging, was to prove critical to Reardons who reported a £8.8m loss in 1983.[9] By June 1985 Reardon's Chairman, Bob Chatterton was pronouncing the end of the line:

> There is no sign of any significant improvement in the long depressed freight rates or ship values that could justify the company contiuing to trade.[10]

The net impact of the collapse of both Lyles and Reardon Smith, and their associated companies, was the loss of more than seventy bulk carriers to the UK register during the 1975-90 period.[11]

Such examples of the demise of the bulk shipowners may be seen as the final stage in the long term decline of the regionally located shipowner which is illustrated by the demise of the West Hartlepool registered fleet which had 43 different merchant companies in 1913, declining to just one company, Ropners, in the 1980's.[12] The evidence of the post 1975 period is not of the UK bulk shipowners accepting a pre-determined fate, but of strenuous efforts to improve efficiency in order to secure market survival. Despite their attempts at capital concentration, fleet rationalisation and improved economies of scale from larger vessels, the family oriented entrepreneurs were unable to evade the economic pressures stemming from the low freight rate inducing over-tonnaging of the post 1975 period. As the analysis of the emergence of developing nation and flag of convenience fleets in Chapters Nine and Ten will show, the UK bulk shipowners were vulnerable to the easy entrance characteristics of the world bulk market supply.

From the perspective of the market view, the demise of the traditional UK bulk fleet appears as the result of the inability to compete in the open market. The analysis of the emergence of developing nation (including flag of convenience) shipping will allow for the consideration of the market view. The use of the qualitative approach to make analysis of the broad range of factors which created such difficulties for the UK owners is intended to extend explanation beyond the market view. This approach identifies the qualitative elements in the 2.6m.grt reduction in UK flagged entrepreneurial shipping, 1975-90.

It next remains to consider the evidence from the traditional bulk owners that managed to diversify into new markets.

The Diversified Entrepreneur

The entrepreneurial companies which were able to diversify have survived in spite of the loss of their bulk fleets. The Glasgow based-but internationally located-Denholm group provides a clear example of a diversified bulk and tanker shipping company. The Denholm family demonstrated their entrepreneurial skills in the post 1945 period, taking advantage of the compensations available for war losses, were able to build up their tonnage. Presenting a truly entrepreneurial response to the same opportunities taken so robustly by the Greek shipping entrepreneurs in the post 1945 period, Denholms were able to move ahead of many of their UK based competitors, and this was to prove a leadership which they were to maintain right up until 1990. Sir John Denholm has exampled the line's commitment to growth in this period:

> When the Second World War was over, my brother and I decided we had to get out or go right for it. We'd have done nicely if we had sold out then, but we...went ahead while other firms waited for the slump that never came.[13]

0.By the 1970's, however, Denholms were realising the limitations of owning bulk ships, drastically reducing their fleet and switching their entrepreneurship towards a range of shipping management services. In this field Denholms have achieved unqualified success; in 1988, Lloyd's List were to herald the achievements of,

> The private family-owned Denholm Ship Management of Glasgow has for years enjoyed a reputation for professional high-quality service organisation...used by...blue chip names in shipping.[14]

The global dimensions of Denholm's operations, controlled from world-wide locations extend to a cosmopolitan mix of crews, finance and registry with 120 ships and 3500 seafarers on their management books.[15] Other trampship owners successfully diversified into new markets as public companies include, Runciman Line and the Ropner Line. Runcimans have extended to insurance, property, engineering, road haulage, as well as specialised gas carrying tankers.[16] Ropners have involved themselves in off-shore technologies and services.[17]

The experience of Denholms illustrates that in order to survive in deep sea bulk and independent tanker shipping it is necessary to coordinate a global package of developing nation labour, developed nation capital, selective national registration - featuring flags of convenience - and the managerial expertise of the established trampship owner. Other owners that have survived in these sectors - Hudson Steamship, Runcimans, Ropners, Souters - have concentrated on a combination of ship-management and flags of convenience.

The evidence drawn from the diversified entrepreneurs points to a selective business strategy employed by the successful owners; this has proved to be not only exclusive to these lines, but has worked to the detriment to the detriment of the traditional UK flag entrepreneurs.

It next follows to consider the performance of the coastal shipping entrepreneurs, who, in sharp contrast with their deep-sea colleagues, have continued to maintain a significant presence under the UK flag.

The UK Coastal Shipping Entrepreneurs

In Chapter Four, the relative stability of the UK coastal fleet was measured statistically. The historic traditions of this sector were shown to be in the domestic and short-sea bulk trades, with particular emphasis upon the coal and other bulk trades. Re-adjustments to the structure of coastal shipping were brought about by the growth of ro-ro shipping and European integration. Kent based entrepreneurial lines - Everards of Greenhithe, Lapthorns and Crescent Shipping, both of Rochester - were well placed for the growth in short-sea trades as European integration developed in the post 1975 period.[18] The Hampshire based coastal tanker fleet of Rowbotham Shipping benefited from the rationalisations that occurred in the coastal fleets of the oil majors, post 1975. Stephensen Clarke Shipping had traditionally concentrated in the East Coast collier trade; their successful transition into European and Mediterranean trades has helped to sustain their sizeable fleet.[19] Table Thirteen compares the 1975 and 1990 tonnages of these leading coastal lines.

TABLE THIRTEEN: LEADING UK COASTAL FLEETS, 1975-1990 (GRT)

In explaining the success of these coastal entrepreneurial groups a number of considerations need to be made. Firstly, the family entrepreneurial tradition has survived. The Kentish firms have successfully diversified from river trading to short-sea trading. Crescent's expansion can be attributed to a mixture of traditional shipping enterprise and conglomerate financial support (as a subsidiary of the Hays Wharf Group). Stephensen Clarke have enjoyed a similar relationship with the energy oriented Powell Duffryn Group. Both Everards and Lapthorns have been able to keep family control; and, along with Rowbothams, have been able to benefit from their considerable coastal experience.[20]

Although the UK lines have faced competition from Continental lines, particularly the German family ships, they have largely not had to face the excesses of over-tonnaging, flag of convenience and sub-standard operation, which was the experience of their deep-sea counterparts. Crew productivity has remained high, with the additional flexibility of company level industrial relations bargaining (this advantage *vis-a-vis* deepsea operations will become apparent in Chapter Fourteen's analysis of the industrial relations dimension. In addition, the seafaring demands of the North European trades has placed a premium on the quality associated with the UK management, crews and flag.[21]

The Business Expansion Scheme

The wishes of the Conservative Governments throughout the 1980's to promote an enterprise economy approach led to the Business Expansion Scheme (BES) being launched.[22] The nature of the BES was to provide financial incentives to new businesses and new investments. The market view that previously markets had been distorted by government involvement; and that, in particular, the nature of the pre 1984 fiscal regime had a detrimental impact upon new shipping enterprises. The BES was seen as a way of redressing this problem, with it's advantages of tax relief for investors in newly formed companies. In 1987, analysts from Kleinwort Securities calculated that, "At the current top UK tax rate of 40 per cent, the relief means a top rate taxpayer effectively only pays tax on £6000 on a £10,000 investment."[23]

The response of the investment community has proved of great relevance to the analysis of decline, as it reveals much about the investment problems facing UK shipping. Three of the principal BES shipping companies set up during the 1980's were Bromley Shipping, Altnacraig Shipping and Edinburgh Tankers. Bromley Shipping were an early user of the BES. Launched as a subsidiary of the 1946 established East Coast operator, Union Transport, Bromley Shipping were set up to provide coastal bulk supply in the near and short sea European waters.[24] The success of the company in the highly competitive near/shortsea bulk trades has enabled it to expand under the aegis of the shipping entrepreneur, Max Heinemann who was able to transfer a section of his Union Transport fleet into Bromley Shipping. Despite the success of the company, and the security of long-term contracts of affreightment, expansion has been limited by the reluctance of investors to buy shares.[25]

The Altnacraig Shipping Company's experience has also proved successful in the shortsea bulk sector building its fleet up to six dry bulk carriers.[26] The risk element facing the company has, however, been reduced by the availability of long term charters to the established Norwegian bulk shippers, Jebsons.[27] The experience and business behaviour of Edinburgh Tankers set up in 1987 highlights the conservative attitude of the British investor towards shipping enterprise. In 1989, the company's managing director was to blame the investment community for their reluctance to support shipping investment, comparing, unfavourably, the British against the Greek and Norwegian investor.[28] The company also demonstrated the short-term decision making of the modern shipping enterprise with the sale of the *Edinburgh Talla* in June 1989 for £20m; the tanker had only been purchased two years earlier for less than £7m.[29] This suggests the business behaviour of speculative ship-trading, rather than commitment to long-term shipping operating enterprise.

Overall, however, the BES proved somewhat disappointing as a vehicle for enhancing fleet investment. Between its inception in 1984, and 1987 only two new companies were successfully launched, Bromley Shipping and Edinburgh Tankers. The sparsity of shipping entrepreneurs and the reluctance of investors to support the schemes, demonstrates the low esteem that shipping has in investment circles. In 1989, investment analysts, Matrix Securities surveyed 864 top BES investors, revealing the overwhelming tendency for investors (96 per cent) to give preference to property related schemes rather than investments in shipping. The failure of Essex Shipping in attempting to set up a coastal bulk fleet under the BES supports Matrix Securities' conclusions; the company were unable to raise the required £875,000 first investment tranche despite the availability of suitable tonnage and charters.[30]

The experience of the BES shipping companies has high lighted the difficulties in attempting to promote an entrepreneurial led recovery in UK shipping. Analysis of the development of the BES organisations reveals a trend of relocation from established firms to new subsidiaries. These include, Bromley Shipping's arm's length transition from well established, Union Transport and the emergence of the Short Sea Enterprise (SSE) coastal enterprise developed as subsidiary of the leading East Coast operator, F.T.Everard of Greenhithe, Kent.[31] The evidence of the shipping BES up until the late 1980's was of either transfer of assets from established companies to the BES subsidiaries or the opportunistic matching of long-term contracts of affreightment with the accrued benefits of the BES scheme, evident in the Altnacraig and Edinburgh Tankers ventures. The evidence provided by the BES experience does show that there has been some successful shipping entrepreneurship during the decline period. Occurring mainly in the buoyant short-sea trades, BES investment can be seen more as the reconstruction and development of existing firms operating in secure markets, rather than creation of new shipping enterprise, in risk markets. The willingness of UK shipping firms to take advantage of any favourable state support does point to the extent of dependence that even the highly competitive coastal operators have for such initiatives. The evidence of the behaviour of the coastal BES firms points to a particular form of entrepreneurship within a state assisted framework, without which new investment would prove difficult. The Edinburgh Tankers experience points to a short-term activity, with ships bought and sold as distinct tradable assets and entrepreneurial skills concentrating on the sale and purchase market rather than a long-term commitment to fleet ownership.

The Overseas Entrepreneur

A second category of entrepreneur influential in the decline debate is that of the foreign based shipping investor, utilising the UK flag as a flag of convenience. Up until 1973, foreign owners were able to benefit from the provision of investment grants available under the UK flag, providing their ships stayed under the UK flag for five years.[32] The global outlook of entrepreneurs in bulk and tanker sectors was demonstrated in their agility in taking advantage of any available sources of economic assistance. A further incentive was provided by the low rate of sterling prevailing up until the early 1980's making the payment of those operational costs which could be converted into sterling attractive to the global shipping entrepreneur.[33] The BMCF have estimated that UK operating costs were some 25 percent lower than other European and Japanese fleets in 1977/78, and that these were eventually eroded in the years up until 1983. The net result of this was that the UK bulk fleet alone lost 4.5m dwt between 1978 and 1983.[34] The total share of foreign owned tonnage of all types declined from 46 to 38 per cent of the total UK flag tonnage between 1980 and 1985, creating an approximate loss of 8.5m grt.[35]

The evidence of the overseas shipping investor highlights the entrepreneurial nature of multi-national shipping which seeks the best possible package of cost elements and incentives, switching from flag to flag in a mercenary sense. Given the withdrawal of investment grants and the rising costs of operating under the UK flag it was inevitable in these circumstances that overseas investors would look to registries which offered better economic opportunities.

The Institutional Shipping Investor

A further dimension of entrepreneurial shipping activity is next provided by the partnership between the institutional investor in shipping and the shipowners. Ranging from industrial to financial and insurance concerns, this source of investment can now be seen as a response to the trading and technological circumstances of 1970's.

The trends towards larger, more capital intensive tonnage, were identified as being clearly evident in the post 1975 period(see above: Chapter Four). This placed additional financial burdens upon the UK shipowners, particularly given the acute over-tonnaging and depressed rates in the tanker and dry bulk sectors, post 1975. Drury and Stokes analysis of shipping capital in the 1970/80's found that

> ...the expansion of shipping finance has been an unavoidable concomitant of the increase in the size and cost of bulk vessels...[36]

The link up between Manchester Liners with the multi-national industrial, Pilkington Brothers (see above: pp.161-3) illustrated the potential for non-shipping concerns becoming involved in investment in the(then) rapidly increasing scale and capital intensity of the liner sector.

The trading boom of 1973 had witnessed US and European banks vying to provide easy terms credit to shipowners.[37] Coupled with the tax allowance incentives available to shipowners, the attraction of shipping investment to the financial institutions was enhanced. The route into shipping finance favoured by many of the institutions was via leasing. The financial institutions actually owned the shipping capital, with the shipowners given the opportunity to secure long-term leases on the tonnage. This simultaneously solved the capital financing problems of the shipowners and provided the financiers with access to tax breaks. Drury and Stokes found that,

> At the heart of the lease concept is the efficient use of capital allowances, and the growth of leasing has occurred because financing institutions are able to structure themselves...to take maximum advantage of tax breaks.[38]

Given the collapse of rates post 1975 the problem of low profits in shipping was off-set by the ability of the financial institutions to defer tax liabilities - gained in non-shipping activities - against shipping investments.

One of the main market view criticisms of the pre 1984 tax regime(the issues of changes in the tax regime are considered more fully in Chapter 12) was that it attracted this type of collaboration regardless of market conditions; and that this operated against the public interest in that it contributed to the finances of companies whose use of shipping was purely in the aim of corporate profits.[39]The arrangement did, however, allow for capital injection in the UK industry up until 1984; conversely though the restructuring of the tax regime was to precipitate a large scale withdrawal from the UK flag, post 1984.

Summary and Conclusion

The findings of this study of the entrepreneurial fleet segments points to a number of factors which have resulted in decline. The evidence stemming from the decline of the UK bulk sector illustrates the contrasting fortunes of the small regionally based non-diversified firms and the globally networked and diversified firms. The inability of the non-diversified firms to withstand the pressures of increased capital cost repayments at a time of freight market volatility and intensified competition, highlights the problems of the small entrepreneurial family oriented company organisation which despite moves to secure greater economies via mergers is forced out of the market by internationally generated pressures. Given the market forces stance of HM Governments during most of the decline period, the difficulties faced by these companies was seen as failure in the market place; the evidence provided in Chapters Nine and Ten will aim to demonstrate that a mixture of low cost competition, closed bulk markets, and politically generated over-tonnaging was more responsible for the demise of this sub-sector.

The difficulties faced by the traditional, regionally based, bulker owners can be seen as stemming from over-tonnaging, during a period of shifting technology - leading to larger and costlier vessels. Despite the attempts at forming consortia, as a response to the need to rationalise and pool financial resources, the decline in this sub-sector continued unabated. This contrasts with the entrepreneurial companies which were able to diversify into new investment areas. Again, as with the development of P&O into selective market sectors, the diversified bulk owners were able to exploit the very forces which brought total decline in the bulk sector. The rise of developing nation shipping was to create a market for maritime experience; and this was the opportunity that diversified entrepreneurial lines - Denholms, Runcimans, Ropners - as shipmanagers, were able to pursue, very much at the expense of owning their own fleets and the rest of UK entrepreneurial shipping.

For the overseas and institutional entrants into the UK registry, it was the withdrawal of investment grants and tax allowances during a period of difficult trading conditions that led to a retreat from the UK flag.

The evidence of the BES suggests the alacrity of well established UK coastal operators at exploiting investment support; but, moreover, the low participation in the scheme from new entrants does point to the absence of entrepreneurial willingness to enter into shipping markets. This points to the trend towards the dominance of corporate investment networks within the UK economy and raises questions over the supply of entrepreneurial shipping as perceived by the market view.

Overall, the link between technological shifts and organisational and business behaviour changes in these entrepreneurial sectors does extend beyond the market view of decline. It can be seen that any further entrepreneurial activity from the remaining UK owners is likely to be highly selective, under FOC's, and to the detriment of the UK registry.

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Chapter Eight: Vertically Integrated Shipping

Introduction and Objective

Vertically integrated shipping features shipping operations which were originally embarked upon in order to serve the wider strategic production and distribution objectives of parent companies.[1] What the evidence of the 1975-90 period suggests is that changes in this relationship, brought about by new forms of organisation, was to have considerable implications for the UK flag.

It is proposed to consider the evidence generated by the general movement away from directly owned, vertically integrated shipping lines, and, more specifically, the organisational and business behaviour changes in major fleets ranging from the British Steel chartered bulk fleet and British Rail short-sea subsidiary, Sealink, to the large fleets of the multinational oil majors.

The General Movement Away From Vertically Integrated Fleets.

By 1975 the movement away from vertically integrated shipping under the UK flag was underway. The molasses/cane sugar fleets of the Athel Line and Tate and Lyle's, Crystal Line were being replaced by chartered tonnage, almost 100 percent exclusively Greek and FOC tonnage in the case of the latter.[2] In the banana trades the 1975, Fyffes fleet 60.000 grt fleet had disappeared by 1990 and the Geest Line fleet had been flagged out to the

Bahamas.[3] The Bowater fleet also disappeared during this period as changes in the structure, location and economics of the paper/cardboard industry forced a rethink on shipowning.[4] Similar changes in the UK gas and electricity industry led to the demise of the collier fleets of the energy industries, particularly on the North East-Thames/Medway trades.[5] Having outlined the general trend away from vertical integration, more specific concentration of major UK fleet components is next made.

The British Steel Fleet: The Impact of Privatisation.

Technically, British Steel Corporation(BSC) and its predecessor, the British Iron and Steel Corporation(BISC) was not a shipowner. However, its large demand for iron ore supported a sizeable portion of the UK bulk fleet. In 1975 this amounted to 24 vessels, an estimated 450.000.grt of UK flag tonnage.[6] The emphasis upon the shipping component of steel making was very much on the strategic importance of maintaining supply flows of iron ore. In 1975 the Select Committee on Nationalised Industries was critical at the lack of a profit centred approach in BSC's Shipping and Transport Department:

> The only direct incentive to provide the most cost effective service is personal satisfaction. There are no normal management disciplines or yardsticks.[7]

The privatisation of BSC was to bring changes to the economic evaluation of the chartered tonnage. Rationalisations had led to just six bulkers under long term charter. However, the increased scale of bulker operations in the 1975-90 period was reflected in the total tonnage of 347.357.grt.[8] Responding to the economic pressures placed upon them by the privatised corporation, the two ship managers of the leased fleet, Furness Withy and Ropners, replaced their British ratings and flagged out to the Hong Kong and Bahamas registers respectively in 1990.[9]

The evidence from British Steel sets the pattern for the following case studies of vertically integrated shipping with changes in organisation and business behaviour proving detrimental to the UK flag.

British Rail Sealink: A Return To Enterprise?

The case of the 1984 take-over of the public sector, British Rail subsidiary, Sealink, is included here as it reveals a clear illustration of contrasting policy approaches to one of the most dynamic sections of the fleet, the ferry sector. The privatisation policy of the Conservative Governments, post 1979, were to divest the nation of a number of state owned assets on the grounds of economic efficiency. The all embracing policy perspective was that the (private sector) market could produce a better resource allocation once freed from the bureaucratic restraints of public ownership.[10]

The ferry sector had grown significantly in the post 1945 period and promised to keep buoyant as trade with the European mainland continued to grow as EC trading intensified provided opportunities for private sector finance. The early attempts of European Ferries to buy out Sealink in 1983 had been repelled by the Monopoly and Mergers Commission.[11] It was felt that the near monopoly that this would create on some of the Continental, Irish and Channel Island routes would be prejudicial to the public interest; but it was the organisational and business behaviour aspects of privatisation which were to have the biggest implications for the ferry market.

FIGURE TWENTY FOUR: SEALINK FLEET AS % OF UK FERRY FLEET 1975(M.GRT).

FIGURE TWENTY FIVE: SEALINK FLEET AS % OF UK FERRY FLEET 1990(M.GRT).

The terms under which Sealink had operated, under British Rail, could be described as somewhat ambiguous in that they were a mixture of social and economic objectives. This is explained by the historical development of the railway fleet. The Sealink fleet had grown as a vertically integrated component of the railway network. At the time of railway nationalisation in 1948 the leading railway companies - Southern, Great Western, London Midland Scottish, London North Eastern - operated passenger and freight vessels on prime Channel, Irish Sea and North Sea routes in conjunction with main line rail services.[12] The terms of nationalisation made it incumbent on British Railways to operate its fleet in line with the social as well as economic objectives set for the rail system. A particular example was provided by the retention of the unprofitable Heysham-Belfast service.[13] Privatisation brought radical changes: the profitability of routes was to become the principal rationale for the line's behaviour. The buy out of Sealink by the shipping group, Sea Containers, which was very much under the ownership and control of the Canadian entrepreneur, James Sherwood, revealed a new approach towards British shipping, with the Sealink ships, routes and ports identified as a number of speculative assets.[14] The closing down of, hitherto socially desirable, routes to the Channel Islands from Weymouth and Portsmouth on the grounds of economic efficiency revealed a new approach to ferry economics.[15] The transition from a state owned shipping utility, to a Stock Market quoted, public company necessitated radical changes in the business behaviour of Sealink. What makes the Sealink story important to the analysis of decline is that it saw the re-emergence of the shipping entrepreneur at the head of one of the UK fleet's most promising sectors.

The ferry sector held out growth opportunity on many of the well established Sealink routes. The eventual takeover of Sealink by the Scandinavian ferry operators, Stena Line, saw Sea

Containers achieving realising a £430m sales fee.[16] Figure Twenty Four shows a major component of the sector provided by Sealink in 1975. Figure Twenty Five shows by 1990 this share was reduced from 51 to 32 percent; and this falls to 23 percent if Sealink's flagged out tonnage is deducted. This is partly explained by a mixture of rationalisation and flagging out.* Although by 1990 the Sealink fleet achieved a slight growth over its 1975 total of 112,057 grt, the impact on the UK flag was a loss of 38,553grt.[17] This is explained by Sealink's flagging out policy post privatisation. This can be seen as the result of the changing business behaviour of the company as it made the transition from public to private sector organisation. The outcome of Sealink privatisation, therefore, reflects the behaviour of an entrepreneur with an interest in the short-term gain to be made from converting a public sector organisation into a profit maximising private firm. The lack of long term commitment to shipping demonstrates the sparsity of the shipping entrepreneur in the UK.

The Oil Majors' Tanker Fleets

The third category of shipping organisation identified by this research is that of the commodity owning concerns - primarily the multinational oil companies - with own account shipping. Table Fourteen shows the extent of change in the five leading UK oil major fleets between 1975 and 1990. The importance of the majors to total UK tonnage is illustrated in Figures Twenty Six/Seven. These show the majors have increased their share from 34.0 to 52.0 percent of the fleet. Given the importance of the these fleets, any change in organisation and business was bound to have a critical impact on the UK fleet. Investigation of these

*By 1990 36 percent of the Sealink fleet had been flagged to the Bahamas registry. Source: Fairplay World Shipping Yearbook and Lloyd's Register of Shipping List of Shipowners.

changes is next undertaken.

During the 1975-1990 period considerable changes occurred in the organisation of the UK flag multinational oil corporation tanker fleets. Having identified the large scale loss of tonnage from the tanker sector (see above: pp.92-3), it next remains to consider how this relates to changes in the organisational characteristics of the corporations. It is therefore proposed to analyse the organisational changes to three commodity owning concerns, Esso Tankers, BP Tankers and Shell Tankers (UK).

TABLE FOURTEEN: LEADING UK OIL MAJORS TANKER FLEET 1975-90(000.GRT).

The organisational structure of the multinational firms, allowed their shipping fleets to become part of the chain of vertical integration; as such their tanker assets were appraised as a vital link in the commodity chain.[18] For example, a major influence on BP's decision to build up its own fleet in the post-1945 period had been the Iranian nationalisation of its Abadan oil fields(1948-51).[19] The ownership of its tanker fleet under the UK flag was seen

FIGURE TWENTY SIX: TOP FIVE UK FLAG OIL MAJORS AS % UK TANKER FLEET 1975(M.GRT)

FIGURE TWENTY SEVEN: UK OIL MAJORS AS % OF UK TANKER FLEET(M.GRT), 1990.

as an insurance against such risks to the strategic flow of oil. The changes in the organisational behaviour in the multinationals, post 1975 was to have a significant impact on their commitment to shipowning; and, as the following company analyses will show contributed significantly to tonnage reduction in the UK fleet.

Esso Tankers: A Selective Response.

As a subsidiary of the US based Exxon Corporation, Esso's UK tanker fleet was operated in the service of the multinational's worldwide oil activities. For the UK fleet organisation was divided between deep sea and coastal fleets. The decision to withdraw completely from the deep sea sector was taken as a cost saving measure. Esso's deep sea routes were to be serviced by a mixture of the Exxon International fleet, sailing under flags of convenience and chartered tonnage. The UK flagged fleet was limited to North Sea and coastal operations.[20] The economic forces influencing the restructuring of the Esso fleet has its roots in the depressed oil markets of the post 1975 period which saw the rationalisation of the UK fleet, and the development of the North Sea oil fields. This created a demand for an intensive shuttle tanker service to the Fawley Refinery at Southampton.[21] Whilst large volumes of crude oil were demanded, averaging 20m. tonnes per annum throughout the 1980-90 period,[22] in vessels in the 100-350.000.grt, the output of the refinery also created a demand for vessels in the 2000-25.000. grt range for the carriage of oil products to coastal and European industrial/distribution centres.[23]

The pattern of tanker operations established by Esso reflects the policy of retaining UK flag vessels for the intensive and operationally demanding North Sea and coastal distribution services. By way of contrast, deepsea arrivals at Fawley (mainly from the Persian Gulf) are invariably flag of convenience vessels, provided by the Exxon International Fleet or drawn from the charter market.[24] Qualitative explanation for Esso's selective choice of flag is provided in Chapter Ten(see below: p.244). The net result of these changes was to be a 1.5m.grt reduction in the UK fleet, 1975-90.

BP Tankers: Retreat to Bermuda.

One of the most controversial areas of the decline agenda has been that of BP's business behaviour during the 1980's. BP Tankers were regarded as one of the prestigious units in the UK fleet. As tanker operators BP were seen as the benchmark in excellence, setting the standards against which other companies were measured.[25] The extent of BP's tanker organisation extended beyond the requirements of fleet management into comprehensive research and development services. The organisational approach towards tanker safety and efficiency led to BP becoming something of an institution in the industry. The long term approach towards tanker performance was exampled by the resources that BP devoted to solving the problem of dealing with residual gas in discharging/discharged tankers; the development of an inert gas system was heralded as a major breakthrough, proving immense value to not only BP but also the international tanker industry.[26]

Careers in the BP fleet were well regarded in the shipping industry with crews enjoying premium pay, conditions and secure prospects.[27] The setting up of BP Shipping as an "arms length" subsidiary of the BP Group was to change the business behaviour of the fleet management radically.

In 1975 BP had 88 tankers on its account, totalling 3.5m.grt, employing 5820 seafarers, rationalisation closely followed the birth of BP Shipping in 1984; by 1986 the fleet was down to 25 tankers. Head Office staff were reduced from 532 to 210 during the same period.[28] and all seafaring staff were dismissed in favour of agency crews. An incremental approach to introducing Polish and Filipino crews was adopted. Those seafarers that were re-employed needed to come to terms with one of three foreign based management agencies.[29] Figure Twenty Eight illustrates the BP fleet's decline between 1975 and 1990; it can also be seen how the decline is even more pronounced if the amount of flagged out tonnage is considered. This angle reveals a decline in BP's UK flagged fleet from 3.5m.grt in 1975 to 0.11m.grt in 1990. The importance of the changes in BP were bound have a big impact on total UK fleet tonnage. Figures Twenty Nine and Thirty show how in 1975 BP tonnage accounted for 22.1 percent and by 1990 76.0 percent of the UK tanker fleet.

The tankers were flagged out mostly to the UK dependency register, Bermuda, as well as Gibraltar and Hong Kong.[30] BP'Shipping's (BPS) evidence to the Transport Committee in 1987 indicated the rationale for these changes in business behaviour:

> Prior to 1984, BPS existed as a service to the Group-without a discreet business identity dedicated solely to BP's need for oil. Since that time BPS has operated as an independent business....[31]

The organisational changes in BPS had led to the fleet behaviour becoming analogous to the independent tanker fleets.

In their submission to the Transport Committee, BPS fleet management were keen to

FIGURE TWENTY EIGHT: BP FLEET 1975 & 1990.

FIGURE TWENTY NINE: BP FLEET AS % UK TANKER FLEET 1975(M.GRT).

FIGURE THIRTY: BP FLEET AS % UK TANKER FLEET1990(M.GRT).

demonstrate their adherence to profit targets independent of Group targets:

> ...Restructuring meant that BPS was 'reborn' with assets at market rather than high book values, and with shipboard operating costs cut dramatically-comparable with good quality independent operators.[32]

this context, the rationalisation of the fleet and the Head Office support services can be seen as the result of a business strategy engendered by changes in organisational change. As BPS moved away from its prestigious oil tanker institutional status towards a profitable, self financing, autonomous unit within the BP hierarchy. This explains the withdrawal from the UK flag in the 1975-90 period, amounting to a 3.5m.grt reduction in the total UK fleet.

Shell Tankers: Retreat to the Isle of Man.

The business behaviour of Shell Tankers (UK) very much pre-emptied the flagging out process. As early as 1954, Shell re-flagged sixteen tankers under the Bermudan flag.[33] In a new dimension to flagging out was implemented by Shell, involving the transfer of twenty three tankers from UK to Isle of Man (IOM) registry.[34] Shell were also to adopt an approach similar to BPS in their cessation of direct employment of seafarers; by setting up an off-shore based ship management agency Shell were able to ensure agency services to the tanker fleet.[35] The aim of this was to realise operating savings of twenty five percent, whilst simultaneously maintaining corporate control.[36]

As with BPS, Shell's new approach to tanker management was caused by the desire to set up the tanker fleet at arm's length from the main Group's accounts. Shell Ship Management Ltd were set up in the IOM with the express purpose of achieving lower costs in

FIGURE THIRTY ONE: SHELL FLEET 1975 & 1990.

FIGURE THIRTY TWO: SHELL UK FLEET AS % OF UK TANKER FLEET 1975(BY WEIGHT).

FIGURE THIRTY THREE: SHELL FLEET AS % OF UK TANKER FLEET 1990(BY WEIGHT).

administration and crewing and to secure seafaring conditions which were "...akin to the sort of employment conditions that exist in the international shipping market..."[37] This allowed a portion of the Shell fleet to trade in the tanker market whilst the parent company became increasingly dependent on chartered tonnage. By 1989, 75 percent of Shell's deep-sea freights were carried by chartered vessels.[38] Although concentration of the Royal Dutch Shell fleet with Shell Tankers UK led to an increase in tonnage, 1975-90, under the control of the UK based organisation, the process of flagging out led to a reduction of at least 2.4m.grt from the UK(including IOM) in the same period.

Figure Thirty One illustrates both the growth ensuing from centralisation, with the converse affect on the UK flag fleet component. Figures Thirty Two/Three demonstrate the importance of the Shell fleet to the UK total, with percentage share rising from 19.0 to 23.4 between 1975 and 1990.

The Shell experience illustrates the impact of organisational change on business behaviour. As with Esso and BPS, Shell's behaviour can be seen partly as a response to the market difficulties from the mid-1970's, but in order to explain the drastic reduction of the oil major's UK registered tanker fleets it is necessary to understand how the changes in organisation within this sector facilitated this process.

Summary and Conclusion

Whilst a number of changes to the respective markets of the examples of vertical integration, a common denominator is the link between organisational and business behaviour change and decline. Firstly, the general pattern of fleet activity was away from large producers owning ships by 1975. A second point to be made is the impact of organisational change. The helpsto clarify the more specific evidence which points to the imposition of a more profit centred approach in the large owners of vertically integrated fleets.

By 1975, the movement away from vertical integration was apparent. This trend later became apparent with the change in organisation at British Steel which led to economic pressures being exerted on bulk shipping charters. This was to culminate in flagging out and the employment of Third World crews, whilst retaining the managerial expertise of UK ship-managers. The inclusion of the Sealink experience has demonstrated the link between organisational change and business behaviour, leading to the familiar pattern of rationalisation and flagging out. Moreover, the short-term opportunism of Sea Containers and the passing of ownership into the hands of the Swedish, Stena Line, points to the dearth in UK shipping entrepreneurship.

The commodity owning grouping, dominated by the oil majors, has also demonstrated the link between organisation and business behaviour. The move away from tanker owning as a vertically integrated component of the multi-national operation, towards a stand alone profit sector, had serious implications for the UK flag. Sectoral analysis has already revealed the importance of the oil major fleet to the UK flag in 1975, and its dramatic decline from that year; recognition of the organisational shifts explain why tankers were either flagged out or sold out completely. The decline of the long-haul oil market was bound to have implications for the UK tanker fleet, but it is the shift in business behaviour as a result of organisational change that led to the three oil majors reducing their UK fleets. The integration of Esso's UK flag deepsea fleet into that of the flag of convenience (parent company) Exxon International, demonstrates the international shift in organisational networks which proved so detrimental to the UK flag, post 1975. Likewise, the flagging out, and setting up of the off-shore manning agencies by the BPS and Shell points to the transition away from vertical integration under the UK flag, to autonomous business centres under flags of convenience or the Isle of Man flag.

The evidence from this analysis of the relationship between organisation and business behaviour has been identified as a major determinant of decline. The qualitative approach used here has allowed for the analysis of decline to extend beyond the confines of the market view, providing an explanation for decline which recognises the influence of organisational change on business behaviour which has proved detrimental to UK flag operation.

Chapter Eight Endnotes

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22.British Port Federation, Annual Port Statistics(London: BPF/Department of Transport, Annual).

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28.Memo submitted by BP Shipping to Transport Committee, op.cit, Vol.2, pp.254-257.

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Chapter Nine: The New International Division of Labour in Shipping.

Introduction and Objective

Having made analysis of the impact of organisational changes on the UK fleet and its business behaviour, the influence of the international organisation of shipping emerges as an important element in understanding decline. Attention focuses here on both the business behaviour of the many facets of developing nation shipping and that of the UK fleet. The inverse relationship between the UK fleet in decline and the developing nations' fleet growth begs the question of relationship. In the search for any possible linkage, a number of critical factors emerge calling for qualitative analysis beyond the market view perception of the competitive forces inherent in the comparative advantage thesis. Firstly, it is intended to show the historical development of shipping organisation which has over time broadened out from the developed nation to the developing nations. Secondly, it is proposed to show the relationship between this process and the decline of the UK fleet. The rise of flags of convenience was also have implications for the UK fleet. The aim is to demonstrate the range of forces which have shaped changes in the organisation of international, shipping, and, moreover, how these extend far beyond the market view perception of comparative advantage.

The Evolving Organisation of World Shipping

The emergence of this world economic order needs some historical attention in order to place the contemporary shipping industry into context. The comparative advantage thesis does appear to provide explanation for the growth of developing nation shipping and the resulting decline of developed nation tonnage, given the cost advantages of the former.

This process has been rationalised in the European Parliament as:

> the normal trend in developing economies as the standard of living rises...some activities become less economically attractive.[1]

Despite the pervasiveness of this market view, understanding the nature of the shift towards developing nation fleets - and the impact on the UK fleet - requires consideration of the qualitative factors at work. The underlying cause of this global process lies in the emerging world economic order, post 1945, and particularly manifesting in shipping post 1975. The result of this have been the development of a transnational shipping network which has paralleled the growth of world trade. Professor Couper has traced the role of shipping in transforming and integrating the world's economic geography.[2] Using this approach, modern world economic organisation can be seen as a result of technical, political and geographic factors which have interacted; and the organisation and development of modern world shipping can certainly be seen as approximating to these factors.

Shipping and Economic Development

The history of world shipping from the industrial revolutions of the 19th century onwards reveals the link between economic growth and technical development in merchant shipping. During the 19th and early 20th century the premier technical and economic status of the UK was evident in its leadership in world shipping. Hobsbawm, amongst many economic historians, has drawn attention to the impact of steam technology in shipping and how - together with steam railway traction - immensely stimulated the British economy.[3] Trends in shipping innovation have continued up until the present day, very much to the benefit of world trade. Throughout the 19th century, gains in both sail and steam technology helped to open up new markets - Australian wool, US grain, European emigration. The challenge to the UK's industrial supremacy around the turn of the century was paralleled by trends in merchant shipping as competition emerged from, Germany, France, Belgium and Holland. As with the UK experience, industrial development was to have a positive impact on merchant shipping development for these European nations.[4]

The net result was to be the relative decline of UK shipping during the 20th century. The spatial spread of economic activity during the post 1945 period have seen a partial severance of this linkage between industrial development and national fleet emergence. The agricultural/fishing based Norwegian and Greek economies were early examples of this development.[5]Despite their relatively low level of industrial development both were to become major maritime nations.

The emergence of flag of convenience operation and the spread of ship management crewing agency saw the inclusion of low technology nations becoming involved in the global network of shipping organisation. Whereas the earlier leadership in world shipping was also dependent upon a leadership in industrial technology, in the post 1945, and increasingly for UK shipping capital, in the post 1975 period, it became possible for the emergence of developing nation fleets. The large amounts of tonnage registering under such developing nation flags as, Liberia, Panama, Cyprus, Singapore and Hong Kong, was not dependent upon the state of industrial development, but rather upon the political and economic relationship with developed nations, USA, Japan and the maritime nations of Europe.[6] Figure Thirty Four provides a statistical profile of these major FOC's, 1975-90.

The growth in the OECD defined fleets of the leading, newly industrialised countries (NIC's), is illustrated in Figure Thirty Five. Although this spread of shipping activity had been evident in the post 1945 period it was during the post 1975 period when it featured largely in the absolute decline of the UK fleet. The evidence of the BMCF study, Why the Ships Went, points to the attraction of "flagging" out to developing nations' flag of convenience registries.[7]

The labour cost element is seen as one of the major determining forces in this global shift. The BMCF found in its investigation into the fleet's decline that "...crew costs appear quite frequently in the owners' reasons for selling ships."[8] Explanation for this behaviour is provided by the large global pools of labour made available during the post 1945 period. In supply - side terms the impact of this labour supply on the traditional maritime nations' labour would be detrimental. From this, a strict adherence to the theory of comparative advantage economics would lead to the nations with the lowest labour costs developing their fleets at the expense of the higher wage nations. In attempting to apply this supply-side analysis to the actual behaviour of the world shipping industry a number of important reservations need to be made. Firstly, the North-South maritime labour market is not a completely new development, and, secondly, there is not a definite correlation between a nation's labour cost factor and the size of its shipping fleet. It next remains to consider how these two factors help to increase understanding of the decline of UK shipping.

The Origins of the UK-Developing Nation Connection

The economic dominance of Britain in the trades with many developing nations has, historically, extended to the employment of low wage nationals from these countries on UK flagged ships. From the 1700's onwards "Lascars"[*] had been employed on British ships.[9] By 1960 some 23 percent of the total labour force on British ships were employed under low wage "Asian Agreements".[10] This then grew to 47 per cent of total crew numbers by 1975.[11]

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*The term "Lascars" was used in the shipping industry as a generic term for seafarers from the Asian Continent. See: Department of Trade, Report of the Working Group on the Employment of Non-Domiciled Seafarers(London: HMSO, 1978), p.8.

FIGURE THIRTY FOUR: SELECTED FOC FLEETS, 1975–90(M.GRT)

FIGURE THIRTY FIVE: SELECTED NIC FLEET
DEVELOPMENT, 1975–90 (M.GRT)

The UK owners saw that this North-South labour arrangement provided competitive advantages over other national fleets; and when the drafting of the 1976 Race Relations Act threatened the abolition of this source of low cost labour the GCBS argued that,.

> ...British shipping and the balance of payments would suffer considerably if United Kingdom rates had to be paid to seamen recruited overseas.[12]

The availability of a dual North-South labour force does show a partial commitment to the comparative advantage theorem of neo-classical economics applied by the UK shipowners. Up until the 1970', however, the flag and ownership of the vessel remained firmly in the UK. From 1975 onwards the increasing trends of flagging ships out to open registries and ship management saw a new interpretation of comparative advantage. Before the UK owners could make this transition a number of economic changes were needed. The relatively high wages of UK crews measured against developing nation crews becomes an important international element in the crewing decisions of the UK lines. Seen in this context, the wages of UK crews may appear relatively high in comparison with developing nations, but low in comparison with higher wage nations - USA, Japan, West Germany, Sweden. The perception of the American seafaring community during the post 1945 period was that the relatively lower wages of the UK crews disadvantaged US flagged and crewed ships.[13] Table Fifteen illustrates the disparity in wage rates with the US Able Seaman rates more than tripling the UK rates in the years 1958 and 1968.

TABLE FIFTEEN: COMPARATIVE MONTHLY AB WAGE RATES, 1958 & 1968.

The Flags of Necessity Dimension

During the 1948-1960 period the US fleet suffered a loss of market share in the US deep sea trades, falling from 53 to 12 per cent.[14] With their relatively low operating costs British vessels were able to penetrate US trades. The pattern of decline and flagging out can be seen as evident in the experience of the US fleet. Many US owners saw their only possible response was to "flag out" of trades which were not protected. The pro-FOC lobby group, the American Committee for Flags of Necessity(ACFN) was set up.* Defending the ACFN's promotion of FOC's, an affiliated oil company executive (speaking in 1957) made the following plea:

> We feel that to be competitive we have to have low cost transportation. Accordingly, it is necessary for us to construct and operate tankers under the foreign flag.[15]

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*The ACFN saw that the only choice facing the US owners was to use FOC in competition with the lower cost North European and Scandinavian fleets. The catalyst for the ACFN had been the 241 percent European/Scandinavian increase in traditional US trades in the decade up to 1958. Source: ACFN press statement.

There is a clear parallel between the ACFN's argument during the 1950's and 1960's and the British owners who held that, by the late 1970's early 1980's, flagging out was necessary for survival.[16] This affirms the historical process which saw firstly the US fleet, then the UK fleet being detrimentally affected by the evolving organisation of international shipping. From this perspective, the decline of the UK fleet becomes part of an historic process which from which it had earlier prospered! The impact of FOC's on the UK fleet is next considered.

The Flag of Convenience Dimension

The initial response to the FOC's by the British owners had been one of outrage, frequently arguing the case for state action to be taken against the "unfair" competition. A press statement by a leading British owner in 1955 summed up the mood of the British industry:

> I am convinced that the British shipping industry...is faced with forms of insidious competition which may reduce Britain to a nation of little maritime importance within a relatively small number of years.[17]

Despite the prophetic tone of this statement, it is apparent that there is a will to compete against the FOC's given the "correct" ground-rules. To the Americans, this was seen as the British desire for protection which was anathema to their perception of an open market FOC industry. The pro-FOC lobby, the American Committee for Flags of Necessity(ACFN)[*] was to charge that:

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[*]The ACFN was formed in 1958 by 19 leading American corporations with interests in dry-bulk and tanker shipping. The Committee, which later became the Federation of American

> It seems that the freedom of the seas, free enterprise and non-discrimination, as honoured and age-old policies of the European maritime nations, only hold good provided those maritime nations hold the upper hand in competition.[18]

The British owners were under fire for attempting to protect themselves against FOC's whilst, simultaneously, enjoying the advantage of wage rates some 60 to 70 percent lower than those under the US flag.[19] Given the inability(or reluctance) of government to mount an effective protection against the FOC vessels, it appears that some British owners began to view them as a survival lifeline. In the analysis of selected British companies behaviour and performance, the dual pressures of low cost competition and rising capital and operational costs was to have a detrimental impact on the UK fleet. The British owners began to share the American concept of beneficial ownership* whereby ships are flagged out to open registries, low cost labour is usually employed, but the equity control remains with interests located in the nation of capital ownership. This type of "off shore" open registry allows for the shipowner to combine capital ownership and managerial expertise with the abundant

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Controlled Shipping(FACS), became an influential political pressure group in the USA, arguing the case that the USA needed a reliable source of low cost shipping for both economic and military purposes. See: B.A.Boczek, Flags of Convenience(Cambridge, Mass: Harvard University Press, 1962), pp.26-63.

*Beneficial ownership" exists when the financial control of the ship is maintained in the nation of the vessels owner. In this example the benefits of the vessel will accrue to this nation. See: M.Davies, Belief in the Sea(London: LLP, 1992), pp.196-7.

labour supply available in this global market. Table Sixteen illustrates the cosmopolitan nature of crews on Liberian flag vessels. Using the model of capital-labour provided inherent in the market view it can be seen how this particular enactment of the comparative advantage thesis allows for capital ownership to be retained in the developed nation whilst simultaneously utilising developing nation labour. Drawing from international trade theory the gains from the North-South division of labour and capital the attraction of flagging out, are displayed by the theoretical two-trade model of international trading. Figure Thirty Six shows the before and the after flagging out situation. It can be seen that before this division occurs it requires ten units of capital in the DMEC to exchange for eight units of labour; after the division the same amount of capital exchanges for twelve units of labour-a gain of 50%! In translating this theoretical inducement to flag out it becomes evident that there is an economic case for UK maritime capital looking to the labour markets of the developing nations in order to secure lower costs. Table Seventeen illustrates this tendency; it can be seen how in 1980 the UK beneficially owned FOC fleet was equal to 7.8% of the total domestic fleet, whilst the US beneficially owned fleet was some 239% of the American flag fleet. By 1990, the UK beneficially owned fleet had grown by 14.0m dwt equalling some 221% of the domestically flagged fleet. The change in the business behaviour of the UK owners needs further explanation here.

TABLE SIXTEEN: LIBERIAN FLEET CREW NATIONALITY/SUPPLY, 1978.

Despite the dramatic switch to flagging out which occurred between 1980 and 1986, the biggest reduction in the fleet was been brought about by vessels sold (or scrapped) from the British register. Increasingly, it appears that the choice facing many UK operators was to either flag out or diversify from the industry. It has been shown how increased costs and falling revenue helped to bring about a change in the UK owners' attitudes towards these two hitherto unconsidered options.

TABLE SEVENTEEN: UK AND US BENEFICIALLY OWNED FOC FLEETS, 1980 & 1990.

The analysis of the business behaviour of the industry illustrates the combined effect of divestment and rationalisation in such groups as British and Commonwealth, Ocean Fleet, Blue Star Line. By way of contrast, Manchester Liners had successfully made the "quantum leap" from traditional dry cargo liners to a first and second generation of fully cellular vessels, when the C.Y.Tung buy out occurred, ultimately leading to the flagging out of the remnants of the company. It appears there is something of a contrast here: between owners pursuing the opportunity cost principle of rationalisation/divestment and those intent on cost reduction in order to remain in the industry, regardless of flag of registration. It is next proposed to consider more fully the nature of open registry operations relevant to UK shipowners. The Polytechnic of Central London's (PCL) Study of FOC's has provided the following definition:

> A flag of convenience is the flag of a state whose government sees registration not as a procedure necessary to impose sovereignty and hence control over its shipping, but a service which can be sold to foreign shipowners wishing to escape the fiscal or other consequences of registration under their own flags.[20]

The desire to evade certain consequences of registration under regulated flags can be seen as a result of changing business behaviour. The example of the US owners demonstrates established strong links with the open registries in order to escape the consequences of US registration; the arrival of the British owners into off-shore activities represents a considerable shift in business policy - an extension of the globalisation of British shipping capital. From the definition provided by PCL open registry operation synthesises the desire of developed nation interests to evade the financial burden of the home flag with the willingness of certain Third World nations to allow their registry to provide low cost, tax free shipping in order to benefit from registration revenues.

FIGURE THIRTY SIX: CAPITAL–LABOUR RATIO
MODEL UK FLAG/FOC.

The HM Inquiry into Shipping 1970[21] identified the common features of open registries; a synopsis of which is:

(1) allows non-citizens to register vessels;

(2) entry and exit to registry with minimum formality;

(3) freedom from revenue taxation;

(4) lack of a domestically owned shipping industry of any size;

(5) manning by non-nationals;

(6) inability to open registry governments to impose national regulations.[22]

Although both the Liberian and Panamanian registries have dismissed claims of lax regulation by demonstrating their sovereign control over vessels,[23] it can be seen that these six characteristics do offer developed nation companies the attraction of a cost oriented global shift, without the loss of strategic control of their tonnage. For the British owners, FOC operation can be seen as a move back towards the employment of non-domiciled, low cost crews. If the decline of the Empire trades and the corresponding decline of the labour supply emanating from the colonies brought about more dependence on (relatively) high cost British labour, the moves towards flagging out reinstated the low cost labour supply, as well as the other economic advantages of open registry. Whereas the colonial system of employing non-domiciled labour was intrinsically linked to the Empire trades, primarily India and the Far East, the FOC regime allowed for a much more cosmopolitan source of labour, normally totally independent from the vessel's trades.

Although the assumptions of comparative advantage is that unhindered trade ensures the best possible allocation of economic resources,[24] the reality of the FOC regime is that only selected factor markets are considered. This suggests political linkages influencing economic forces. Most noticeably is the historic political and economic link between the USA and her two "off shore" economic satellites, Liberian and Panama.

The Politics of Convenience

Carlisle's study[25] of these two major sources of open registry has clearly traced this link which is most apparent in the setting up and administration of their registries, but if Liberia and Panama can be seen as political allies, economic dependencies, of the USA the same might be said for the open registries preferred by the British owners - Bahamas, Bermuda, Hong Kong, the Isle of Man. It can be seen that what is of paramount concern to the owners is the security of their equity which is assumed to be safe under the flags of such ex-colonies/dependencies.

The inclusion of these political linkages helps to improve understanding of the emergence of open registry usage, which can be seen as the culmination of the search of British shipping capital for a low cost, politically reliant, forwarding address. So far, it has been demonstrated that the North-South, labour-capital tie up is not a completely new development for British shipping, and that the boundaries of open registry are as much defined by the political preferences of the companies involved, as they are by market forces. This significantly amends the assumption that the nations with the lowest labour costs will end up with the largest fleets - the enactment of comparative advantage in world shipping. It next remains to take a closer look at nature of the UK industry's labour supply within this global context.

FOC operation does offer the shipowner a selection of options to suit economic needs. The House of Commons Transport Committee has provided data on the range of crewing costs(reproduced in Table Eighteen) using a tanker (size unspecified) as an example. From the evidence available, however, it is apparent that the lowest labour cost is not always a determinant of crews actually signed on.

TABLE EIGHTEEN: ANNUAL CREW COST OPTIONS FOR UK TANKER OWNERS(US$).

If the market closely followed the factor endowment thesis it would be reasonable to expect the optimum allocation of labour resource allocation situation would be reflected in the selection of the lowest crews. The reality is that even in the US there is a preference for employing crews from a "middle band" of wage rates - British, Italian, Spanish - rather than a complete reliance on Third World crews.[26] This is a pattern also reflected in the UK, with some owners actually retaining UK labour after flagging out has occurred.*

The Politics of the Bulk Trades

This direction takes the analysis into the realms of the North-South debate in maritime economies. A major characteristics of North-South trade is the predominant flow of primary products from the South to the industrialised North. Multinational corporations (MNC's), based in the North, tend to take a dominant control over all aspects of these trades flows - the shipping dimension fits into an interlocking network of vertical integration. Rangarajan's study of commodity trades such as bauxite from the Caribbean to the USA, and iron ore from India to Japan, illustrates integration in the stages of extraction, transportation and processing.[27] A similar conclusion was reached by UNCTAD, whose research into four major bulk trades-alumina, bauxite, iron ore, phosphates-found that a significant

*This is the case following the partial flagging out of the Sealink fleet to the Bahamas, also the transfer of both the Shell UK and Maersk UK fleets to the IOM flag. Source, conversation with Mr. Martin Gartside, Information Officer, Numast, Leytonstone, July 1990.

amount of transportion contracts were made on:

(1) a long term basis;

(2) were made free on board(fob);

(3) were controlled by the buyer.[28]

The outcome of this is a closed market with the MNC enjoying an oligopsonistic position - few buyers, many sellers of shipping services. UNCTAD's calculations on the extent of closed markets are provided in Table Nineteen.

TABLE NINETEEN: EXTENT OF NON-MARKET ARRANGEMENTS IN BULK VESSEL CHARTERS.

From this and similar evidence UNCTAD have concluded that many of the ostensible independent bulk vessel owners engaged in the dry bulk trades were in fact MNC's concealing their identity under FOC's.

Although the pro-FOC lobby have claimed that:

> The bulk carrier market closely approximates the market conditions required for perfect competition.[29]

It is apparent that the closed nature of many key bulk trades will preclude independent British owners from entrance. UNCTAD have outlined what they perceive to be the attractions of FOC vessel in vertical integration conditions:

> A subsidiary company under open registry could charge excessively high freight rates...this procedure would increase the non-taxed revenues of the shipping company in the flag country and therefore decrease taxable revenues...in the home country.[30]

Finally, UNCTAD have contended that if FOC operations were to cease, the commodity owning MNC would be faced with "... the obligation to report on their assets and earnings".[31] From this it can be seen that there is an additional incentive to use FOC's. Given that the inherent cost advantages of FOC operations are supplemented by the ability to arrange clandestine financial transfers, there is an obvious barrier towards the entrance of "genuine link" carriers, including British flag bulkers. The effect of this is similar to the situation independent UK tanker owners face a market limitation to the lower end of the trades, single voyage charters where marginal cost are at a premium, proving detrimental to the higher cost UK operator. The exception to this is provided by the performance of several UK short-sea bulk traders - Everands, Crescent Shipping Lapthorn's, Bromley Shipping - have been able to retain (often expand) market share, under the UK flag with UK crews. The intensive nature of the short-term bulk trades places a premium on crew productivity and expertise. This helps to off-set the higher nominal costs of operations under the UK flag.[32]This points to the range of historic factors at work shaping the new international division of labour in shipping.

Summary and Conclusions

The historical development of modern world shipping has been shown as a process which was initially dominated by the UK. This gradually gave way to the emergence of other industrial nations' fleets, and eventually the rise of developing nation shipping. The traditional utilisation of low wage seafarers from the developing nations can be seen as the precursor for later fleet development by these nations. What this process also shows is the relative position of the UK fleet as a low cost competitor vis-a-vis the US fleet during the 1950-1970 period. This points to the historic process which saw the erosion of the US fleet and was later to lead to the decline of the UK fleet and the emergence of the developing nations' fleets.

What the evidence of this new international division of labour points to, however, is a very selective expansion of developing nation shipping with many instances of capital and cargo control and operational management, still resting in the developed world. In this sense the benefits of FOC's can be seen as accruing to developed nation businesses. The ability of these businesses to exercise a strategic control over FOC shipping questions the accuracy of the comparative advantage perception of a purely competitive world market.

What the market view ignores is the ability of developed nation businesses to dominate world shipping. From this position it becomes evident that the economic and strategic priorities of low costs and secure control of assets are the outcomes of the structure of world shipping. In this context, UK flagged shipping finds itself not so much in conflict with developing nation fleets, but with the developed nation capital controlling those fleets!

Thus it can be seen how organisational factors have influenced the business behaviour of world shipping, with its detrimental impact on specific sectors of the UK fleet - primarily the dry-bulk and tanker sectors. The following two Chapters consider more fully the impact of these changes in world shipping organisation on the UK fleet.

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Chapter Ten: The Flags of Convenience Option

Introduction and Objective

Having recognised and made some analysis of the selective developed nations' organisational control of developing nation shipping - how this takes the analysis beyond the confines of the market view - it is next intended to consider the choices facing the UK owners and the impact on their business behaviour. Concentration in this Chapter is on the two sectors affected most: the tanker and bulker sectors. The aim of this Chapter, then, is to demonstrate the range of forces which have contributed to the decline in these two key sectors in the UK flag, within the context of global shift in shipping activity towards FOC operation. Specifically this requires analysis of how this shift affected the options facing UK owners in these two sectors. Again the emphasis is upon revealing the qualitative factors influencing the new international division of labour in shipping.

The Flagging Out Decision

Although the impact of FOC on the UK fleet, contributing to relative decline, had been felt from the 1950's onwards, from 1975 onwards it was the flagging out process which was more instrumental in absolute decline. This is reflected in Table Twenty which shows an overall decline in the participation of the two major FOC fleets in UK trades.

TABLE TWENTY: LIBERIAN & PANAMANIAN FLAG SHARE OF UK TRADE, 1975-90(M.GRT).

For many UK lines the response to the new international division of labour was either divest out of shipping or to flag out of the UK registry. Analysis of events in the 1975-90 period reveal an evolving pattern of responses. In the 1975-early 1980's period it is apparent that a first wave of decline was occurring, particularly in the dry-bulk and independent tanker sectors. For owners in these sectors the preferred choice appears to have been complete withdrawal from shipping. In 1984 the British Maritime League(BML) found that,

> the ships leaving the British registry are not just changing their flag, well over three quarters of them are being sold abroad, and mainly to competitors not scrapyards.[1]

From the early-mid 1980's, a second pattern began to emerge featuring flagging out to the dependency flags. This is shown in Table Twenty One, which suggests an inverse relationship between the 11.2m.grt decline of UK flag tonnage and a 7.1m.grt increase in flagged out tonnage between 1985 and 1990. For those owners choosing this response, the question is under what conditions should they operate flagged out vessels? It is contended here that there are two principal choices:

(1) flag out to a developing nation open registry, employing low wage Third World crews;

(2) Flag out to UK dependency registry, employing UK labour on "off-shore" agreements.

The straight move from UK to FOC registry can be seen as having appeal to UK operators trading in marginal markets. The low cost labour and tax evasion attractions of FOC's could enable UK owners to survive in the tramping trades, particularly the movement of low value dry and wet bulks. The swing to flagging out in the from the mid 1980's period clearly illustrates the harsh economic conditions facing owners choosing to keep their investments in shipping, as opposed to those practising divestment. For the bulker owners the BMCF found that:

> The overriding reasons for flagging out were to reduce operating costs to enhance profitability. The only option left for management...was to reflag to achieve lower crew costs.[2]

TABLE TWENTY ONE: UK OWNED, REGISTERED & FLAGGED OUT TONNAGE, 1985-90(M.DWT)

Commenting on the sharp increase in tankers flagging out the BMCF noted that:

> It is clear that over-tonnaging and the poor market were the major factors....[3]

One of the major features of this flight to FOC's in the 1975-90 period was the emergence of the UK dependency as an "off shore" registry. Hong Kong and Bermuda had been used by a number of British owners before 1960,[4] but it was the troubled years from the mid 1980's onwards that really highlighted the use of the dependencies. The switch of BP's tanker fleet to the Bermudan flag(see above: pp.201-5) was to prove a major contribution to the dependency fleet. In addition, the rapid growth of the Isle of Man (IOM) registry in this period was a major force in this highly selective interpretation of flagging out. The IOM registry has two overtly economic attractions* for the British owner: lower rates of corporation tax and a conduciveness towards "off shore" crew agreements.[5] This allows for, at least, a fifteen per cent tax reduction[6] and savings of between thirty and forty per cent of crew costs, even with British crews.[7] In 1987, it was estimated that some thirty seven ships had transferred to the IOM and Channel Islands Flags; and that a further 36 ships of 3.1 m dwt were waiting to follow.[8]

The IOM, and to a lesser extent, the Channel Islands, expansion should be seen as part of the rapid growth of UK dependency registries. The House of Commons Transport Committee has established that:

> The tonnage owned in the UK but registered outside the UK has increased significantly from 4.0m.dwt at the end of 1982,

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*The mid-1980's switching of the Shell UK Tankers fleet to the IOM registry was the result of a strategy aimed at reducing operating costs by 25 percent. See: M.Rendle, MD Shell Tankers UK, evidence to House of Commons Transport Committee, Session 1987-8, First Report, Decline in the UK-Registered Merchant Fleet, Vol.2(London: HMSO, 1988), pp.263-270.

> to around 6.7m.dwt in the middle of 1986. Over 4m.dwt... remains under the British flag registered in a British overseas territory.[9]

Having already considered the flight of the two oil major's fleets - BP, Shell - to UK dependencies, it is highly pertinent, here, to analyse the implications for the global shift perspective. Both corporations have defended their actions by recall to the economic pressures on their operations. In 1978, BP were already concerning themselves with the world recession and "... the contraction of the oil trading role of the international oil companies ...", which was causing tanker fleet inefficiencies.[10] Shell saw that these economic forces were having a downward effect on operating costs:

> The increasing disparity between the operating costs of the Shell managed vessels and those of virtually all Shell's competitors(mainly due to their employment of cheaper labour).[11]

As part of Shell's Flagging out (to the IOM) process, came the cessation of direct crew employment, with a manning agency given the responsibility. The aim was to cut operating costs whilst retaining continuity: crews in receipt of redundancy payments were offered employment in the Fleet, via the manning agency. With a cost reduction target of 25 percent Shell felt able to retain - against low wage competition - a "... pool of experienced British seafarers ... maintaining links with the recruiting and training facilities in the UK..."[12]

Both Shell and BP, in their evidence to the House of Commons, were at pains to stress both the continuity of crewing arrangements and the maintenance of high operational standards under new off shore agreements. The spokesman for BP Shipping (BPS) stressed that:

> BPS will continue to maintain its vessels to its own high standards irrespective of the flag or registry.[13]

This emphasis on high standards suggests that the use of "off shore" agreement under UK dependency flags is seen as a half way measure towards flagging out, allowing for a careful balance in the cost-safety equation. At this stage, the question, which flag, which crew? emerges. As low crew costs are not the exclusive determinant of the vessel's flag, nor the nationality of the officers and ratings; what are the relevant factors at work? A leading ship manager, Svein Sorlie, of the Barber International group, has argued that high wage cost nations, such as Britain, should,

> ...accept that the future lay in using low cost, but larger crews from Asia.[14]

Sorlie's perception limits UK ratings to just short-sea ferries and specialist ships. Implicit in this assumption is the view that UK crews will prove more competent in operating specialist vessels. By considering the contrasts in technology in the modern merchant navies of the world, it follows that the demand for skilled crews varies enormously. For example, a bulk carrier, operating on an iron ore or coal shuttle bulk service would demand basic seafaring skills and experience. By way of contrast, the tanker servicing North Sea oil rigs, with highly sophisticated positioning and loading techniques, will place a premium on skill.[15] It next remains to demonstrate the link between the specific demands of the vessels trading pattern and the nationality of its flag.

Operational Standards and the Choice of Flag

The safety performance of registries and nationalities has proved highly contentious in the debate on decline. In Chapter Fifteen the question of comparative safety is discussed; at this stage attention focuses on the relationship between operating standards, the new international division of labour and the business decisions on registration. In particular, how safety considerations form an important consideration in the global spread of shipping organisation. For companies such as Shell, BP and Sealink it appears that the specialism of the work makes the relatively high costs of the UK flag and/or UK crews acceptable, albeit on off-shore agreements. The risk factor of a ferry disaster or an oil spillage are such that the extra cost is deemed unavoidable.

This suggests that the choice of flag extends beyond a purely cost oriented determinant of registration policy. It can be seen that the lower the private costs of operation, the higher the social cost of accidents. Using this methodology, Professor Doganis has demonstrated that FOC vessels generate higher total costs - when social and private costs are combined - than regulated flags.* For prestigious, reputable owners this cost-risk element is integral to their operations. Esso's decision to retain UK flag and crews for their European operations, encompassing the demanding North Sea trade, supports the reputable owner thesis. Following crewing negotiations in 1987, NUMAST officials were pleased to report on Esso's rejection of FOC operation:

> They put a high value on their good safety record and although flagging out might save on employment costs, they believe they would incur higher costs because of a higher incident rate.[16]

For the less well known, low risk cargo operator, competing in low value trades, the propensity to register under the UK flag and/or employ high cost UK crews will be somewhat low. Many of the UK firms flagging out to developing nation registries,

*The extent of maritime disasters and the high political profile they generate has necessitated a methodology capable of appraising the whole range of private and public costs involved. This dimension leads to a questioning of the assumption that the market choice of the lowest cost carrier leads optimises economic welfare when the costs of marine disasters are considered. See: K.Giziakis, "Economic Aspects of Marine Navigational Casualties," Journal of Navigation, Sept 1982, pp.466-478.

employing low wage national crews, fall into this category.*

This question over safety standards was discussed at the 1988, "Which Register, Which Flag Now? conference held in New York. Amongst the issues discussed was that of the easy entry of:

(1) low cost/high risk operators;

(2) low safety standards allowed by registry authorities;

(3) unprofessional standards of "fly by night" classification societies.[17]

Despite the efforts of the Liberian and Panamanian registries to vindicate their reputation, it does seem that a hard core of UK specialist, high cargo value, operators will show preference to the UK dependency, UK crew, adaption of global shift in maritime economics. This next brings the question of cost savings for a UK firm going "off shore" under these conditions.

The Crewing Out Decision

Given the complexity of crew employment under global market conditions, a reassessment of cost factors is required. Historically, crew costs have been synonymous with the total costs of labour; in the social democracies of the developed nations this has included social welfare provision - pensions, social security, redundancy, payments. The shift towards a

*This is particular the case in the bulk trades where UK owners have combined FOC registration with low wage "Pacific Rim" labour. Source: conversation with Mr.D.Underwood, Denholm Ship Management Agency, Whitehall Court, London, Oct 1989.

global market has now drawn attention to the components of these total crew costs. Professor Goss has outlined the three items:

(1) Level of wages;

(2) Level of productivity;

(3) Extent of social welfare costs.[18]

Goss has argued that whilst items 1 and 2 have been well recognised by operators, the third item, social-welfare costs have often been overlooked. Goss has estimated that these social-welfare costs have two influences on operational economics: firstly, extended wage bills for the employer, and, secondly, reduced take home pay for the seafarer.[19]
Whilst the employer attempts to meet the social-welfare bill by covering these costs, it can be seen that the employee will seek some financial compensation for the loss of immediate earnings-Goss has estimated a 22.5 percent reduction in a UK seaman's pay brought about by tax and social welfare deductions. For a UK seaman earning $1000 per month gross (using Goss' equation) the social welfare contribution made by, the employer = $78, the employee = $72.

It can be seen that the respective contributions are in the region of 7 and 8%. Using the combined tax and social welfare contributions figure of 22.5%, it follows that the seafarer's "take home" pay will be reduced to $775. What the off-shore agreement offers the shipping company is a reduction in the total costs of crew employment; for the seafarer there is the possibility of enhanced global competitiveness and increasing nominal earnings, buying in the services of private tax consultants, insurance and pension brokers, as and when required.[20] Using supply and demand curve methodology this mutual "trade off" is illustrated in Figure 37. The increased supply of crews will lead to a reduction in wage rates and, as a consequence an increase in the demand for their services. This fits in with the successful attempts of the UK shipowners to achieve a decentralised labour market(discussed in depth in Chapter 14); and it may be seen how well this move towards "off shore" agreements fits into the market philosophy of the Conservative Governments from 1979 onwards. It also reflects the move towards tough bargaining stances of the shipowners in industrial relations issues. It can be seen, however, that herein lies an explanation for the rapid growth of the UK dependency registration, off-shore agreement, particularly as this process does offer the prospects of reducing operating costs whilst maintaining operational standards, using established and experienced UK crews. In early 1989, it was reported that there were some 9000 UK nationals employed on off shore agreements, against 25,000 on-shore agreements.[21]

Managing Out?

Having considered the various oriented moves towards flagging out, "Managing out" takes the new international division of labour in UK shipping a step further. By selling the actual hard assets - the ships - and therefore evading the risks of ownership in a slack market, the concentration on managing vessels allows for a low-risk utilisation of the considerable expertise of British shipowners/managers. A number of traditional owners have tempered their withdrawals from shipowning with moves towards hiring out their managerial experience. The diversification of such firms as Furness Withy, Denholms and British and Commonwealth to ship management has been identified (see above: p. 177-9); if the UK's

FIGURE THIRTY SEVEN: SUPPLY & DEMAND MODEL OF THE IMPACT OF OFF - SHORE CREW ARRANGMENTS accumulation of expertise and experience as a factor input into the global shipping market is considered, it can be appreciated how well this compliments such factors as the desire for many developing nations, with limited maritime experience, to expand their own fleets. Also, if there is a supply surplus of ratings in the global market, the same cannot be said of senior management supply - thus a strong demand for expertise and experience is manifested.[22]

From the market view perspective, ship management can be seen as a move towards the higher value end of shipping, with the more labour intensive task of actually operating the ship left to a (predominantly) developing nation crew. The experience of Denholm's ship management enterprise also shows that UK officers have been used as an interim measure, providing a "stop gap" until sufficient amounts of developing nation officers could be trained and certified. In 1983, Denholms employed 1500 British officers, 500 of which were on UK flagged ships; by 1988, only 400 British officers were employed, 100 of these finding work under the British flag.[23] For such firms making the transition from tramp ship owner to ship manager, the change of direction can be seen as a necessity. Operating in the bulk tramping trades UK flagged, crewed, ships would prove vulnerable to low cost flag competition. Unlike the specialist/safety oriented exclusive operations of the UK's premier owner - P&O, Cunard, Esso, Shell, BP, Sealink - considered above, the tramp operators face an inclusive market with private costs forced down to the margin. This has proved critical for survival, allowing little consideration for such social cost burdens as social welfare and safety. In this context, the managing out process becomes an inevitable response to the new international division of labour which has proved detrimental to UK flag operations in the lower value sectors.

The Competed Out Thesis?

The market view of the global shift in world shipping sees the competitive impact of developing nation shipping, resulting in the decline of the developed nation fleets. Attention has already been drawn to the cost reductions from, low cost crews, minimal tax regimes and less demanding safety regimes; and how these factors have conspired to provide insurmountable competition in certain trades. Analysis of the qualitative evidence reveals, however, that a number of amendments to a purely market process needs to be made. The impact of low cost competition has been shown as varying in accordance with:

(1) the types of shipping organisation involved;

(2) the market situation.

The tonnage and market share of FOC vessels in world trades had risen consistently and at times, dramatically in the period up to the early 1980's. In 1950 the FOC fleet accounted for just 4.4 percent of the world fleet. By 1970 it totalled 41.1m.grt, 18 percent of the world fleet, by 1980 the respective figures were, 114.6m.grt and 27.3 percent.[24] This growth has occurred in primarily the wet and dry bulk trades it is proposed to consider, firstly the impact on the oil trades, and, secondly, on the dry bulk commodity trades.

Flagging Out in the Tanker Sector

Taking a closer look at the decline of the UK tanker fleet within the context of the new international division of labour a number of organisational considerations need to be made. In Chapter Four's profile(see above:pp.92-6), the paucity of new UK entrants into the booming, pre 1975, tanker market was outlined. This led to the prevalence of the VLCC fleets of the oil majors in the UK tanker sector; and when the shift in demand from long to short haul voyages occurred these vessels were rendered uneconomic given the over-tonnaging problems, post 1975, under the UK flag. The BMCF study has revealed that between 1978 and 1988, 175 UK flag tankers were sold without replacement, and a further 78 were flagged out to (primarily) open registries.[25]

The business behaviour of the oil majors has been shown as a major determinant here with the rationalisation of their VLCC fleets and the restructuring of the existing fleet's organisation, leading to flagging out. The basis of this behaviour rests upon the strategies of the oil majors with their preferences for the "arm's length" control of environmentally sensitive market segments, such as the North Sea, or the higher value product trades. Flag of convenience operation allows the majors to balance the desire to retain a strategic control over their tankers with the commercial desire to attain lower costs.

Table Twenty Two shows the extent of FOC tonnage(Panamanian and Liberian) in the tanker sector.

TABLE TWENTY TWO: THE PANAMANIAN AND LIBERIAN TANKER FLEET, 1975-90(000.GRT).

In the restructured oil trades, post 1975, the shift from long to short haul, in conjunction with worldwide recession, created a surplus of tonnage. This was to exacerbate the problems facing UK owners as rates fell. For such liner companies which had diversified into tankers - P&0, British and Commonwealth, Furness Withy - this signalled the need for withdrawal from the sector. Given the transition that the liner companies underwent towards conglomerate activity, remaining in the erratic tanker market became an unsustainable risk. For the UK tanker independents, the market position was made more difficult by the increased competition by the sale of large volumes of tonnage by the oil majors to low cost operators.[26]

It can be seen that the impact of the new international division of labour in shipping has coincided with the organisational and business behaviour factors to bring about the decline of the UK tanker fleet.

Flagging Out in the Bulk Trades

In the dry bulk trades demand has been much more stable than in the tanker sector, and a large FOC fleet has endured. Table Twenty Three shows the extent of tonnage under the Liberian and Panamanian Flags. In addition, the growth of the world bulk fleet has brought about a recurring surplus capacity (see below:pp.295-8) in the sector.

The fragmented global structure of bulk shipping organisation has leant itself to closed markets and a highly selective FOC operations. The oligopsonistic nature of the bulk trades, plus easy market entrance, was well suited to the multinational commodity owners utilisation of FOC operation. In addition, the relatively small scale organisation of the UK bulk owners made it difficult to find sufficient capital to invest in the larger (Cape size) tonnage. As a result, the economies of scale, which would have off-set the higher costs of UK flag were denied the UK owners. By 1990, only the conglomerate, P&O, drawing on its financial strength, could claim a significant share of the Cape size bulk sector flagged in Hong Kong.

TABLE TWENTY THREE: THE PANAMANIAN AND LIBERIAN BULK FLEETS,(INCLUDING OBO's*),1975-90(000.GRT).

The diversification of such traditional tramp shipowners as Denholms and Ropners into worldwide bulk shipmanagers also proved problematic. By offering the benefits of their expertise to the new entrants into the sector, the shipmanagers were contributing to the erosion of the traditional markets of the UK bulk fleet. Given the range of economic difficulties facing the UK bulk owners, total withdrawal from the market appeared the only possible option. This is borne out by the unwillingness to flag out; of the 235 bulkers which left the UK registry between 1978 and 1988, only 25 were flagged out.[27]

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*Ore-Bulk-Oil(OBO's) are a mixture of dry-bulk and wet-bulk tanker capacity. See: H.L.Beth, A.Hader, R.Kappel, 25 Years of World Shipping(London: Fairplay Publications, 1984), pp.45-6.

Summary and Conclusion

The response of the UK tanker and bulk owners to the new international division of labour has now been demonstrated. In order to understand the link between decline in these sectors and the global shift in shipping it has been necessary to consider a wide range of organisational and business behaviour factors. This has taken the analysis beyond the market view of the allocation of world shipping resources based upon the conditions of comparative advantage.

The general impact of the FOC option - with its inherent ability to evade the costs of the regulated UK flag - has been outlined. The question of maintaining operational standards under FOC's appears to have been solved by the emergence of the UK dependency registry. This was to prove particularly attractive to the leading oil majors. The desire to reduce employment costs has led to crewing out arrangements, leading employment terms and conditions minimalised by their off-shore characteristic.

The attraction of managing out, has seen shown to be a highly selective option pursued by UK sector leaders in dry-bulk and independent tanker shipping. This direction can be seen as inimical to the majority of UK owners in these sectors as it served to intensify competition from developing nation fleets. The question over UK shipping being competed out of the UK registry has been answered by considering the options open to the UK owners specific to (a) the tanker sector, (b) the bulk sector. The response of the UK tanker owners can be seen as divided between the oil majors and the independent owners. Whereas FOC operations under UK dependency flags offered the oil majors a blend of improved cost efficiency and strategic control, the independent owners were faced with a declining market, reflected in over-tonnaging and falling charter rates. The only choice in these circumstance was to diversify from the tanker sector completely. A similar fate was to befall many of the UK bulk owners; lacking the ability to either become ship-managers or to up-grade investments into larger vessels, withdrawal from the industry completely became unavoidable. This helps to explain the demise of many of the regionally based dry-bulk owners(see above: pp.171-77). The problems of over-tonnaging and the resulting decline in freight rates only served to intensify the pace of withdrawal.

Within the context of the new international division of labour, the impact of flags of convenience on the options open to the UK owner has been determined by a range of organisational and business behaviour factors specific to the two key sectors. From this perspective the link between flags of convenience and the decline of the UK fleet is explained by a range of qualitative factors inherent in the historic and evolving organisation of the UK fleet and its impact on business behaviour. The following Chapter extends this new international division of labour context to the impact of developing nation shipping fleets.

Chapter Ten: Endnotes

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Chapter Eleven: The Impact of Developing Nation Shipping

Introduction and Objectives

Whilst much of the challenge to UK flag shipping came from developed nation beneficially owned fleets, the period from the 1970's onwards also saw the arrival of the developing nation shipping entrepreneur in the markets of the UK companies. In addition, the rise of state owned or sponsored tonnage has also challenged the once dominance of the UK liner firms, particularly on the ex-colonial trades. The aim of this Chapter, therefore, is to examine the link between the rise of shipping enterprise in the developing nations and decline in the UK fleet. Again the emphasis will be on revealing the qualitative evidence which exists beyond the limits of the market view.

The Rise of the Far Eastern Shipping Entrepreneur

Far Eastern entrepreneurs - C.Y. Tung, Y.K. Pao, Ravi Tikkoo - for example, have proved successful new market entrants. The economic surge in the Newly Industrial Countries (NIC's) in the East has been paralleled by a dramatic growth in shipping activity. By combining the strength of the Japanese Yen, the Hong Kong Dollar and the US Dollar, with low wage labour, the Far East enterprise, nations such as Hong Kong, South Korea, Taiwan, Singapore, Malaysia and Thailand have been among the leading growth registries.[1] This calls for some consideration of the foremost lines in this process.

Starting with one of the leading Far Eastern exponents of rapid growth has been the, Taiwan based, Evergreen Line. Commencing operations with a Far East - Arabian Gulf break bulk service in 1969, Evergreen took on the role of the conference outsider:

> From the very start, Evergreen faced resentment from the traditional liner shipping community, even though many were...European cross traders.[2]

One of the dynamics of Evergreen's growth was the resentment that Far Eastern shippers had against the conference monopoly held by the British and other European lines; by locking into this resentment, "... Evergreen's dedication to loyal support of local interests paid off," with the shippers diverting trade to the Far Eastern carrier.[3] Once established in the Far Eastern trades, the low cost, non conference, operations of Evergreen began to prove successful in competition. An example of their success was provided by the winning of the lucrative Ford UK's contract for Far East shipments from UK conference lines.[4]

Typifying the expansionary approach of Evergreen was the introduction of the round-the-world container service introduced in 1985. The marginal dimension of this innovation was illustrated by Chairman Mr. Chang Yang Fa who suggested that Evergreen would be hoping, "... to at least cover fuel costs."[5] Container shipping economist, Robert Gibney has calculated that the $80,000 fuel costs for the North Atlantic leg will be covered by the carriage of around 60 TEU's per one way trip.[6] The competitive threat to UK lines on the North Atlantic alone is illustrated in Figure 38 with Evergreen's itinerary paralleling those of the Saint Lawrence Consolidated Service (SLCS), which featured the UK flag, Manchester Liners, Dart Line and Canadian Pacific and also, the North Atlantic-North Europe service of ACL,including the Cunard subsidiary, ACL UK.[7] The risks inherent in

FIGURE THIRTY EIGHT: SELECTED N. EUROPE - N. AMERICA (EC)
CONTAINER SHIPPING ITINERARIES (1986)

the marginal approach of just covering fuel costs could be taken as an example of competitive dynamics providing the Taiwan line with an edge in the North Atlantic market at the expense of higher cost UK lines.

And it is from such innovation and enterprise that Evergreen emergence as a major world container operator has occurred. This calls for comparison with the market view.

If comparison of Evergreen to the assumption of perfectly competitive markets is made, a number of exceptions are made apparent. These start from the cargo reservation practised by the *dirigiste* South Korean Government - essential in Evergreen's early "infant industry"* years; and the special financial relationship shared with the Japanese trading house, Marubeni, which has so successfully arranged the Finance for Evergreen's expansion.[8] In addition to these factors, other economic ingredients in Evergreen's growth has been:

(1) FOC utilisation;

(2) For East crews;

(3) Non-conference flexibility;

(4) Dynamic entrepreneurial leadership of the chairman, Mr.Chang Yung Fa, with his 95% equity ownership of the line.[9]

What the evidence suggests is a mixture of entrepreneurial dynamics and state support rather than a purely competitive model of shipping operations. Evergreen and other Third World enterprises, such as the Tung Group and Y.K. Pao's Worldwide Shipping Line, can be seen

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*The term "infant industry" is used to explain the policy of state protectionism employed in developing nations. The aim is to allow new industries-automobiles, steel, shipbuilding, shipping-to develop, safe from the threat of more established international competitors. See: P.R.Krugman, M.Obstfield, International Economics: Theory and Practice(London: Scott, Foresman, 1987), pp.230-232.

as somewhat reminiscent of the early British independent operators. Featuring a mixture of entrepreneurial flare, state support and booming markets; and given their cost advantages and their entrepreneurial decisiveness, such concerns pose a direct challenge to UK flag shipping.

Whilst the global factor market is open as much to British shipping as to concerns like Evergreens, it must be admitted that the individual entrepreneurial style of management - found in the Far East - has largely disappeared in the UK. Institutional entrepreneurs e.g. Mr. James Sherwood at Sealink and Mr. James Sterling at P&O have had some impact on British shipping economics, but the rise of the individual shipping entrepreneur is far more prevalent in the Far East. This entrepreneurial demise in UK shipping is, however, more the result of organisational changes rooted in the historic development of the British economy - with entrepreneurial activity evolving towards conglomerate organisation - than the manifestation of failure in the market-place.

Typical of the innovation and flare prevailing in this type of shipping entrepreneur is Mr.Ravi Tikkoo, the Indian millionaire. In 1988 Tikkoo's Cruise line was negotiating a 28 percent subsidy for building the major UK flagged cruise liner, *Ultimate Dream.* The liner costing, £295m was to be built at the Belfast yard, Harland and Wolff.[10] Although the project was eventually postponed, the advanced and detailed negotiations serves to demonstrate the acumen practised by the new generation of shipping entrepreneur emanating in the developing nations. This was at a time when the UK building and operating of major passenger ships of the stature of the Cunard "Queens" was deemed to be prestigious projects of the past! The scheme reflected an opportunistic response to both the politics of Northern Ireland, featuring the importance of employment in the Harland & Wolff yard and

Government policy on privatisation, which could have led to Tikkoo taking over ownership.[11]

Mr.Tikkoo had previously demonstrated the ruthless side of shipping enterprise in 1977 when the Filipino ratings of his supertanker, *Globtik Venus* went on strike for higher wages. The International Transport Workers Federation (ITF) had declared that on reaching the UK the Filipino ratings were owed "back pay" totalling $260,000.[12] Mr. Tikkoo's response to the ITF, and its UK affiliate the NUS, who had organised a blockade of the ship in Teesport, was that the unions lacked any jurisdiction aboard the ship and that,

> ...The company is paying the Filipino crew in accordance with special agreements.[13]

When the tanker, after breaking the union blockade, reached Le Havre, Mr. Tikkoo was able to displace the strikers - who by then had claimed to be "occupying" the tanker - by the hiring of "mercenary" British seafarers who violently stormed the ship, threatening the strikers.[14] The inclusion of this example of entrepreneurial activity serves to highlight the character of the unregulated approach to developing nation ship owning, against which UK owners must attempt to compete. What the Belfast and Le Havre examples illustrate is the dynamic of Third World shipping enterprise. It is doubtful if any traditional UK shipping company would have wanted to be involved in the political profile of the Belfast project or the risky adventurism of the Le.Havre escapade. This contrasts not only the differences in organisation but also in business behaviour; from this context, critical comparisons of the lower level of enterprise in UK shipping, against Far East shipping, are not appropriate. What the analysis of the historic development of the UK liner companies(see above: Chapter

Five) has revealed is the evolution away from early shipping entrepreneurialism. By way of contrast, Far Eastern entrepreneurship - mixed with *dirigiste* state, as well as corporate support - is currently burgeoning.

The next source of developing nation liner shipping challenging th e UK lines to be considered stems from the protected national liner fleets.

National Liner Fleets and the UNCTAD Liner Code

Within the principles of international economics lies the "infant industry" concept, which explains why developing nations attempting industrial led growth place a protective barrier around its new industries. Developing maritime nations led by Brazil, India, Mexico Nigeria have sought to expand national liner fleets as a complement to broader macro-economic objectives for: export growth, employment generation, balance of payments and currency conservation.[15] This approach has been fundamental to the development of such lines as Lloyd Brasileiro, Shipping Corporation of India, Transportacion Maritima Mexicana SA and the Nigerian National Line. For the developing nation seeking to expand its merchant fleet for such macro-economic aims is apparent that it would face fierce competition from:

(1) established developed nation liner operators:

(2) low cost FOC fleets.

Herein lies the case for state nurturing of "infant industry" shipping corporations in the developing nations Much of the expansion in these country's fleets has, therefore, been via state support.[16] Analysis of the types of ships featured in this expansion points to the predominance of the general cargo liner, rather than fully cellular container liners. This can be explained by the lower levels of capital intensive technology in the developing nations, with many ports lacking adequate container handling facilities.[17] The economics of operating such general cargo liners are somewhat dominated by crew costs;[18] and it follows that the lower wage costs of developing nation ships would prove an advantage against the higher wage cost UK liners. This dimension helps to explain(for example) the replacement, on break-bulk services, of P&O's Tilbury service to the Indian Continent by ships of the Pakistan National Ship Corporation(PNSC) or Elder Dempster's Liverpool service to West Africa by the Nigerian National Line.

Where developing nation expansion in fully cellular has occurred is in the advanced industrialising nations. Table Twenty Four shows the growth of the liner fleets of four of the leading newly industrialised countries (NIC's).

TABLE TWENTY FOUR: SELECTED NIC CONTAINER LINER FLEETS, 1975-90(000.GRT).

Sectoral analysis of this development is pertinent here, with the NIC's proving successful in penetrating world liner trades, much more so than in the bulk sector. Having considered the growing market predominance of FOC's in the tanker and bulker trades, the liner trades appear as easier investment targets for state supported shipping. The developed nation based liner conferences were initially established to regulate the trades of the colonial powers and their overseas trades.[19] As such, they became part of the North-South debate on economic equity, particularly for the ex-colonies seeking a degree of economic independence. The resulting campaign of the maritime nations actively implementing the new international economic order (NIEO) calls for a more equitable world economic system, suffered a long gestation period but has resulted in a significant redistribution of the world liner fleet. UNCTAD'S attempts at implementing a more equitable North-South distribution of liner tonnage began in the 1960'[20] but did not enter into force until 1983.[21] By way of contrast, UNCTAD'S attempts to regulate the bulk trades has not been so successful. The weakening resolve of UK and the other DMEC liner operators contrasts quite vividly with the entrenched attitude of the FOC operators in the tanker and the dry bulk trades.[22]

Under the legislative umbrella of the UNCTAD Code of Conduct for Liner Conferences* and the economic protection stemming from state support, developing nation liner fleets have penetrated the routes once dominated by the liner fleets of the UK and other traditional maritime nations. West Africa, South Africa, India, Pakistan, as well Australia and New Zealand, have all promoted national fleets at the expense of the UK liner operators. The BMCF have found evidence that significant, and increasing, amounts of state protection in

*UNCTAD'S "Liner Code" can be seen as an inter-governmental mechanism for ensuring greater participation for the developing nations in their liner trades. The Code protects at least 40 percent of the trade for the developing nation's fleet. See: UNCTAD, The Regulation of Liner Conferences(A Code of Conduct for the Liner Conference System) (Geneva: UN, TD/104/Rev.1, 1971).

the following once dominated UK trades:

UK-Indian sub-continent; UK-Far East;

UK-Australia; UK-South Africa.[23]

Between 1978 and 1983 the subsidised, privately owned, liner shipping of the developing nations increased its world market share from 3 to 16 percent; and, additionally, the world market share of directly state owned state shipping increased from 14 to 21 percent.[24] The Indian trades were particularly singled out as being under the heavy influence of state intervention.[25]

Given the twin pressures of state supported national fleets and the market share allocation as decreed by the UNCTAD Liner Code, the impact on UK liners could only prove to be detrimental. A similar impact was caused by the next source of challenge to UK liners, the socialist country liner fleets.

The Impact of Socialist Nation Shipping

The emergence of the Comecon* fleets of the East European nations on the once UK dominated cross trades has caused some criticism from UK maritime opinion, particularly over the economic criterion of these fleets, arguing that the Soviet ship managers in

*Comecon was the Communist organisation ,the Council for Mutual Economic Aid or Assistance. This proved conducive to fleet expansion in the USSR, Poland, GDR, Bulgaria, Romania, Hungary, Yugoslavia, Cuba and Vietnam. The trading arrangements between these partners saw a "barter" system which utilised the massive shipbuilding capacities of such shipyards as the Neptune Yard in Rostock(GDR) and the Lenin Yard in Gdansk(Poland). Typical of the arrangements was the supply of low cost USSR gas to the GDR in exchange for new tonnage. See: I.Chrzanowski, Shipping Economics and Policy(London: Fairplay, 1979).

particular did not have to pay insurance, benefited from low operating and voyage costs brought about by cheap crews and bunker costs.[26] On some key liner routes, Comecon ships were charging rates up to 65 percent lower than conference rates.[27] Similar concerns have been expressed by the rapid growth of the People's Republic of China(PRC) China Ocean Shipping Company(COSCO fleet, see above: Table 24). This brought about the emergence of a modern, low cost, fully cellular fleet on China services out of Tilbury and coincided with the withdrawal of the UK flag Ocean Transport's Barber Blue Sea service on the same route(see above: pp.156-7).

TABLE TWENTY FIVE: USSR & FOC(LIBERIA & PANAMA) SHARE OF UK TRADE, 1975-90(M.GRT)

Although the cost advantages of socialist shipping have only led to a small, steady incursion into UK market share in comparison with FOC tonnage(contrasted in Table Twenty Five), the impact on the UK fleet is felt by the increased choice facing shippers. Simon Bergstrand found that the paralleling role of COMECON and COSCO liner fleets alongside major conference routes served to drive down rates. Although their liner service is normallyinferior to UK and major European lines in terms of a quality service,* the presence of non-conference tonnage offered shippers some leverage in the market-place. From this perspective, the profit margins of the UK lines are reduced by the presence of socialist shipping.* Given the low costs of these nations with their emphasis upon the Marxist economics interpretation of the Labour Theory of Value,** the UK liner fleets were bound to be placed at a disadvantage on its traditional routes. The sharp contrast in fleet economics between the UK and the socialist nation liner fleets renders any easy competitive analysis inoperable; and again it is the qualitative analysis which provides explanation of the linkages between these and the decline of the UK liner fleet.

Summary and Conclusion.

The evidence accruing from this analysis of this Chapter provides explanation for the inverse relationship between UK fleet decline fleet and the growth of the developing nation

*A comparative example is provided in the UK-Far East trades between the USSR's Balt-Orient Line and the Trio service - featuring the UK flag P&O/OCL fleet. The USSR line offered a 10 day frequency Tilbury call with 19 knot, 700 TEU vessels, whilst the UK line, in conjunction with the other Trio members, offered a 2.3 day frequency Southampton call, with 23 knot, 3000 TEU vessels. SOURCE: Derived from Lloyd's Loading List

*Conversation with (the late) Mr.Simon Bergstrand, Senior Lecturer in Maritime Economics, Polytechnic of Central London, Marylebone, June 1991.

**The adherence to Marxist economics leads to cost advantages derived from the Labour Theory of Value. This leads to operating costs closely reflecting labour value. The contribution of capital becomes minimised in cost formation which becomes determined by the labour embodied. See: R.E.Athay, The Economics of Soviet Merchant Shipping Policy(Chapel Hill: University of North Carolina Press, 1971), p.4 and pp.31-40.

fleet. The evidence is of the wave of Far Eastern entrepreneurs combining a flare for new market opportunities, international crewing arrangements and state generated shipbuilding subsidies. In the liner trades this engendered low cost - yet high quality - non-conference competition on premier liner routes. Whilst the entrepreneurial dynamism of these owners has been made evident, so too has the extent of state and corporate support contributing to their growth. This questions the accuracy of the market view's assumption of open competition and comparative advantage in determining the composition of the liner market.

The rise of the national liner fleets, in conjunction with the UNCTAD Liner Code, also points to the mix of non-market forces shaping the supply of liner shipping. In addition, it has been shown how the technology base of developing nation liner trades has militated against UK flagged vessels. Combined with the political interventions of developing nation governments and UNCTAD's 40:40:20 market share allocation, the balance inevitably tilted away from the UK lines.

For the UK liner operators, the increased market penetration from state supported developing nation fleets was to prove detrimental, with many of the once colonial trades being lost to UK liners. The UNCTAD Liner Conference only served to exacerbate the problems of the UK lines. By a mixture of state subsidy and state and intra-state protectionism the national lines were able to erode the dominance of the UK lines.

The rise of developing nation shipping enterprise has been shown to have had a detrimental impact on the UK fleet. However, the explanation of this rise turns to a mixture of state intervention in the form of subsidies and protectionism, low crew costs and non-conference operations. In the Far East, this is blended with a new wave of aggressive shipping enterprise. In the national and socialist fleets, the emphasis is upon a mixture of protectionism and state support - both have worked to the detriment of the UK liner sector.

The points to the influence on organisational factors at work in the rise of developing nation fleets, shaping business behaviour very much at the expense of the UK fleet.

The impact of developing nation liner fleets on the UK liners has been made evident at both ends of the technology spectrum: general cargo, break-bulk shipping has been lost to the national fleets; fully cellular trades have been lost to the fleets of the NIC's and socialist nations. The qualitative evidence emerging here can then be used as an explanation for the >4m.grt UK decline in the liner sector between 1975-90.

Within this context, the market view assumption of UK shipping's competitive failure is not applicable given the range of qualitative factors in the rise of developing nation shipping enterprise which have culminated to have a detrimental impact on the UK liner fleet.

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Chapter Twelve: The Taxation Issue

Introduction and Objectives

A major area of controversy in the debate surrounding decline has been that of the changes in fiscal policy and its impact on the UK fleet. The polemical tone of the debate has been particularly acute since the withdrawal of tax allowances post 1984. The question of tax allowances is most pertinent to the thesis of this work in that it features government economic policy and intervention; and opinion can be seen as dividing between the market view which regards tax incentives as a distorting influence in the market place, and advocates of a tax regime which would prove conducive to new investments in British shipping.

The evidence provided by the debate on capital allowances has provided significant insight into the nature of modern business behaviour in shipping. In particular, the importance of investment incentives to UK lines, given the organisational changes already in train by 1975. What this points to is the reality of state intervention in modern business networks. This obviously contradicts the market view of open, unhindered, shipping markets. The objective of this Chapter is, therefore, to analyse the debate over capital allowances in order to demonstrate the extent and importance of this non-market dimension in shipping economics; as such, this provides a major contribution to improved understanding of decline.

From the market view perspective, tax allowances could only serve to distort the market and impede competitiveness. As a consequence the withdrawal of capital allowances which began in 1984 was seen as a restoration of competitiveness. Firstly, a short history of the tax regime is necessary in order to show its importance to UK shipping.

The Historical Context

During the post 1945 period a range of investment allowances and grants have been offered British owners at various times (see: Appendix 6). Between 1966 and 1970, British shipping firms were entitled to an investment grant on new buildings;[1] this was replaced by a capital allowance system which provided for a 100 percent first year allowance on new tonnage.[2] The further provision of flexible depreciation meant that this allowance could be claimed in any year selected by the owners, enabling them to maximise the benefit of the allowance. Thus it was that the tax regime provided the UK owners with the advantages of postponed tax burdens at the time of the investment and the flexibility of being able to spreading their tax liabilities over a period set at their own discretion.[*] The rationale for capital allowances was based on the efficacy of maintaining investment in British shipping, ensuring that the pace of market change was maintained by the UK owners. Additionally, the strong ties that had existed between UK owners and UK shipbuilders would result in the benefits of sustained employment in the shipbuilding towns.[3] This was particularly the case given the tax free regimes offered by flag of convenience competitors.[4] The General Council of British Shipping (GCBS) were strong advocates of the capital allowance system which was abolished in 1984:

[*]Between 1972 and 1984 UK shipping, along with other industrial organisations, enjoyed the cash flow advantages of the 100 percent first year allowance. This provided companies with enhanced cash flow as a result of the postponement of the tax burden at a time when the investment had reduced it. See: R.B.Brockington, Financial Management(Eastleigh: DP Books, 1983), p.190. The advantage of free depreciation allowed shipowners the option to balance tax liabilities against the shipping cycle. See: "Business Brief: Depreciation Appreciated," Lloyd's Ship Manager, May 1984, p.5.

> Before 1984 British shipowners enjoyed a favourable fiscal regime that allowed them to write off quickly the cost of a ship against taxable profits.[5]

The GCBS have also maintained that the system brought results in the form of increased investment claiming that between 1975 and 1984 an additional 12m. dwt of new British tonnage was induced.[6]

The Abolition of Capital Allowances, Post 1984

The decision taken to abolish the system for all industries by Chancellor Lawson can be seen as closely related to the market forces perception that such allowances would lead to high corporation tax leading to the penalising "...profit and success, and blunting the cutting edge of enterprise...We need investment decisions based on future market assessments, not future tax assessments."[7] The logic of this statement when related to shipping was that the shipowners would make non-commercial investment decisions and that this would prove inimical to the interests of British shipping. It can be seen how this viewpoint contrasts sharply with that of the GCBS. In order to further the analysis of the debate, it is now necessary to make some description of the capital allowance system and its impact on British shipping, given a range of organisational and market positions.

Three main tax position models are offered here in order to contrast their influence on business behaviour:

(1) The tax free position;

(2) the full tax position;

(3) the no tax position.

Under the tax free position it can be assumed that there is a complete absence of taxation. This would be the situation prevailing under many of the flag of convenience regimes. Under the full tax position, it can be assumed that the shipowning company has made sufficient profits from other vessels thus allowing capital allowances to accrue to any new shipping investment.

Under the no-tax position it is assumed that the ship is owned by a conglomerate organisation, to which shipping is a subsidiary activity; and, furthermore, it is assumed that substantial profits are being achieved within the conglomerate. Tax liability within the conglomerate can, therefore, be off-set against allowances apportioned to the new ship. The assumptions are based upon a $10m shipping investment which generates an annual net income of $1.65m over a 15 year charter period. Table Twenty Six provides the complete financial data on which the comparative investment appraisals are made.*

TABLE TWENTY SIX: INVESTMENT APPRAISAL ASSUMPTIONS

*The models employed here are taken from J.Sloggett's, Shipping Finance: Financing Ships and Mobile Offshore Installations(London: Fairplay, 1984). See also: J.J.Evans, P.B. Marlow, Quantitative Methods in Maritime Economics(London: Fairplay Publications, 1986).

The criterion selected for this comparison is that of the financial managers' internal rate of return (IRR),** which allows for a measurement of the extent of net returns on the initial £10m investment. The respective IRR's on a £10m vessel investment, achieving a £1.65m per annum charter revenue, are as follows: the tax free position would provide an IRR in excess of 17 percent; under the pre 1984 100 percent first year allowance (FYA) system a 13 percent IRR is attained under the full tax position; under the same pre 1984 FYA conditions, a shipowning conglomerate in the no tax position could realise an IRR in excess of 49 percent. These positions are illustrated in Figure Thirty Nine.

The considerable differences in IRR's according to the tax position of shipowning companies is therefore explained by the ability of these firms to off-set investment outlay against profits. The large IRR achieved by the shipowning conglomerate - which has been able to off-set earning from other assets against the capital allowance - helps to explain the concerted opposition of British owners, particularly those approximating to the conglomerate organisation. The crucial importance to the UK register of the two leading UK conglomerate owned fleets, P&O and Cunard, was demonstrated in Chapter Six. Mr.Kerry St.Johnston, the 1987 chairman of the GCBS, was to endorse the importance of conglomerate finance in UK shipping, arguing the case for a return to investment incentives because of the problems facing,

> ...shipping groups under the parentage of large multi-discipline organisations, where there is always a keen struggle convincing shareholders...that more money should be put into shipping rather than channelled into other more obviously profitable sections.[8]

**The IRR is used as a methodology in investment appraisal. By assessing the net cash flows of an investment project over time it is possible to discount cash flows in order to make the appraisal. Once the net cash flow has been discounted the actual rate of return achieved by the investment is made evident. See: J.E.Sloggett, Shipping Finance: Financing Ships and Mobile Offshore Installations(London: Fairplay Publications, 1984), pp.35-50.

FIGURE THIRTY NINE: COMPARATIVE IRR MODELS AS DETERMINED BY TAX REGIME.

In relating this plea to the critical corporate appraisal which led to the demise of the Ocean Group fleets(see above: pp.155-158), the importance of any incentive which favours shipping investment becomes evident. Following the 1984 abolition of the FYA system(finally phased out by 1987) the ability of conglomerate concerns to off-set was reduced: the conglomerates 49 percent IRR declines to 21 percent; this, however, still compares favourably with the 13 percent attained by the shipping company operating under the full tax position.

As the timing of the withdrawal of the FYA system coincided with the period when the decline of the British fleet was continuing at a rapid rate, it was bound to form part of the agenda on the debate on decline. The debate has also been fuelled by the deteriorating age profile of the UK fleet, raising concerns over its long term prospects. Figure Forty shows the aging stucture of UK fleet and allows unfavourable comparison with the world fleet.In 1987, Transport Secretary, John Moore, was to claim that,

> The decline in the UK registered fleet has basically been the result of transfer and sale not low investment in new or second hand shipping. The heart of the problem has been simply that returns on shipping are too low...[9]

Investment specialists, Colvin and Marks have also defended the abolition of FYA's, claiming that they only,

> ...encouraged mergers for financial rather than economic reasons. Our tax system has operated to hinder rather than to promote the set objectives of competitive efficiency and profitable investment.. .[10]

These two examples of the case for abolition of the capital can be seen as closely aligned with the market view, with particular reference to the concept of the efficacy of a competitive market place. From this market perspective, any moves away from the competitive model

FIGURE FORTY: UK & WORLD TONNAGE %
<FIVE YEARS OLD, 1975–90.

are to be seen as inimical to the interests of shipping and trade. Shipping academics J.J.Evans and P.B.Marlow have blamed the practice of financial organisations' entering into the shipping markets in the pre 1984 tax regime. By investing in new tonnage to be leased out to traditional shipowners, the financial concerns would benefit from the ability to off-set their taxable non-shipping profits against the capital allowance system.[11] Gardner, Goss and Marlow have apportioned such moves towards conglomerate activity in the shipping industry as the takeover of the Cunard Line by Trafalgar House conglomeration and the diversification process of P&O from traditional shipping to a successful business conglomerate, to the pre 1984 FYA system.[12] Additional criticisms by the same authors were that this tax regime was discriminatory against new entrants to the shipping industry as they would lack the accumulated profits necessary for tax allowances.[13]

The market preference of the Conservative governments during he 1980's was clearly illustrated by the creation of the Business Expansion Scheme (BES) which was intended as a means of stimulating entrepreneurial activity in British industry by providing tax concessions for investors in new enterprises. The intention can be seen as very much rooted in the market view and its perception of competitive markets.

The contrast in opinion on capital allowances can clearly be seen as dividing between the market view, with its emphasis upon open competition, and the case for state support for the UK fleet. Analysis of these positions is next offered.

Analysis of Tax Debate.

In analysing the debate over taxation it is apparent that the two strands of opinion are irreconcilable. The description and discussion on the BES shipping firms does provide some evidence to support the market view. The selective success of such coastal firms as Short-Sea Shipping, Carisbrooke Shipping, Altnacraig Shipping and Bromley Shipping (see above: pp.179-184) does evidence moves towards a more entrepreneurial UK shipping industry. This must, however, be qualified by the evidence from this development which reveals the reappearance of traditional coastal firms with a new business identity under the BES conditions. From this context, the tax reforms have served to restructure, rather than revive, the UK fleet. As regards the deep sea sector it was only the creation of Edinburgh Tankers that could be attributed to BES. As a system for channelling investment into new entrepreneurial areas of shipping, the performance of BES cannot therefore be claimed a success as a generator of significant entrepreneurial investment.

The evidence provided in Chapters Five to Eight challenges the market view of the need for a more competitive environment based on entrepreneurial conditions. Given the moves towards consortia and conglomeration in liner shipping, the demise of the British tramp shipping entrepreneur and the changed behaviour of the vertically integrated shipowners, the attempts at promoting a entrepreneurial ethos in British shipping appears to be based upon a perception that latent competitiveness exists in the industry. The market view was that decline had occurred as a result of a business environment which had been distorted by the tax regime, that shipping firms, and in many cases their conglomerate or financial house owners, had become more interested in the provisions of tax shelter than the discipline of the market. From this market perspective the logic of abolishing the FYA capital allowance becomes apparent as a means of restoring competitiveness. In analysing the reaction to this market led policy, the qualitative evidence serves as a reminder of how the organisational factors have shaped business behaviour towards investment in the principal sectors of the fleet.

The reality of consortia and conglomeration and the entrance of financial houses into shipping markets can be seen as a result of the increased capital burden of larger and more technically advanced vessels; and the emergence of an international division of labour in shipping with such inherent economic advantages as low labour costs, tax free status and, in some cases lower operating costs accruing from sub-standard operation, necessitated a tax allowance if British shipping was to stand any possible chance of competing in these circumstances. Returning to the *Manchester Vanguard* case considered in Chapter Six(see above: pp.162-5) the defence of the subsidiary arrangement with the multinational Pilkington Brothers was based very much based on the reality that without the tax allowance incentive the ship would not have been built and Manchester Liners, and thus the UK fleet, would have been minus one modern container vessel. The use of the financial manager's financial investment appraisal has shown clearly the advantages of such business arrangements under the pre-1984 tax regime. Given the state of the international market place, the changing organisational structure, and thus behaviour, of many of the traditional UK shipping families and the increased capital cost burden of new tonnage, the opportunistic utilisation of the FYA system proved quite rational; conversely, the case for abolition can be seen as rooted in a market perception which was incongruous with the state of British shipping and its international environment.

Summary and Conclusion

This Chapter has analysed the evidence of the issues of the tax regime and its changes. What has been achieved is essential understanding of the organisation and business behaviour of fleet sectors within the context of the tax issue.

Firstly, the organisational changes that have moved the leading players in UK shipping closer to consortium and conglomerate business activity have been highlighted. This has led to a process of capital concentration which provides a clear contrast to the market view perception of the need to widen competition. The attraction of combining shipping investment with the taxation strategies of complex business networks measures the distance that the leading UK lines have moved from the purely shipping enterprise.

Secondly, it has been made apparent that the market view is rooted in the assumption that a latent bank of entrepreneurial shipping skills is available, given the right market conditions. The disappointing response to the BES questions this assumption. Only in the specialist coastal and, in the case of Edinburgh Tankers, ship trading markets, was investment induced.

A third point stems from the evidence accruing from this analysis of the debate on taxation demonstrates the dependency of the modern shipping business on investment incentives. Rising capital costs -during a period of depressed freight rates - has necessitated such state interventions.

Fourthly, the evidence from Chapter Eleven pointed to the range of forces generating investment in developing nation shipping; and the selective response of UK shipping entrepreneurs to ship-management opportunities in the global market was highlighted in Chapter Seven. In order to stimulate new investment under the UK flag it has become apparent that the market view's adherence to the open market is found wanting. The GCBS has pointed to the popularity of investment incentives with UK owners pre-1984. Given the conglomerate organisational structure of much of UK shipping and its limited range of selective investment opportunities, plus the high capital costs of new tonnage in the 1975-90 period, the dependence on incentives becomes apparent. Increasingly as shipping investments were measured against the opportunity costs of alternative non-shipping projects, its low returns were emphasised, leading to disinvestment. As a consequence, the dilution of capital allowances following the 1984 Budget only serves to exacerbate the economic difficulties of the UK fleet.

Finally, what this Chapter has revealed then is importance of organisational structure - and its resultant business behaviour -in explaining decline. The analysis has been extended beyond the market view in order to encompass the qualitative dimension in shipping investment. The following Chapter extends this critique of the market view to the issues of over-tonnaging in world shipping and its impact on the UK fleet.

Chapter Twelve: Endnotes.

1.M.Davies, Belief in the Sea: State Encouragement of British Merchant Shipping and Shipbuilding (London: LLP, 1992), pp.203-216.

2.Ibid. p.273.

3.Ibid. pp.159-180.

4.H.M.Committee of Inquiry into Shipping Report, Command 4337 (London: HMSO, 1970), p.365.

5.GCBS, Annual Report, 1986/7, p.2

6.Loc.cit.

7.Chancellor Lawson's Budget Speech, Hansard, 13.3.84. cols. 295-6.

8."Look Out," Fairplay International Shipping Weekly, Vol.307, Jan 1988, p.3.

9."The Government's Plans for Merchant Shipping," Esso Mariner, May, 1987, p.5.

10.M.Colvin, J.Marks, British Shipping: The Right Course. CPS Policy Study No.67, 1984 (London: CPS, 1984), p.20.

11.J.J.Evans, P.B.Marlow, Quantitative Methods in Maritime Economics (London: Fairplay, 1986), p.184.

12.B.M.Gardner, R.O.Goss, P.B.Marlow, "Shipping Finance and Fiscal Policy," Maritime Policy and Management, Vol.11, No.3, July-Sept, 1984, pp.195-6.

13.Ibid.p.157.

Chapter Thirteen: The Overtonnaging Problem

Introduction and Objectives

The persistence of overtonnaging in the 1975-1990 period, and the issues that this has generated, has been selected here as an important factor in understanding decline. The enduring level of over-tonnaging calls into question the ability of the industry to rectify its problems in accordance with market forces. Over-tonnaging may be defined as too many ships chasing too few cargoes. This results in declining freight rates, cost cutting measures and the exit of tonnage from the market, either into scrap or lay-up.[1] and it is contended here that a wider, more qualitative perspective is necessary if accurate understanding of the problem and its impact on the UK fleet's decline is to be achieved. The objective of this Chapter is to extend the analysis of the causes of over-tonnaging beyond the restrictions of the market view in order to demonstrate the impact on decline.

The Over-Tonnaging Issue

The British Maritime Charity Fund's(BMCF) study of The UK fleet's decline[2] stressed the almost unanimous view of the UK Owners surveyed was that over-tonnaging was a major determinant of disinvestment and flagging out.[3] For example, the BMCF found in a survey of a 100 UK tankers disposed of in the 1978-83 period that the owners blamed over-tonnaging as a key factor influencing their decision.[4] There are many explanations for the causes (and solutions) of this over-tonnaging problem, ranging from political intervention in shipbuilding, to the role of the banks in providing easy credit, and the role of flag of convenience registries in stimulating investment.

The Causes of Over-Tonnaging

In 1978, shipping banker, Paul Slater, was to lay the blame with the shipbuilders and the amount of political support that they enjoy:

> The intervention of governments into shipyard ownership has inevitably meant that political considerations, disguised under a mantle of concern over an exaggerated social problem of shipyard redundancies, has prevented the normal economic process from establishing some balance between supply and demand.[5]

It is apparent that this scathing criticism of governments throughout the world is strongly rooted in the market perception. Taking a similar position the International Maritime Industries' Forum(IMIF) chairman, Jim Davis has charged that:

> It is impossible to have a market-driven transport industry while ship production is backed by yard subsidies or subsidised finance.[6]

The basis of these criticisms is that by subsidising either the shipyards or the shipowners, uneconomic investment in new tonnage was being made, regardless of market conditions. Further charges were levelled at the banking system. Drury and Stokes, have blamed the banking community for extending easy credit to shipowners with,

> ...the US and European banks vying with each other to build up their Euro-dollar loan portfolios...in the relatively undeveloped area of shipping.[7]

The impact of the bankers' efforts to extend themselves into shipping investment promoted some discussion in Seatrade in 1986, when it was reported that an incipient tanker boom was likely to be met by "...the lemming syndrome" of over investment, given the banks failure to restrict credit sufficiently.[8]

The flag of convenience dimension in the over-tonnaging debate provides a challenge to the view that vessel operation under these conditions attains a high level of economic efficiency. In Chapter Nine, the opinion of FOC users was shown to be influenced by the perception that their vessels operated under conditions approximating to perfect competition(see above: pp.221-225). Shipping academic, Professor Folke-Schmidt has challenged this market perception, arguing that the clandestine nature of this type of operation has had a distortive impact on the shipping market, with capital directed into FOC shipping primarily to avoid tax liabilities.[9] Given the constant tendency for new developing nation registries - many of which are characterised by their elderly second hand fleets - to join the more established flags of Panama and Liberia and Cyprus* the supply curve of FOC shipping is constantly shifting outwards.

By combining the three above explanations, a model of speculative shipping enterprise emerges, searching the world for easy shipbuilding terms, easy banking credits, low cost crews and the laissez-faire environment of FOC regimes. The speculative nature of the bulker

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*New additions to the open registry supply, post 1975, include, The Cayman Islands, St.Vincent, Keregulen, the Marshall Islands and Vanauatu. In addition, a number of "in-shore" registries have been created - the UK's IOM, the Danish International Registry, The Norwegian International Registry and the Netherland's Antilles Registry. See: N.P.Ready, Ship Registration(London: LLP, 1991).

and independent tanker trades was outlined in Chapter Seven(see above: pp.183-7), with the freight rate mechanism having an accelerator impact on the supply of tonnage in a rising market. Technology factors can also help to feed this supply accelerator; as new innovatory and cost saving designs become available the desire of the market leaders to maintain their vanguard position leads to the purchase of the new generation of vessels. In Chapter Four, the moves towards larger ships and greater levels of efficiency in fuel and labour saving was made evident as a feature of the main fleet sectors. Shipping correspondents, Bruce and Woodward's, study of investment behaviour in the early 1980's has traced the impact of new designs, new classes of ships, on new orders.[10] Succinctly, they explain how over-tonnaging results from an investment cycle derived from a pattern of simultaneous vessel ordering by the owners:

> Fashion in shipping is as infectious as anywhere else. Two years ago Panamax bulkers were all the rage and everyone had to have one. Last year Sanko set the world trend buying in the 'handy sized' range.[11]

During the late 1970's early 1980's, a number of spectacular shipping collapses sent reverberations throughout the international industry. The Norwegian, Recksten Group, the Japanese, Sanko Line and the Hong Kong based, Tung Group were all to serve as examples of owners suffering from over-optimistic speculation. The Sanko Line's collapse proved to be Japan's biggest ever business failing; and all three firms were to cause severe reverberations in the shipping finance community.[12] The importance of such examples of company crashes to the decline of the UK fleet rests in the destabilising impact they had on the market place. In this context, the decline of UK shipping was, at least in part, explained by the speculation of foreign investors. A large determinant of the Sanko collapse was the ordering of 16 VLCC's, totalling 4.3m. dwt, in the early 1970's just when then the tanker market had "peaked".[13]

Over-Tonnaging in the Tanker Sector.

The tanker industry has particularly been susceptible to the excesses of supply and demand. The over-tonnaging problem commencing in the mid 1970's, was a result of the end of the post 1945 oil boom. How this affected - in qualitative terms - the UK tanker fleet is now considered. Figure Forty One illustrates the vicissitudes of the world tanker fleet, 1975-90, with two lay up peaks of 20m.grt in 1975 and 1985. For the oil multinationals, the crisis of over-tonnaging provoked a change in their tanker business behaviour. Safe in the knowledge that the depressed oil market would ensure that a surplus of tankers would accrue and that tanker rates would remain low in accordance with the laws of supply and demand, the oil multinationals were able transfer their oil carriage away from their own fleets to tonnage chartered from the independent owners.[14] The benefits accruing to the oil multinationals were the lower rates that a highly competitive, over-tonnaged market would ensure, thus the running down of their own higher cost fleets became inevitable. Typifying the changing attitude towards shipowning, Mr.Ron Iliam, Head of BP Shipping in 1982, was to pre-empt his company's drastic fleet run down in 1984 forecasting that the tanker owners' short and long term future was "discouraging"[15]

Whilst the oil majors responded to over-tonnaging by restructuring both their fleets and carriage arrangements, the independent owners were left with the task of surviving in the hostile market place. one response from the independent owners was to call for more order

FIGURE FORTY ONE: WORLD TANKER FLEET
IN LAY UP, 1975–90(M.GRT)

in the erratic tanker market. The owners forum, Intertanko,* has argued the case for an internationally co-ordinated scraping policy. By implementing stringent technical and safety standards, Intertanko have argued that a smaller but safer, more modern, world tanker fleet would emerge, as many of the older vessels would be forced to the scrapyards.[16] Other measures proposed were that of slow steaming which effectively reduced the amount of tankers available for charter.**

Intertanko's response to over-tonnaging is of great interest to the decline debate; whilst on one hand, Intertanko are strong advocates of an open tanker market, their calls for the intensification of technical and safety regulation to be enacted by state agencies can be seen as calls for a degree of intervention in the marketplace. This evidence points to the oligopsomistic nature of the tanker industry, with its tendency to over-supply vessels and seeming inability to regulate its own standards of technology and safety; and the difficulties in successfully implementing such regulative policy can be explained by the extent of world competition. The combination of a second hand market for old tankers and the ever increasing amount of Third World nations willing to accept vessels at the lower end of the market has a destabilising impact.[17] The extent of over investment at the top end of the

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*The International Association of Independent Tanker Owners(Intertanko), is an association of tanker owners. The aim of the organisation is to promote the interests of its members(estimated as owning 140m.dwt in 1987), whilst providing a forum for safety, innovation, over-tonnaging and political lobbying by member companies. See: B.Farthing, International Shipping: An Introduction to the Policies, Politics and Institutions of the Maritime World(London: LLP, 1987), p.66.

**Slow steaming was a preferred response of owners/charterers to the collapse of tanker rates, post 1974. By reducing tanker speeds considerable fuel consumption savings are made and the velocity of the oil supply chain is reduced. See: M.Stopford, Maritime Economics(London: Harper Collins, 1988), pp.36-7.

market up until the early 1970,s could only serve to exacerbate this process as older tankers were replaced by new tonnage only to be sold off to lower cost operators, sailing under less regulated flags.[18] Other factors which militated against the rationalisation policy are the actual costs and benefits of scrapping and the costs of enforcing improved technical and safety standards.

The cost of actually scrapping a vessel can be quite prohibitive: in 1982, it was estimated that the towage costs of delivering a VLCC from her Norwegian fjord lay up point* to the scrapyards of the Far East would be as much as $1m.[19] Related to scrapping costs are the returns to be made; as a positive relationship between demand for ships and scrap prices exists, it follows that during a period of weak demand, scrap prices will be also be weak. Thus the very forces which would force an owner to consider scraping could also lead to the vessel kept in operation until scrap rates provided sufficient incentive.[20] An additional problem is caused by the cost imposition of improved technical and safety standards on the owners during a time of depressed charter rates and thus falling profit margins; the response of the owners is likely to be much more positive during a stronger market.[21]

The inherent optimism of the independent tanker owners has also been apparent as a determinant of over-tonnaging; coupled with the availability of easy credit and subsidised new buildings, this optimism has regularly lead to investment in times of market uncertainty. Despite 15 years of tanker over-tonnaging, the IMIF were forced, in 1989, to warn against

*A symptom of the tanker crisis post 1975 was the large amounts of tonnage taken out of service, laid up. Normally, shipowners will be forced into this option when freight rates fall to the level when the vessel's operation and voyage costs are not met. The Norwegian fjords are just one of a number of world locations used. See: M.Stopford, Maritime Economics(London Harper Collins, 1988), pp.36-45.

uneconomic investment, arguing that a incipient boom in VLCC orders would prove disastrous unless charter rates underwent a 300 percent increase.[22] Jack Goldstein, president of the US tanker corporation, Ogden Marine, has illustrated the impact of any small increase in tanker rates on investment:

> If you are an optimist with money to spend that can only mean one thing-you turn your thoughts to new buildings.[23]

This short analysis of the over-tonnaging problem has illustrated how the uncertain business environment in which the UK tanker owners operated has persisted, and how it helped to change the behaviour of the multinational owners. For the independent owners the intensified competition resulting from over-tonnaging has served to exacerbate the economic problem of operating UK flagged vessels in a market which sought the lowest cost international operator. The forces which have conspired to maintain over-tonnaging and the hesitance of owners to cooperate with rationalisation schemes have therefore contributed largely to the drastic decline of the largest sector of the UK fleet from 1975 onwards.

Over-Tonnaging in The Bulk Trades

Although the bulk industry did not suffer the problem of over-tonnaging to the same extent as the tanker sector, the tendency is still in evidence. Unlike the oil trades with their rapid decline in demand from the mid-1970's, growth in demand in the bulk trades was sustained throughout the 1975-1990 period with all five major dry-bulk trades - coal, grain, iron ore, bauxite/alumina, phosphate - increased.[24] Where problems did manifest, however, were in the disparities between demand and supply with the former being outstripped by the latter. Figure Forty Two records the 1975-90 extent of laid-up tonnage in the sector. It can be seen

FIGURE FORTY TWO: WORLD BULK FLEET
IN LAY UP, 1975–90(M.GRT)

that the amount peaks in 1985 at just under 8m.grt. It should be noted that it was in the 1980-85 period when many of the UK bulk shipping owners left the market, contributing to a 53 percent decline in the sector. The BMCF's, Why the Ships Went, Study found that a similarity with the behaviour of the tanker owners existed given the inability of many of the bulker owners to:

> ...resist temptation when there were signs of an up turn in the market, and ships were on offer on uniquely attractive terms..New tonnage could be bought from some Far East yards for the cost of materials using government backed loans.[25]

The BMCF's study also revealed that owners felt that over-tonnaging was a major determinant of ship disposal and flagging out decisions accounting for 87 percent of the tonnage disposed and 75 percent of the tonnage flagged out.[26] Sharing some of the characteristics of the independent tanker sector, the bulk sector has a speculative dimension; and, as a consequence, there is also a tendency to over-tonnaging, just as there are similar efforts to enact market rationalisation and restructuring policy. The over-tonnaging which followed the short lived coal boom of the late 1970,s, early 1980's serves to illustrate the volatility of the bulk trades. In 1982, one Greek summarised the impact of over-tonnaging in the bulk trades after suffering a daily charter rate decline from $8000 to $3000 within 15 months, leaving him with ".. a struggle" to cover basic expenses.[27] A major element in the collapse of the Japanese, Sanko Line was the mis-reading of the market, with 125 bulkers ordered during the early 1980's in anticipation of a market recovery which did not materialise.[28] Such optimism can be understood when the strong linkages with Far East shipping companies, financial houses and shipyards are considered. The Sanko order was a particular example of "shoring up" the Japanese yards when orders were low.[29] EEC research has also provided evidence that,

> The Japanese trading house system provides a channel of communication between yards, owners, and those most likely to have freight transported to or from Japan...[30]

For the traditional British companies undergoing diversification from strictly liner operations into the bulk sector during the 1970's, the speculative, uncertain nature of the bulk markets, was to prove particularly difficult during the worst periods of over-tonnaging. This helps to explain P&O's use of FOC's, Cunard, Ben Line and British & Commonwealth's complete withdrawal from the bulk sector. Chapters five and six have shown how concomitant to the trends towards conglomerate organisation is the need for stable profit margins, both in the short and long term.[31] From this it follows that the detrimental impact of over-tonnaging will lead to such firms considering disinvestment or flagging out. For the smaller, entrepreneurial dry-bulk owners, the detrimental affect of over-tonnaging was to force down freight rates at a time of the shift to larger vessels and increased capital concentration was occurring(see above: Chapter Seven).

Destabilisation in the Liner Sector

The liner industry, with its emphasis on self regulation via the conference system, has not suffered over-tonnaging to the extent of the tanker or bulker sector. The containerised/ro-ro(unitised)liner world fleet has achieved a particularly low level of surplus tonnage. Selecting 1985, as a representative year in the 1975-90 time series, the percentage surplus* of the three leading deep-sea sectors was, tankers, 36.9, dry-bulkers, 22.5, unitised liners, 5.7.[32] However, the persistent trends of non-conference tonnage growth serves to affect the

*The term surplus tonnage is used here to denote tonnage laid up or slow steaming. See: UNCTAD, Review of Maritime Transport, 1990(New York: UN, 1991), pp.26-7.

stability of the sector. Where liner trades are affected is in the low levels of cargo space utilisation - vessels only loaded to a fraction of their full capacity. This means reduced earnings gross earnings at a time when freight rates are already depressed by the extra tonnage in the trade. This is precisely the ruinous situation that the liner conferences were supposed to prevent.[33]

Examples of how over-tonnaging in the liner sector has had a detrimental impact on British lines are clearly evident on the premier North Atlantic routes and Far East routes. Chapter Ten outlined of the impact of the non-conference, activity on these key routes, with the resulting detrimental impact on UK liners. This contributed to the economic problems, and eventual demise, of the UK flagged, Manchester Liners, Canadian Pacific and Dart Line on the North Atlantic and the Blue Funnel, Ellerman, and Clan Line on the China and India trades.

The spread of the non-conference lines on the North Atlantic, namely the CAST and Sofati Lines, did much to bring about a price war, with rates sliding from $870 to $600 per container between 1982 and 1983.[34] The business behaviour of such non-conference operators during this period suggests a speculative pattern similar to the tanker and bulker sector.[35] The later market incursions of the Evergreen Line on the North Atlantic were to continue this non-conference pressure on UK lines.

The emergence of over-tonnaging in the container trades began to destabilise the conference system during the 1975-1990 period. Seatrade warned in 1983 that:

> the ever-mounting waves of independent slot capacity being pushed upon a comprehensively depressed...market-place, threatens to engulf the mould of the liner sector.[36]

In 1988, Fairplay reported that tonnage, measured in terms of container slots provided was increasing at double the rate of demand.[37] Despite a 19 percent decline in the North Atlantic trades between 1979 and 1983 the level of slots provided continued to rise. In the 18 months to April 1983 an extra 24 percent of slots were made available with non-conference members injecting an extra 290.000.[38]

The same trends were also evident in the Far Eastern trades. Throughout the 1980's, liner sector over-tonnaging was caused by the rise of non-conference activity on the Far East routes, the Yang Ming and Evergreen lines, as well as COSCO liners, in particular.[39] The linkages between the shipping companies, the financiers and the shipyards in the Far East was shown in Chapter Eleven(see above: pp.258-262) as a cause of over-tonnaging and thus market destabilisation, making it difficult for the small/medium sized UK lines to survive.

Summary and Conclusion

The determinants and impact of over-tonnaging have now been shown as critical to improved understanding of decline. The qualitative evidence has provided an insight into the complex determinants of over-tonnaging in three key deep sea sectors, tankers, dry-bulkers and liners. Firstly, the slump in oil demand, and the resulting over-tonnaging led to a drastic decline of the UK tanker sector as more emphasis was placed on the chartering in from the (international) independent tanker fleet, at the expense of their directly owned, UK flagged oil majors' fleet, which only survived by adopting off-shore flagging and manning arrangements. For the independent tanker owners.

Secondly, in the bulk sector the persistence of over-tonnaging was exacerbated by the constantly increased market entry of new low cost operators benefiting from the availability of second hand tonnage released by the new tonnage investments of the market leaders. The competition emanating from these low cost operators was therefore to have a detrimental impact on the UK bulk fleet, making economic survival precarious during a period of declining freight rates. This contributed to the withdrawal of the diversified liner companies from the UK flag dry-bulk sector, and the divestment from shipowning completely from many of the tramp-ship entrepreneurs.

Thirdly, the introduction of either state supported, or easy terms credit financed, non-conference tonnage onto the premier liner routes was also to prove critical for many of the traditional liner operators, suffering already from the loss of market share which resulted from the emergence of the national fleets of the developing nations. This led to difficulties for the UK liner companies who found that they could not economically survive such an uneven contest.

Fourthly, it has been shown how the mixture of state interventions - leading to market intervention in shipbuilding - easy credit terms and the perennial problem of over-optimism in shipping investment can now be seen as a prime determinant of over-tonnaging, which emerges as a key factor in explaining the decline of the UK fleet.

It has now been shown that accurate understanding of the market failure of over-tonnaging cannot be achieved by solely by recall to market economics, that the broader organisational and business behaviour factors need to be recognised if improved understanding of decline is to be achieved. This points to the impact of non-market factors on the UK fleet, plus the inability of the world shipping industry to resolve over-tonnaging, proving a critical factor in its decline.

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Chapter Fourteen: The Industrial Relations Dimension

Introduction and Objective

The connection between decline and maritime industrial relations is next dealt with. Grouped within the industrial relations context are the issues of national employment (which nations' crews are employed?), pay and conditions; and how these relate to the global shift in shipping activity.

The market view directs attention to the comparative costs of UK labour, charging that lack of competitiveness is (at least) partly due to British labour costs being significantly higher than those in the developing nations. This is very much in accordance with the theory of comparative advantage which holds that international economic activity is determined by relative input costs. What the market view fails to consider, however,is the structure of the qualitative elements of employment in the UK. Under conditions where social welfare exists, trade unions and identifiable, historically defined, standards of safe and secure employment, the open market notion is not applicable. Whilst it is irrefutable that developing nation crews have a comparative advantage over UK crews, given the differences in labour costs, this only partly explains the link between UK fleet decline and the industrial relations system.

This objective of this Chapter is to extend the analysis beyond that of a simple comparative consideration of crew costs. This is in order to demonstrate the link between industrial relations and decline.

The Industrial Relations Issue

Essentially, the question being asked is: how far can UK pay and conditions go towards meeting the challenge of world competition? Within the context of a social welfare economy such as the UK's, the implications are that there must be a limit to the level that wages and conditions can fall in a competitive situation.* Providing answers to these questions is to be achieved by analysis of the structure of UK maritime industrial relations and its implications, given the changes in shipping organisation and business behaviour in the post 1975 period.

Paralleling the decline of the UK fleet is the collapse of the centralised system of industrial relations once prevalent in UK shipping; and in order to understand the link between decline and the industrial relations system it is necessary to consider its historical structure and the changes in shipping organisation and business behaviour, post 1975. This should help to identify the limits of the UK fleet's competitive response to the global shift in shipping. From the market view, the centralised system becomes a hindrance to the competitive process; and therefore, its withdrawal is seen as a necessary part of restoring competitiveness. This calls for some analysis of the evidence that the industrial relations issues, post 1975, has revealed. This will then allow for consideration of the relationship between industrial relations and decline.

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*The case for a free market in crew employment has been stated by Goss(see above: pp.212-4). The recognition of the social welfare burden of UK employment conditions was recognised by Goss as a major factor in UK fleet competitiveness. In this Chapter it is argued that the historic structure of maritime industrial relations organisation militates against such market view solutions.

Towards a Qualitative Analysis of the Industrial Relations Regime

The qualitative approach employed here allows for analysis of the demise of the UK seafaring community and the complex issues that have been raised. It will be demonstrated that the simple assertion: UK labour has failed to compete dismisses the range of factors which have proved instrumental in its demise. Likewise, the replacement of well maintained and regulated UK flag, with its centralised industrial relations system, by less regulated flags including, flags of convenience, has raised qualitative questions over seafaring conditions. This process cannot be separated from the economic issues of the competitive process. Analysis, however, needs to extend beyond measuring the extent of competitiveness of UK crews to the issue of conditions at sea and all the social implications that this generates.

The increased employment of low wage developing nation and East European crews has also not only diminished UK seafarer demand, but has also affected the terms and conditions of those remaining in employment. In this sense labour market pressures - coupled to the changes in shipping organisation and business behaviour - have been noticeable in eroding UK crew conditions.[1] This then led to a destabilisation of the industrial relations system. Towards the end of the 1980's the supply of labour was showing signs of an erratic tendency. Whilst the supply of ratings suffered from overcapacity, the opposite symptoms were beginning to manifest in the supply of officers, a problem of shortage. In order to understand these events a consideration of the centralised system is called for.

The Centralised System

In the 1975-90 period there was a noticeable shift away from a buoyant labour market which offered long term security for officers and ratings choosing to make seafaring a career, to an off-shore, casual, offshore labour market. This disintegration of the centralised system of industrial relations which had been in force from the First World War onwards.[2] Prior to this period the supply of seagoing labour had been drawn from an international source, with a corresponding variety in pay and conditions. The emergence of centralisation can be seen as a response to the erratic nature of industrial relations which had prevailed and proved incompatible with the demands of the industry in making its contribution to the war effort. This was also the case in the post-war period as the industry prepared for modernisation and growth.[3]

The essential elements of centralisation were the National Maritime Board (NMB) and the Merchant Navy Establishment (MNE). The rationale for the NMB was to bring the employer's organisation, the British Shipping Federation, and the seafaring unions together within a joint negotiations and consultative framework.[4] A key area of the NMB's activities lay in the supply - as well as veto - of ratings. In order to gain employment at sea a rating would need the joint approval of both the British Shipping Federation and the National Union of Seamen. The "Pearson Report"[5] into the nature of industrial relations at sea following the prolonged seamen's strike of 1966 saw that this bipartite system "...effectively provides the union with a closed shop and the employees with an organised supply of labour.[6] In the wake of the 1966 strike, the "Pearson Report" conversely argued that the centralised industrial relations system operated to the detriment of effective shipboard consultation, arguing that it was remarkable that:

> ...the Federation, the officer's associations and the unions should have taken nearly half a century to recognise the need for constitutional means of raising grievances at the place of work...[7]

Despite the apparent intransigence of the industrial relations system, irreversible movements toward decentralisation were underway by the mid 1980's. Leading UK firms - Sealink, P&O, Esso, Shell, Cunard - were withdrawing from the NMB.[8] The movement was towards company (rather than industry) based industrial relations.[9]

Paralleling the demise of centralised industrial relations, the breakdown of the MNE. The "Establishment" was founded as a response to the shipping crisis of World War 2. The aim was to provide a permanent pool of registered and certified seafarers. In 1947 some 30 regional "Establishment" offices were allocating labour to British shipping and distributing Government funds to seafarers unable to find immediate employment.[10] Stability in both labour supply and employment was the rationale for the MNE. The "Pearson Report" saw the advantages of offering seafarers,

> ...a stable and attractive career and greater regularity of employment and give shipowners efficient and reliable personnel to man and maintain their ships...[11]

It can be seen that a mutual interest of job stability (or unemployment benefit) for unionised seafarers who were "physically fit, of good character and of proven ability" existed with the shipowners provided with immediate and conveniently located crew agency.[12] By 1988, however, only 7 regional officwere in existence; and the abolition of the MNE was imminent. One possible outcome of the demise of the centralised system was an open entry deregulated maritime labour market. This would have paralleled changes in other spheres of (previously regulated) UK employment such as local government services, public transport and newsprinting.[13] What the evidence of the 1975-90 period points to is a selective movement towards deregulation in certain shipping sectors.

An extreme (and tragic) example of just how far some operations have moved away from centralisation is the case of the UK owned FOC coastal vessel, *Marine*. Illustrating the extent of deregulation in the industrial relations system, the *Marine* disappeared during a storm whilst crossing the Bay of Biscay with a cargo of scrap in 1989.[14] The incident attracted the attention of the seafaring community, not only because the FOC vessel was lost with all hands, but also when it was revealed that two of the five man complement were completely untrained, on their first trip to sea. Furthermore, the crewing agency involved had hired the two young untrained ratings via the Manpower Services Commission job centre in South Shields.[15] This tragic example does highlight the easy entry and exit of entrepreneurial companies into the shipping labour market. This is particularly so in port areas of high unemployment, such as South Shields. In its unsuccessful attempt to trace the vessel's owners and the crew's employers, the National Union of Seamen needed to sift through a network of addresses in Panama, Banff (Scotland), Birkenhead, Buckinghamshire and Guernsey.[16]

Although it is not claimed, here, that the *Marine* incident typifies decentralised industrial relations, it does allow for the comparison of this extreme example with the regulated employment standards which would have existed under NMB/MNE conditions. Both seafarers would have received 13 weeks basic sea-training, at least one of the ratings would have been in possession of an Able Seaman's certificate, with at least two years experience at sea, as well as attaining the International Maritime Organisations (IMO) Standards of Training Certification and Watchkeeping (STCW). Payments would have been in at least in the £106-£120 bracket rather than the advertised £70's! Whilst this incident demonstrates the excesses of a deregulated industrial relations system, the controversy (and possible legal implications generated) does question its limitations within the context of to UK based maritime employment. The reality is that even at the, Marine's comparatively low rates of pay, UK crews are still undercut by those from the developing nations. The inability of UK crew costs to match those of the developing nations, even under deregulated conditions, does point to the limitations of the market view. The additional cost burden of UK labour - given the relatively high wage/condition levels of a developed, social welfare, nation - does render cost competition impossible. Only by adopting the standards prevailing under off-shore, developing nation conditions can UK labour achieve competitiveness. What the *Marine* disaster shows is the barriers to achieving this competitive position. This point is especially reinforced when it is considered that the vessel was operating in the, low value, short-sea dry-bulk sector. For the higher value or risk fleet sectors, such sub-standard levels of crewing would be even more difficult to achieve under a UK connected company.

The limits of the market view can also be seen in the policies and response (to decline) of the shipowners and the unions representing UK seafarers.

The Shipowners: An Evolving Industrial Relations Strategy

Starting with the shipowners' council, the General Council of British Shipping (GCBS). The role of the Council is to "promote and protect..." the interests of its British fleet members.[17] As well as the important political lobbying role of the GCBS in Westminster, Brussels, Geneva, the consideration of industrial relations is high on the agenda. Via the GCBS subsidiary, British Shipping Federation (BSF) companies subscribing are offered expertise in the field of personnel and industrial relations[18]. It should be not, however, just how much the GCBS position on industrial relations has shifted from protectionist measures called for in the 1960's to the market stance of the 1980's. This can be as very much within the context of deregulation. The moves towards "off-shore" registry is now rationalised by the BSF as necessary for the survival of the industry, enabling UK owned ships to "compete in world markets"[19]

The emphasis made by the BSF can be seen as in line with the "economic realism" of the Thatcher Governments. For example, the prolonged P&O ferry strike in Dover was seen by the BSF as a catalyst for achieving greater levels of crew productivity, thus efficiency, which, "...alone can preserve jobs and markets in a highly competitive world"[20] The retreat to off-shore non-union agreements, with the resulting decline in the employment conditions of UK seafarers, are all seen as vital by the BSF if the industry is to survive in markets where the, "...competitive benchmark ...is set by Far Eastern crews at local rates of pay."[21] The confrontation of the Dover strike, with its disastrous impact on both the local community and on the general qualitative level of industrial relations within the industry are therefore seen as the price of efficiency by the BSF.

The Dover strike evidence serves to illustrate the dramatic retreat from the centralised system. This development may be seen as a logical outcome of the changing organisation and business behaviour of British shipping. The unyielding bargaining of P&O European

Ferries management at Dover, the imposition of off-shore agreements by such leading employers - Shell, BP, Canadian Pacific - are measures of the extent of this shift away from the consensus industrial relations which had endured under centralisation.[22]

What this evidence points to is, firstly, the limits of international competitiveness which can be achieved by UK crews and, secondly, that there is a qualitative rationale which explains their continued(though much reduced) selective retention. Drawing from Chapter Four's sectoral profile, it can be seen that the companies which have retained UK crews (albeit under decentralised conditions) are those which are operating in premier markets where crew expertise is seen as a valued commodity.

This is the case regarding P&0's ferry, container and cruise ship fleets which have retained UK complements, whilst the conglomerate's lower value, lower risk, bulk fleet has employed developing nation crews. This also applies to the European tanker fleets of Esso, Mobil, Shell and Texaco, where the rigorous demands of North Sea operations place an emphasis upon professional standards. This contrasts with the policy of employing lower cost, Third World crews in their deep sea fleets.(see above: p.232) The long, open sea, hauls involved, such as Persian Gulf-Northern Europe, place less demands upon seafaring skills. The restructuring of the ex British Rail Sealink fleet, also involved new decentralised industrial relations with UK crews. The market strategy of providing enhanced consumer services on the short-sea services provided the economic rationale for the retention of a full UK complement. But again the (parent) company's, Sea Containers, deep sea cargo fleet has engaged Filipino officers and ratings on lower rates of pay.

From this evidence, it follows that the qualitative aspects of employing UK crews are of critical importance in extending the analysis beyond the market view. This shows that where high standards of professionalism were called for UK crews have been retained. The opportunity that decentralisation offered the owners was to retain these standards whilst achieving lower labour costs via productivity agreements and improved shipboard management. In the lower value and/or risk areas lower cost developing nation labour has been increasingly used as a substitute. In addition to the qualitative aspect of crew selection, the impetus of a maritime career structure, encompassed in a trade union tradition next requires analysis.

The Impact of the UK Officer Tradition

Whereas the GCBS campaign on investment allowances is exactly in line with the views of the principal UK unions, NUMAST and NUS, on the issues of international crewing there is a wide divergence. The BSF's campaign to ease the shortfall in the supply of UK officers during the late 1980's, included the advocation of employing EEC and Commonwealth nationals with suitable qualifications.[23] To the officer's union, NUMAST, such policy is anathema! Much of their campaigning has been based on retaining British officers on British ships.[24]

A striking feature of the changes in industrial relations has been the impact on the status and behaviour of the officers' union. In order to fully appreciate this impact it is necessary to provide a short description of the social aspect of UK seafaring employment. A particular characteristic of traditional industrial relations on board UK ships is the social divide between officers and ratings. The transposing of the English class system on board UK vessels has been well documented by Lane's industrial sociology studies of seafaring in the late twentieth century.[25] Status in the form of uniform, rank and superior conditions has traditionally been encouraged by UK shipowners. Up until the early 1980's leading UK shipping companies were offering long-term career prospects out to school/college leavers(see below: Appendix Seven). Woodman's Voyage East, emphasises the gulf between officers and ratings in existence on a Blue Funnel cargo liner during the late 1960's, with the former consciously distancing themselves from becoming too familiar with the latter in terms of social relations.[26] Without discussing the merits or demerits of social system at sea, it is apparent that the status of the officer was perpetuated by the stable career prospects in most UK companies up until the late 1970's. A sense of loyalty to the company was inculcated at an early stage by the career pattern of officers; and this was to some extent reciprocated by the status that the companies granted their officers.

The changes in organisational behaviour in UK shipping were to have considerable repercussions for the professional attitude of UK officers. Throughout the 1980's, the officers union, NUMAST, has felt the need to not only defend such status fringe benefits as silver table service* but more importantly the professional standing of its members. An acute sense of betrayal and suspicion emerged in the union's statements over such issues as flagging out, off-shore employment contracts etc.[27] NUMAST'S complaint to Canadian Pacific over the replacement of UK national by Commonwealth national officers emphasised

*Such fringe benefits were traditionally seen by the officers as the social recognition of their professional status. As a consequence, they formed part of the on-board social structure, as well as the economic overhead. See: T.Lane, "Neither Officer Nor Gentlemen," History Workshop Journal, No.19, Spring 1985, pp.132-137.

the reversal in the company's attitude; the movement was from a prestigious, stable, secure employer, offering long term career prospects, to a mercenary approach which led to the short-term engagement of low wage Far East ratings and Officers. This was the experience of the Canadian Pacific crews in the late 1980's. Typifying the disgust and concern of the replaced officers is S.W.Turner's open letter to The Telegraph,[28] Under these conditions the UK officer adopts a new attitude, which has resulted in an "...increasing skill shortage and a dwindling pool of competent professionalism."[29] The instability of employment prospects under the British flag appears to have generated two main responses from NUMAST members: to leave the shipping industry completely, or to transfer to foreign flags, including FOC, vessels in search of higher rates of remuneration.[30] The unstable employment track-record of the industry throughout the early to mid 1980's has also had repercussions on the recruitment of officer cadets. Despite intensive attempts to recruit some 500 cadets to the industry in 1989, only 375 were actually achieved. NUMAST claimed that this shortfall was a direct result of the,

> ...image problem, caused by the redundancies and cutbacks of the past decade.[31]

A result of decentralisation, coupled to the levelling out of the pattern of tonnage decline coupled with the redundancies and poor recruitment performance, have led to an increase in the bargaining power of the officers. Pay claims in the late 1980's began to reflect the increasing shortage of officers.[32] In January 1990, Lloyds List was tracing a tendency for officers pushing for,

> ...higher wages by arguing that shortages in the industry will increase unless pay is considerably enhanced.[33]

Exemplifying the shift from a company-career oriented profession, to a more mercenary approach towards company or flag is the declining rate of retention of crews on UK ships. In the pre 1975 period the attraction of the company career led to a relatively high level of officer retention; post 1975 the pattern of employment behaviour amongst officers shifted towards short term commitment. It is apparent that the officers have paralleled the British companies in adopting a more internationalist response to the uncertainties of the post 1975 labour market. The officers have realised the international value of their skills and expertise in the global labour market in a way which would not have been possible in the days of paternalistic employers and a centralised industrial relations system. This has frequently led to UK officers finding more secure employment at higher levels of remuneration under foreign flags (including FOC's).[34]

The traditions specific to the UK officer can be seen as influences determining their response to decline. The evidence here shows that the officers - because of their professional traditions - were reluctant to passively accept the shift towards the short term and uncertain employment offered by many UK companies, post 1975. This again shows the limits of the market view. In analysing the qualitative aspects of the specific context of industrial relations at officer level it has been made apparent that there are historic and structural limitations to the down-grading of their status under the and conditions under the UK flag in response to global pressures. The following evidence accrues from the traditions and post 1975 experience of the UK ratings and their union.

The Demise of the National Union of Seamen

The industrial union, the National Union of Seamen (NUS) has seen many of its efforts to secure a stable pattern of employment demolished by the decline post 1975 and the accompanying decentralisation of the maritime labour market. The historic role of the union had been to campaign for employment security and the protection of seafarers' wages and conditions against lower wage, inferior trained, labour supplies. One of the union's founder members, Havelock Wilson, established the union principle in the late 1800's that wages and conditions should be standardised internationally.[35] During the Danish seafarers strike of 1889, Wilson stated that the union,

> ...recognised the importance of bringing the wages of foreign seamen on an equality with our own, as that would be a direct encouragement for the foreign sailor to remain on his own country's ships.[36]

The situation in the 1975-90 period was to prove the reverse of events in Wilson's time, with the pressure on UK rating pay and conditions downgraded towards the global level. During the 1975-90 period the union's historic policy was very much eroded as UK lines such as Cunard, BP, Canadian Pacific replaced UK crews with low cost Third world labour. In addition to the decline in demand for UK ratings, there has also been a constant pressure to accept new contracts and conditions at sea. The trend towards off-shore arrangements have proved much more detrimental to the ratings than the officers, as many UK companies have opted for a mixture of UK officers and Third World ratings.

Despite the extent of pressures on the UK rating, there was an unwillingness to accept diluted pay and conditions. This reluctance was manifest - very much to the surprise of the Cunard Line 1986. At the time of the *QE.2's* $200m re-engining and refit programme, the line took the opportunity to restructure the liner's catering department in order to reduce costs. This involved contracting out the employment terms and conditions of 800 catering crew.[37] The contracting out led to the Cyprus based, Columbia Ship Management(CSM) agency taking over crewing arrangements in the catering department from Cunard. This involved reductions in leave allowances and pay. Under Cunard, the ratings were allowed paid leave at the ratio of 2:1 - for every two weeks spent on board, one week was granted in (paid) leave. The terms offered from CSM were a (unpaid) leave ratio of 4:1. From the perspective of the ratings, this represented a very real dilution in standards; and of the 800 strong department 609 decided to opt for a redundancy package deal.[38] Although this contracting out represented the shift towards off-shore crewing arrangements, the economic advantages of which were outlined by Goss(see above: pp. 245-7), the response of the UK ratings was to take the risk of redundancy, at a time of mass unemployment, rather than except inferior employment conditions.[39]

The defeat of the NUS at Dover was to prove particularly difficult for the union. The ferry crews operating out of Dover were thought to hold a stronger bargaining position than many of their deep sea colleagues; however, the rigorous and unyielding stance of P&O European Ferries during the NUS strike of 1988 was to surprise the union. By drawing new non-union recruits from the ranks of unemployed ratings, P&O were able to not only sail their ships but also to introduce new contracts and conditions and ultimately dismiss their striking ratings.[40] Worse was to follow for the NUS when union funds were sequestrated by the High Courts, and off-shore members in the Aberdeen based, Star Offshore were dismissed for striking in support of their Dover colleagues, their positions being replaced by low wage Third World crews.[41]

By the late 1980's the gap between the NUS and NUMAST was becoming more obvious.

Whilst the officers' union was at least able to look towards an international demand for its members, the NUS was increasingly depleted by the shift to low cost Third World and East European ratings in the world market.[42] In addition the government employment legislation hindered any union attempts at opposing the redundancies and changes to contracts and conditions brought about by the decline of the industry. The merger between the National Union of Railwaymen(NUR) and the NUS in the late 1980's can be seen as a symptom of the problems facing the NUS - declining membership and, as a consequence diminished funds.[43] The reduction in the bargaining power of the NUS was clearly illustrated with the outcome of the Dover strike. P&O European Ferries were able to withdraw recognition from the NUS, giving preference to the shore based trade's union, the EEPTU, without further action from the rating's union.[44] This marks a nadir in the union's strength; and it can be seen that the union's historic vision of a worldwide standard for wages and conditions has been overtaken by the global spread of shipping organisation. The excesses of low wages and sub-standard conditions, however, are still opposed by the International Transport Workers' Federation (ITF),[*] to which the NUS is affiliated. The Gothenburg detention of the BP tanker, *British Wye,* by Swedish members of the ITF, concerned at the low wage rates paid to Filipino ratings[45] demonstrates the strength of international union power that can be exerted, particularly against well established companies such as BP. This makes it difficult for UK owners to achieve the lower labour costs demanded by the market view assumptions of a labour market based on comparative advantage. The stormy industrial relations at the rating level in the 1975-90, points not only to the attempts of the shipowners

[*]The ITF have established an international network of transport union activity, to which the NUS has traditionally been affiliated. A particular area of ITF concern has been the pay and conditions of developing nation seafarers, sailing under flags of convenience and other unregulated flags. See ITF, European Merchant Shipping: Towards A Common Maritime Policy(London: ITF, 1985).

to reform pay and conditions but also the resistance of the NUS members to accept levels down-graded towards the globally defined level. This reluctance cannot be explained as a recalcitrance towards the cost efficiency of global market forces, but is more the rational response of organised labour, with a tradition of secure and centralised employment, in a social welfare society.

Summary and Conclusions

The evidence considered in this Chapter points to the limits of progress that the historic structure of maritime industrial relations can achieve towards improving comparative advantage under the UK flag. Primarily, this is explained by the recognition of the qualitative aspects of maritime industrial relations. Firstly, the evidence of the decentralisation process had led to the emergence of company level agreements on pay and conditions. This, however, has not halted the reduction of the fleet in the post 1975 period; and only the UK companies in the premier market sectors have taken advantage of the opportunities to attain productivity agreements. For the companies in the lower value/lower risk market sectors, the question of employing UK crews became marginal to the economic difficulties of surviving in the international market-place. In particular, the economic pressures facing UK owners in the bulk and independent tanker sectors, given the extent of changes in the organisation and business behaviour, at a time of acute over-tonnaging, within those trades rended economic survival impossible, regardless of crew costs.

A second barrier to achieving a global comparative advantage is provided by the changes in the behaviour of the UK officers. The market assault on the pay, conditions and career status of the officers has led to the severance of the traditional company allegiance as better paid, more secure employment was sought under foreign flags. This experience shows the limit of how far UK officer pay and conditions can fall. The historic professional status of the officers, plus a strong demand for their services by foreign companies, has proved a brake on the dilution of officer employment towards a globally competitive level.

The third problem area is that the market view fails to recognise the limits of international competitiveness that can be achieved by the UK ratings. Given the existence of a social welfare system in the UK a formidable barrier to the competitive levels of pay and conditions exists. The diminished strength of the rating's union, NUS, decentralisation and the Dover defeat could be seen as assisting competitiveness by forcing members to accept new productivity agreements. This would have been very much in correlation with the market view of the need to improve competitiveness in order to secure new employment. In reality, it has only been the premier market lines which have retained UK ratings. In order for UK ratings to achieve higher levels of employment in the non-premier, low risk market sectors, it would be necessary for wages to fall to a level below the accepted social welfare standards available to the unemployed; and conditions would have to deteriorate to a level not acceptable in a modern developed nation. This is has been demonstrated by the evidence of the *Marine* disaster. Even by enforcing sub-standards in pay, conditions and training, the *Marine's* owners were not able to achieve labour costs compatible with the lowest attainable in the global market. Additionally, the controversy and allegations surrounding the disaster show the pressures placed on UK owners to maintain standards.

A fourth, and final, point is that despite the reduced strength of the NUS, UK companies enforcing sub-standards on the developing nation labour (which they have used to replace UK crews) will attract the scrutiny of the ITF. Again the anticipation is that UK companies have a moral responsibility to maintain standards. Also the high profile of the larger UK companies, as in the case of BP - following the ITF blockade of the *British Wye* - means that corporate image needs to be safeguarded by off-setting adverse publicity. This, then, provides another barrier to achieving comparative advantage in the global market.

What the evidence shows is the limits to the competitiveness which can be achieved using both UK and developing nation crews on British ships. This extends the analysis of this important area of shipping economics beyond the market view based upon comparative advantage to the qualitative aspects of maritime industrial relations. As a consequence, the market view of the failure of the UK fleet to maintain a comparative advantage in the global market *vis-a-vis* its crewing costs is inappropriate. The following Chapter adopts a similar position in respect of the issues of maritime safety.

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Chapter Fifteen: The Impact of Maritime Safety.

Introduction and Objective

The connection between safety standards and the decline of the UK fleet lies in the wide range of standards that exist in the global market. Traditionally, safety standards under the UK flag have been of the highest order. This contrasts with the lower standards that exist in ships under such developing nation registries as, Panama, Liberia, Cyprus, St. Vincent and Grenadines, Honduras, Malta. This is certainly not to state that all ships under these flags have poor safety standards; accident ratios, however, are higher for these registries. (see below: pp.334). The controversy that this has created in world maritime circles has prompted debate which has extended to the decline of the UK and other traditional maritime fleets. From the debate on safety standards, this study is able to accumulate evidence and make the link with decline.

The question that the evidence of poor safety standards raises is that of competitiveness: can the UK fleet be expected to compete against vessels with lower safety standards, which results in the competitive benefits of lower costs? In answering this question it is necessary to extend analysis beyond the market view of an homogeneous world shipping market. From this angle, the market view explanation for decline fails to consider important qualitative elements. Figure Forty Three demonstrates the link between the costs of safety, accident frequency and accident costs. From this graph, it is apparent that shipping companies can reduce costs by reducing safety expenditure; and that this increases not only the frequency of accidents but also their costs. The objective of this Chapter is, therefore, to consider the impact of this variance in safety standards on the UK fleet, in particular how this furthers understanding of decline.

FIGURE FORTY THREE: MODEL OF MARITIME RISK AND SAFETY INVESTMENT

The qualitative factors which manifest in the debate on maritime safety will be seen as important, non-market, determinants of decline. The core analysis will be employed to show the link between comparative safety standards and decline in relation to sectoral, organisational and business behaviour characteristics.

Issues in Maritime Safety

In order to provide a context for this Chapter, a brief outline of the main components of the maritime safety debate is called for. Firstly, there is the high profile passenger safety issues which have arisen as a response to spectacular maritime accidents. Passenger ferry disasters such as the *Herald of Free Enterprise* sinking in Zeebrugge harbour in 1987[1] and the two *Scandinavian Star* fire disasters[2] involved heavy loss of life and provoked considerable media attention as well as regulatory action by maritime authorities. The British Government reacted rapidly to the *Herald of Free Enterprise* disaster by a series of regulations which set out to improve ro-ro ferry safety.[3] A main talking point which ensued after the *Herald* disaster was that of the balance between safe standards of operation and commercial pressures.[4]

A second high profile area of maritime safety in the post 1975 period has been that of pollution, particularly in the large tanker sector.[5] Large scale oil pollution caused by the *Amoco Cadiz* in 19 and the *Exxon Valdez* in 1989[6] concentrated mass attention on tanker safety. Debate over tanker safety became intense in the USA, following the *Exxon Valdez* disaster, resulting in tanker owners facing unlimited liability for pollution in US waters.[7]

Away from the mass-media's treatment of shipping safety, the debate within the shipping industry has concentrated upon the issue of sub-standards. From this perspective, it is the regulated flags of the UK and other traditional maritime nations that set the standards of "best practice" in world maritime safety. In addition to comparative loss ratios, the concept of substandard operation extends to crew professionalism and on-board crew safety.

Markets and Safety

In Chapter Two the historical development of merchant shipping was traced, illustrating the tradition of low levels of state intervention in world shipping operations. The "Freedom of the Seas" has historically held as a free market concept which has precluded much state involvement in maritime safety.[8] This historical tradition of the "Freedom of the Seas" has endured in that the ability to avoid safety regulation exists in international shipping.[9] This was clearly demonstrated in the controversy over navigational safety in the Dover Straits and the English Channel. From the 1880's onwards there had been calls for improved regulation of navigation.[10] During the 1960s a number of serious accidents occurred in the increasingly congested seaways, provoking calls for increased regulation. Although the resulting Marine Traffic Management Systems provided a system for separating vessels moving in opposite directions, the continuing problem of vessels straying from their allotted track has continued throughout the 1970' and 1980,s. Kemp's research[11] into levels of safety in the Dover Straits reveals widespread unsafe navigational practice, in the most confined and congested of UK waters. Even following the imposition of a central control in the Dover Straits, the Channel Navigation Information Service (CNIS) navigational infringements have continued, constituting unsafe behaviour: between 1982 and 1985 some 474 contravention of the

Collision Regulations* were reported.[12] What this evidence demonstrates is the depth of the laissez-faire tradition in vessel operations. This point has been forcefully made by shipping columnist, Michael Grey, who has claimed that the global shipping industry has accepted low levels of safety. Grey claims that the industry compares unfavourably with the international air transport industry which has a much more rigorous safety regime.[13]

If the laissez-faire approach to international maritime safety has militated against effective maritime regulation, the replacement of UK ships and/or UK crews by those obtained from the global market has exacerbated the problem of unsafe operation. Despite the tendency towards a laissez-faire approach to world shipping, the UK fleet-along with the other traditional maritime nation fleets, has developed within a comprehensive safety framework. This is next considered within the context of standards and sub-standards.

Standards and Substandards in Shipping

Discussions on maritime safety have resulted in the concept of sub-standard operation. The traditional maritime nations have set the standards in maritime safety. British master mariners have established a criteria which includes minimum standards of safe operation, including crew proficiency and the technical upkeep of vessels. The criteria is based on six major international conventions:

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*The Collision Regulations have evolved from the late 19th Century onwards and have been seen as the first incursion into the concept of free navigation. The Regulations provide a complete code as to the manner in which vessels must pass and are internationally imposed by the International Maritime Organisation(IMO). See: N.J.J.Gaskell, C.Debattista, R.J.Swatton, Chorley and Giles Shipping Law(London: Pitman, 1987), pp.369-393.

(1) The International Convention for Load Lines;

(2) The International Convention for the Safety of Life at Sea(SOLAS):

(3) The Protection of Pollution from Ships(MARPOL), 1973;

(4) The International Convention and Standards of Training, Certification and Watchkeeping for Seafarers(STCW):

(5) The Convention on the International Regulations for Preventing Collisions at Sea, Organisation(ILO) Convention 147-Merchant Shipping(Minimum Convention, 1976).[14]

Adherence to the Convention on load lines prevents the overloading of ships, a practice which would be detrimental to seaworthiness. The SOLAS Convention provides the framework for lifesaving in emergency situations. The express purpose of MARPOL is to prevent the dumping of oil and other noxious products from ships. The STCW Convention seeks to provide a minimum standard of crew competence. The Collision Regulations provide a navigational code for the safe passing of ships. Finally, ILO Convention 147 provides international standards of crew employment, accommodation and victualling.

Under the UK flag, adherence to these conventions is legally enforced by a series of Merchant Shipping Acts from 1894 onwards, which have sought to achieve the highest of safety standards.[15] In addition, the Safety Officer and reporting of Accidents and Dangerous Occurrence (SORADO) Regulations provide for the maintenance of on-board safety standards by the vessel's Safety Officers and Representatives.[16]

The relevance of these conventions to the decline of the UK fleet lies in the costs associated with implementation. Given the notorious tradition of unscrupulous owners and the surplus of compliant seafaring personnel that has always existed in world shipping, the UK flag, and other reputable flags, have had to face the cost penalties of high standards of safety; what the new international division of labour in shipping adds to this is the tacit acceptance of sub-standard operation. The combination of a depressed freight

market, aging tonnage and global spread of shipping organisation lead to the erosion of safety standards during the 1975-1990 period. Lloyd's Shipping Economist has charged that during this period safety standards has been sacrificed in the struggle for market survival culminating with a fleet of poorly maintained and operated high risk vessels.[17]

Chapter Nine considered the issues and impact of the growth of developing nation shipping. It would be remiss to claim that all developing nation tonnage is substandard; what is indisputable, however, is the emergence of off-shore operations which feature substandard operation under some of the developing nation flags. Figure 44 has illustrated the poor accident performance of open registries. Partly this can be explained by the split of ownership usually in a DMEC, whilst crewing and registration are concentrated in developing nations. This has broken down the traditional authority that the shipmaster once exerted. In the previous Chapter it was considered how a more fragmented industrial relations regime was emerging in response to the employment policies of the UK shipping companies. This has also led to concerns about marine safety. The balance between safe standards and commercial pressures has always proved tenuous in world shipping, with the less reputable companies willing to take risks in order to gain cost advantage in the market place.[18] One affect of the new international division of labour has been the pressure placed by

FIGURE FORTY FOUR: COMPARATIVE TOTAL LOSS RATIOS
UK/USA FLAGS & FOC'S,1975–90 (AS % TOTAL GRT)

shore-side managers on shipmasters and crews to erode safety standards. The concern of senior UK officers over commercial pressures has led to allegations that safety was being sacrificed in the cause of profitability in UK ships flagging out for economic reasons. In a letter to NUMAST newspaper, The Telegraph, it was questioned whether the process of,

> ..flagging out and replacing UK junior officers and ratings with Far East personnel was anything but an attempt to cut costs at the expense of safety.[19]

The deck officer's professional organisation, Nautical Institute, has expressed concern at the down-grading of the shipmaster's professional autonomy, charging that operational decision making is heavily influenced by

the commercial pressures emanating from shoreside management at the expense of operational safety. The *Amoco Cadiz* pollution disaster brought questions over the efficacy of flag of convenience operation which concentrated operational control in the hands of shoreside management at the expense of the Shipmaster's authority. The Liberian Bureau of Maritime Affair's investigation highlighted the flaws in the critical relationship between the Shipmaster and the Shoreside Management.[20] In particular, the indecision over the engagement of the salvage tug, *Pacific*, was identified as a weakness in the decision making link, leading to castigation of the Shipmaster:

> ...he showed a strange and lamentable reluctance to assume responsibility, as Master of the vessel, for deciding what steps should be taken. For some reason he found it necessary during the day to make four radio-telephone calls Company's Office in Chicago, and only after that was he prepared to take responsibility(which was properly his) for engaging the *Pacific*...[21]

Although not the intention of the Investigation, the down-graded position of the Shipmaster under FOC conditions is evident in its findings. It is difficult to conceive that a UK master sailing under the UK flag would have felt so inhibited by shoreside management in a similar situation.

The Problem of Safety Regulation

Given the freedom of the seas concept and the perpetual endurance of a global pool of substandard tonnage, the impact of government and inter-government safety regulation has been limited. In order to understand why this problem continues, it is necessary to consider relationship between the fragmented global shipping organisation (featured in FOC operations) and safety standards. A particularly vulnerable area of maritime safety is that of the jurisdiction of the shipowner/manager over the shipmaster. The *Amoco Cadiz* disaster was to highlight the tension between on-board decision making and that of the distant owner/managers. International legislation has sought to eradicate such incursions into the traditional authority of the shipmaster; International Maritime Organisation (IMO) Resolution (A433) has provided the following criteria:

> The IMO Assembly invites Governments to take necessary steps to safeguard the shipmaster in the proper discharge of his responsibilities in regard to maritime safety and the protection of the maritime environment by ensuring that the shipmaster is not constrained by the shipowner, charterer, or any other person from taking...any decision which in the professional judgement of the shipmaster is necessary.[22]

Despite the clarity of this Resolution it is apparent that the shift in maritime activity away from traditional shipping companies towards off-shore organisations has provided opportunity for sub-standard operations, with shipping firms dictating to their masters and crew the standard of on-board safety to be employed. An example of how such changes in shipping organisation can affect safety has been provided by NUMAST evidence. This shows that the spread of flagging out of North Sea oil rig supply vessels (OSV's) has been accompanied by a downgrading of safety:

> Increasing commercial pressures-including reduced crew levels...are exacerbating the problem facing our members. Changes in the relationship between shipowner, managing company and charterers can distance shipowners from masters and officers. Demand for oil and gas in the North Sea override seamanlike judgement on safety...[23]

The ability of such firms to evade safety legislation via the globally decentralised nature of their organisation, provides them with the opportunity to under cut ships adhering to higher - and thus costlier - safety regimes.[24] This adds a new dimension to the decline debate: if less reputable firms, sheltering under the lax safety regimes of poorly regulated developing nation registries are allowed to gain market advantage, regulated UK flag ships will always be prejudiced in the market-place. Given this context, the UK flag operator faces levels of unfair, competition. Given the lack of state protection in the UK, and the inability of UK shipowners to adjust their safety standards downwards under the UK flag, decline became inevitable in the sectors where substandard operations were more acute.

It next remains to consider the sectoral aspects of maritime safety; and it will be seen how the importance of safety regulation varies in accordance with vessel/market types.

The Sectoral Dimension in Maritime Safety.

The sectoral dimension is important to the understanding of the link between maritime safety and decline. Starting with the higher value sectors of shipping, self regulation to a high level can be detected. In the areas where the UK deep sea fleet has endured in the 1975-90 period - liner shipping, cruising and vertically integrated tanker shipping - high levels of safety are the norm. In these sectors qualitative factors are important aspects of market success. On schedule, safe delivery of high value cargoes is an expected performance in the top liner trades. For this shippers will pay a premium for reliability.[25] At the top end of the cruise trades, both Cunard and P&O Cruises trade on their reputations of seafaring experience. The two oil majors which persisted with large UK tanker fleets throughout the 1975-90 period, Esso UK and Shell International, are both seen as leaders in safety standards.[26]

For the leading UK shipping firms, improving safety is synonymous with market efficiency. For example, Shell's attention to safety training and accident investigation successfully reduced on-board injuries between 1975 and 1988. This is illustrated in Figure 45, which shows a sharp decline in accident frequency measured by days lost per million man hours. Fairplay has estimated that Shell's improved safety performance,

> ...must be saving over $1m per year. Throw in a couple of large claims, or a charge of corporate responsibility and the savings are far greater.[27]

For the reputable shipping firm, if in particular like Esso, Shell or P&O it is part of a much larger organisation, there is the additional liability which accompanies corporation status. It has long been recognised in maritime circles that a process of cross-subsidisation occurs, with the safer, more reputable lines paying higher, and less reputable, high risk, lines paying lower insurance premiums[28] In this sense, the safer lines are penalised, whilst the sub-standard operators evade the true cost of their operations. This point is clearly illustrated by the experience of tanker owners trading in US waters, 1989-90. With American public opinion on tanker pollution running high following the *Exxon Valdez* disaster and a number of tanker

FIGURE FORTY FIVE: SHELL'S ON–BOARD SAFETY ADVANCES, 1975–88.

spillages in New York's Kill van Kull waterway, the pressures of liability facing the oil majors' fleets increased.[29] In June 1990, Fairplay expressed the dilemma facing the oil majors' fleets trading in US waters:

> It is quickly becoming impossible to put a cost on trading tankers to the US. And that means it is unattractive, ultimately unacceptable business.[30]

Shell's response to the problem was to withdraw its fleet from all US waters. This required reliance upon chartered tonnage for all the corporation's American trades.[31]

It is in the independent tanker and trampship/bulker sectors that safety standards are questionable. The high loss ratios of the FOC's, corresponds with the high percentage of independent tankers and bulkers under these flags. The contrasting approaches to safety according to sector type was highlighted by the response to the two major UK maritime disasters during the 1980's: *The Herald of Free Enterprise* and the *Derbyshire*. Whereas the official response to the *Herald* disaster was both rapid and rigorous, HM Governments have consistently refused to investigate the loss of the bulk carrier, *Derbyshire*, which disappeared - lost with all hands - on a voyage between Seven Isles(Canada) and Japan.[32] Despite the protestations of relatives, naval archititects and the maritime trade unions, a full Department of Transport investigation has been refused.[33] Master Mariner, Douglas Foy, has been particularly vigilant in the study of bulker losses in open seas.[34] Foy's study of bulker losses in the steel/scrap/ore trades has revealed 11 founderings (predominantly FOC vessels, see: Appendix Eight) in the 18 month period up to June 1987. Despite the frequency of these losses and the suspicion of cargo shifts, hatch and hull failures, there is a reluctance to fully investigate. Foy has found that safety improvements are hampered by the fact that, "the majority of the states under which bulkers are registered hold no formal inquiries and publish nothing regarding the cause of the loss of bulkers".[35] In addition to the bulker sector, analysis by Protection and Indemnity(P&I)* clubs has revealed the following four high risk shipping sectors:

(1) old reefer ships;

(2) old parcel tankers (spot market);

(3) VLCC's operated by speculators;

(4) tween-deckers of any size.[36]

In common with the bulker sector, these four (high risk) subsectors can be categorised in the low value markets, where FOC and unregulated developing nation organisation prevails. (see above Chapter 10.) For the UK owners in these sectors the question of substandards can be seen as a very real determinant of decline. The depressed freight rates during the 1975-90 period in these trades meant that costs were always critical to market survival. Under these market conditions, safety expenditure becomes marginalised. For the UK flag line operating in these circumstances, economic survival is impossible as the safety standards inherent in British registry generate costs which are not sustainable given the prevailing low freight rates.

Summary and Conclusion

This analysis of the safety dimension has drawn attention to the problems of UK flag shipping in competing against lower cost, sub-standard fleets. Firstly, the laissez faire, freedom of the

*The P&I clubs are a form of mutual insurance between participating shipowners. The aim is to limit financial risk against claims against members' vessels. See: P.Alderton, Sea Transport Operation and Economics(London: Thomas Reed, 1973), pp.138-139.

seas concept in world shipping has allowed an emphasis on cost cutting at the expense of safe standards. Within this context of poorly regulated world shipping, the comparatively high standards found under the UK flag only serves to exacerbate the economic pressures on British owners in the low value sectors.

Secondly, the concept of sub-standards helps to explain the sliding scale of safety which exists in world shipping and how this has had a detrimental impact on the UK fleet. The growth of a globally decentralised shipping industry has been shown as the facilitator of this sub-standard process, leaving UK owners the harsh choice of either flagging out or pursuing a policy of divestment from shipping altogether.

The third point made identifies the cost dimension. The comparative accident ratios of the UK flag against selected developing nation flags, plus the cost pressures from sub-standard operation, have been placed into a context of unfair competition given the higher cost penalties of operating under such a regulated as the UK's. The reality of sub-standard operation does pose questions for the market view. If the only way that UK shipping can survive is to cut costs beyond the safety margin, then it is apparent that industry's decline is explained more as a result of its inability or reluctance to lower standards than any manifestations of competitive failure.

Fourthly, the problem of safety regulation has been exacerbated by the global spread of shipping organisation. The severance of the link between ownership and flag control, the downgrading of the master's authority by ship managers and the highly elastic supply of low wage, poorly trained seafarers, has led to the avoidance of regulation. In addition, the reluctance or inability of the new registries to impose regulation has allowed sub-standards to continue.

The fifth and final point made is drawn from the application of sectoral analysis to maritime safety. This has shown that a variance in safety standards exists in accordance to specific sectors. In particular, it is in the low value sectors - drybulk, crude oil, reefers - that sub-standards are most acute. The evidence points to the deterioration of standards in correlation with the poor trading conditions prevailing in the post 1975 period. For the higher value sectors, a much better safety record has prevailed. In relating the safety dimension to the decline of the UK fleet it is apparent that UK owners in the low value sectors have been disadvantaged by the existence of sub-standards. The collapse of freight rates in the post 1975 period led to international standards falling well below those of the regulated flags. In this sub-standard environment even the most entrepreneurial British owners in the dry bulk and independent tanker sectors were unable to survive. The higher costs of operating under the UK flag were not sustainable in these conditions. Unable to respond to sub-standard competition, the UK owners with their emphasis on seafaring traditions were left with the choice between flagging out and complete disinvestment. In comparison with the lower value sectors, the UK owners were able to sustain fleet tonnages(1975-90) in the higher value/higher financial risk sectors in which safety standards were paramount - cruise liners, container ships, ferries, North Sea oil distribution.

From this evidence it becomes clear that the safety dimension was to provide a major contributory factor in the decline of the deepsea dry-bulk and independent tanker sectors. What the extension of the analysis to the safety dimension has proved is that there are limits to the cost savings possible under the UK flag. For the UK owners attempting to survive under these conditions, decline becomes the result of an ineffective international maritime safety regime, not the workings of the open market. It next remains to summarise the findings of this dissertation, making conclusion on the testing of the hypothesis.

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29."Shell Shocked," Fairplay International Shipping Weekly, 21.6.90. pp.2-3.

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31."Shell Steers Clear of Liability Whirlpool," Lloyd's List, 11.7.90, p.6.

32.D.Ramwell, T.Madge, A Ship Too Far: The Mystery of the Derbyshire (London: Hodder & Stoughton, 1992).

33.Ibid. p.112-117.

34.D.Foy, "Bulk Carrier Losses-Unanswered Questions," Seaways, May 1990, pp.21-22.

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CHAPTER 16: RESEARCH FINDINGS

Outline Summary

In reporting upon the findings of this work it is necessary to revert to the aim of the hypothesis, before specifically considering decline in each of the main sector components of the UK fleet. This recognised the need to extend the analysis of decline beyond the boundaries of the neo-classical economic approach of the market view. The assumptions of the market view that the UK fleet has failed to compete in the global market has been identified as a predominant explanation for decline. Moreover, the market view holds that the fleet's recovery can only be achieved by improving competitiveness. What this work has achieved is a broadening of the analysis of decline outwards by the use of a range qualitative factors which are over-looked by the market view in order to improve understanding of why decline occurred.

The year 1975 was selected as it marked the high-water mark of the fleet; and by 1990 the rate of decline was beginning to ease. Throughout this period public debate on decline has continued; and this has engendered a rich literature which has proved a major research source for this work. In addition, it has been necessary to delve into the modern history of the British industry and its organisation and business behaviour, as well as that of the evolving global market. Building on the statistical and business profiles of Chapter Four, the broad qualitative approach has revealed a range of factors behind decline.

The literature survey (Chapter Three) detailed the main academic, political and business sources of the market view of decline. It has not been argued here that the market view emphasis on the quantitative dimension of freight rates and shipping's costs is unimportant; what the qualitative approach has revealed, however, is that there is a complex, less apparent, network of determinants which have influenced the shipping economy and ultimately contributed to decline. It is therefore necessary to appreciate the impact of these elements if decline is to be accurately explained.

Core Analysis Outcome

The trio of elements forming the core analysis have achieved the widening of the scope of study in order to achieve improved understanding of decline. Starting with the sectoral analysis it has been possible to demonstrate the considerable differences in the economics and operations of the main fleet components and their trades; and it has become apparent that it is the specific rather than the general analysis that applies to each sector. Not only has the pattern of decline been uneven between sectors, but the forces that lie behind decline have been shown to be quite discrete to each fleet component.

Building upon the sector study, it has been possible to identify the principal organisational characteristics to be found not only in UK shipping but in the international environment in which it operates. Working within the sectoral framework, three principal organisational types of British ownership have been identified:

(1) the traditional liner company;

(2) the entrepreneurial company;

(3) the vertically integrated shipping company.

As these organisational types have evolved a noticeable change in their business behaviour has been detected. This has been identified as having a detrimental impact on the size of the fleet, post 1975.

The Traditional Liner Company

The traditional liner company's development and organisational evolution has been traced. The transition from family dominated institutions to modern business consortia and conglomerates has been identified as a major determinant of decline. The family dominated liner organisation has been seen as an institution which ensured longevity in shipowning. The dominance of the shipowning families-together with a tightly exclusive core of principal investors-brought about a specific pattern of business behaviour. Borrowing from management theory, this type of ownership has been equated with the role-culture style of management. With the emphasis upon maintaining the prestige and longevity of the lines, the role culture style of shipping management led to the low profit margins of the companies being accepted as normal. This approach, however, was to be challenged by organisational evolution towards consortia and conglomerate business organisation. The technological and market changes (outlined in Chapter Three) taking place from the late 1960's onwards necessitated a new organisational structure accompanied by the emergence of a task culture style of management. By 1975 the outcome of this transition was beginning to manifest, questioning the traditional approach to shipowning in the liner sector. The new emphasis was to be placed upon the financial performance of shipping investments; and, moreover, these were to be measured against non-shipping investments. The emergence of a new scrutinising managerial approach towards the economics of shipowning was bound to prove critical for the UK fleet, given the historic problem of low profitability and the new alternative investment opportunities that accompanied consortia and conglomerate organisation.

The organisational study has also extended out to that of the global factors affecting the liner trades. The emergence of two main factors was to prove critical for the UK liner owners. Firstly, the inclusion of liner shipping in the New International Economic Order (NIEO) agenda engendered a new wave of state owned or supported shipping on the liner routes, with cargo sharing apportioned by the 40:40:20 principle. Secondly, the growth of developing nation shipping enterprise, particularly in the Far East, which blended entrepreneurship with state support. The combined impact of these twin factors was to not only reduce the market share of UK liners, but also to lead to over-capacity and depressed liner rates. At a time when the organisation of the UK liner fleet was evolving and business behaviour was becoming more profit oriented, rationalisation and diversification became inevitable.

Entrepreneurial Shipping

Entrepreneurial shipping organisation has been identified primarily in the deep sea-dry bulk and independent tanker sector. Additionally, the coastal sectors have been considered, providing a valuable contrast with the deep sea sectors. Historically, organisation here was represented by the regional accumulation of shipping capital. The comparison between the prestigious Liverpool and London headquarters of the liner companies and the more functional industrial locations of the regional shipping entrepreneurs has been made. This reflected the differences in managerial style.

reflected the differences in managerial style.

Although, family dominance was also a feature of the regional entrepreneurs, their approach towards profit was more acute than the liner owners. The more task oriented management culture of the shipping entrepreneurs was to emphasise the need for competitiveness in world markets. But while liner organisation made the transition to consortia and conglomeration, the regionally located entrepreneurs tended to restrict their business acumen to the shipping industry.

Given the global changes occurring in the organisation of the dry bulk and tanker markets by 1975, survival for these owners became increasingly difficult. The impact of increased FOC operation, oligopsonistic concentration in the commodity trades and the surge of "footloose" and state subsidised capital into speculative shipping investment, were all to prove detrimental. Combined with the increased capital cost of larger vessels and declining freight rates, the UK owners began to experience negative net cash flows. The crew costs, conditions and safety standards incumbent on owners under the UK flag made it impossible to adjust costs downwards in order to off-set losses. Under these conditions, the only options open were to diversify into ship-management, flag out, or leave the industry completely. In most instances, it has been shown that the latter has prevailed. This points to the specific organisational characteristics and business behaviour of the regional entrepreneurs.

By way of contrast, shipping entrepreneurship in the coastal trades survived and actually prospered in some cases, post 1975. Although its organisation of management and control shared similar characteristics with those in the deep-sea sectors, the coastal traders were not attempts to raise finance under the BES, however, points to the investment communities' perception of UK shipping as a low opportunity industry.

The mixture of small scale organisation, limited deep-sea investment opportunities - explained by its global cost structure and low safety standards of operation - and dearth of investment into UK shipping enterprise helps to identify the causes of its decline.

Vertically Integrated Fleets

The third area of UK shipping organisation to be identified by this work is that of the vertically integrated fleets. In 1975 these varied from the fleets of the nationalised industries, British Rail and British Steel (managed out) fleets, to those of the oil majors. What the link between organisation and business behaviour has revealed here is how changes have culminated in decline. Vertical integration of Sealink (UK) Ferries with the British Rail network saw the vessels adhering to the mixed economic and social objectives of nationalisation. Privatisation of Sealink was to lead to a radical shift in business behaviour. This was to result in selective route rationalisation and closure as well as flagging out. At British Steel, privatisation was also to bring fleet rationalisation and flagging out. As with Sealink, the changes at British Steel were to dilute the earlier social objectives of nationalisation, withost saving economic objectives becoming paramount. The net result of these changes was felt in the reductions in the UK ferry and bulk carrier sectors.

The four principal oil majors' fleets also underwent radical organisational and business behaviour changes, post 1975. It has been shown how the tanker sector provided a major component of the UK fleet in 1975. The moves away from an economic criterion which stressed the service role of the vertical integrated fleet, to "stand alone" profit centres were to lead to massive reductions in tonnage. In the BP and Shell deepsea fleets the response to the decline of the long haul trades was to restructure the organisation. As a consequence, business behaviour was to become more influenced by the economic performance of decentralised fleet units, not, as previously, the overall logistics of the corporation. The need for the fleet units to become financially independent from the parent was to become a catalyst for rationalisation, managing out and flagging out. Cargoes were no longer guaranteed by the parent and, conversely, the fleets were given the opportunity to offer vessels on the global tanker charter market. This necessitated a business behaviour which equated costs with those prevailing in the global market. This objective was not sustainable with UK crews under the UK flag. This was particularly the case given the additional risk premiums and liabilities that corporate ownership attracts, whilst lower profile FOC operators were able to avoid these cost burdens. The response of Esso and Mobil was to dispose of their UK flag deepsea fleets completely, whilst retaining sizeable fleets in the North Sea/European trades. The business behaviour here was conditioned by the need to ensure the high standards of safe operation that UK crew/flag operations could ensure in the difficult North Sea conditions. In the less demanding deepsea trades, flag of convenience operation, with low wage crews, was preferred. The evidence from the vertically integrated fleets is that net decline has resulted from changes in the organisation and ensuing business behaviour of management. The findings of the core analysis have pointed to the wide range of factors which have contributed to decline in each sector. This has taken the analysis beyond the limits of the market view and its assumption of competitive failure.

It next remains to summarise the findings of this work within the context of the key sectors of the UK fleet. The sectors identified in Chapter Four apportion 26m.grt - 96 percent of the 27m.grt tonnage decline, 1975-90.

The Oil Tanker Sector

Commencing with the largest component of the fleet in 1975, oil tankers, the analysis has shown how the sector was dominated by the oil majors, whose response to the oil market chaos of the mid 1970's and the ensuing restructuring of the oil trades. It was the resulting organisational and business behaviour changes that brought rationalisation, managing out and flagging out. From this the 14.6m.grt decline in oil tankers, 1975-90, is explained by the changing relationship between the oil majors and their tanker fleets. The use of both the Crown Dependency Isle of Man and Overseas Dependency Bermudan flags provided the two UK oil majors, Shell and BP, the combined advantages of the security, status and operational standards associated with UK ownership with the crewing and tax savings of FOC arrangements.

The evidence from the tanker sector features the highly selective response of the oil majors in choosing registers. The use of UK flag tankers by Esso and Mobil for the high risk/high value North Sea crude and North European products distribution is testament to this point, further underlined by the use of FOC on the low value/risk long distance crude trades. For the independent tanker owners, including the liner companies diversified into the oil trades - P&O, Ocean Transport and Trading, British and Commonwealth, Cunard - decline 1975-90, is explained by the acute over-tonnaging and depressed freight rates that followed in the wake of the oil crisis of the early-mid 1970's. At a time when the oil majors were improving the cost performance of their fleets and the seemingly inexhaustible global supply of available tankers prepared to accept low charter rates, the UK independents felt the squeeze of competition to which they could not respond to, under the UK flag.

As a consequence of all these factors, decline cannot be said to be the result of any competitive failure under the UK flag, but as a result of the organisational changes in the sector. This brought a shift in business behaviour, very much to the detriment of the UK flag. From the context of the oil market disruptions of the early/mid 1970's, the following key points are next presented as a summary of the causes of decline in the tanker sector:

> **The moves towards profit centred operations by the oil majors, leading to the selective use of FOC operation, including the UK and Overseas Dependencies;**
>
> **The impact of shifts in the business behaviour of the majors and the acute over-tonnaging in the world tanker fleet. These factors were to threaten the viability of the independent tanker fleet, including those of the liner companies that had diversified into the crude and product oil trades under the UK flag.**

The Dry Bulk Sector

The organisational analysis of the bulk sector has recognised the regional characteristic of the traditional UK trampship owners as well as the international environment in which they operate. Whilst the bulker owners attempted to respond to the competitive pressures in the market place, post 1975, it was the combination of global factors which proved so difficult to overcome. The oligopsomistic trends in world commodity flows has militated towards the use of flag of convenience bulkers on long term contracts of affreightment. This process was to overcome. The oligopsonistic trends in world commodity flows has militated towards the use of flag of convenience bulkers on long term contracts of affreightment. This process was apparent in the commodity flow control of the Japanese buying houses, and was later mirrored by British Steel, particularly post privatisation. The relatively easy entrance into the dry bulk markets, coupled with the enduring speculative tendency to optimistically invest in the sector have led to over-tonnaging, resulting in depressed freight rates. Easy credit terms from the shipyards and leasing arrangements with the financial houses, has only served to exacerbate this problem. In addition, the ability of operators under less regulated flags (than the UK flag) to avoid the costs of safety standards has ensured that survival under the UK flag was impossible.

An apparent option open to the bulker owners was to become ship-management agencies. This was the preferred choice of Denholms; but was to prove an exclusive arrangement in that market opportunities were limited to a select number of agencies trading on the strength of their expertise. This development was even to work to the detriment of the remaining UK owners as the availability of ship-management was utilised by new, inexperienced, entrants into the market. This again served to exacerbate the over-tonnaging problem. The flagging out option was also to prove limited in that it was only open to firms with access to capital funds necessary for Panamax and Cape size vessels. P&O's Bulk Division was able to combine this advantage with FOC operation and Third World crews in order to gain long-term contracts in the steam coal trades. For the smaller owners in the bulk sector this investment option was not open due to their limited access to capital funds. As a consequence, they were unable to enter into the premium long-term charters for Panamax (and above) sized vessels. Conversely, they also found that survival in the lower end wide range of organisanational and business behaviour factors which have contributed to decline. These factors cannot be assigned to the workings of the open market. A more accurate explanation is the recognition of the range of market distortions which militated against the majority of the UK bulker owners. The consequences were a full scale retreat from the sector, with UK flag tonnage declining by 7.5m.grt between 1975 and 1990, with just 0.3m.grt. remaining - the almost disappearance of the sector! The following key points summarise the causes of decline in UK flag bulk sector given the context of over-tonnaging, rationalised commodity markets, falling rates and increased capital costs:

> **The organisational limitations of the traditional UK bulk owners limited the options open to these owners given the structure of the global market, particularly so when the impact of FOC and sub-standard operations is considered;**
>
> **the reluctance of the investment community to support these owners.**

The Liner Sector

The comparative success of the UK liner sector between 1975-90 contrasts sharply with the oil tanker and dry bulk sector, pointing to important differences in organisation and its international environment. The evolving organisational structure of the liner companies has been linked with moves towards consortia and conglomeration. Capital concentration, as well as the incursion of state supported developing nation fleets, limited the scope for the economic survival of the companies. This was particularly the case given the comparative investment appraisal that conglomerate activity made possible. Combined with a new style of business management, which marked the severance from the traditional shipping family ownership, conglomerate organisation was to prove critical. The effects of the phasing out (from 1984) of the 100 per cent first year allowance and the free depreciation provision, were particularly felt in the liner sector. The combination of conglomerate organisation-with its inherent need for tax shelter-and the high capital demands of capital intensive liner shipping provided for a symbiotic relationship. The withdrawal of this facility could only serve the disinvestment process. This helps to explain rationalisations and total withdrawals which occurred post 1975.

Where the UK liner fleet retained a major presence was in the premier deep-sea container routes emanating from UK/North Europe-Far East, Australia/New Zealand, North America. Given the premiums placed on shipping quality in these major routes such well established UK lines as Ben Line, Blue Star Line, Cunard Line (ACL and ACT) and P&O, were able to trade on their tradition and expertise. In the trades to ex-colonial and other developing nations - West Africa, South Africa, India, South America, China - the UK presence was diluted by the emergence of national shipping, inspired by the 40.40.20. incentive.

What the mixed experience of the liner owners, 1975-90 points to is the limited option open to the liner companies once they had made the transition to consortia and conglomerate organisation. P&O were able to build on their expertise in the Far East and Australia/New Zealand trades. The premium that these trades placed on quality factors-speed, frequency, reliability-placed P&O in a strong market position. Similarly, leading lines such as Cunard and Blue Star (via consortia) were able to succeed in major container markets. In the more labour intensive break-bulk trades to the developing nations, the UK lines were forced into rationalisation and withdrawal. Typifying this trend is Blue Funnel's demise in the China trades, likewise Elder Dempster's withdrawal from West African trades. Both events were to contribute to the complete shipping divestment by the parent Ocean Fleet group. This has resulted in the concentration of UK liner shipping in the premium, capital intensive trades, and withdrawal from the more labour intensive trades.

What the evidence from the liner sector points to is the impact of evolving organisation-both at UK ownership and global market level. The changes in UK ownership forced a reassessment of shipping investment, whilst the changes at international level were induced by political factors, creating a range of state protectionist measures. Both elements require the analysis to extend beyond the market view. Given the context of the increased capital costs of liner shipping technology, over-tonnaging on prime routes, the removal of tax allowances, post-1984, and the rise of state supported developing nation shipping, the following key points are offered as causes of decline in the UK liner sector:

> **The limited opportunities in the rationalised world liner shipping market for UK flag operators, with the exception of the conglomerate owners;**
>
> **the business behaviour changes that accompanied the moves towards consortia and conglomerate organisation, leading to shipping divestment.**

The Cruise Liner Sector

In addition to the liner sector, the presence of P&O and Cunard is very much in evidence in the cruise sector. Whilst their respective fleets have actually increased (steadily) in this sector, decline has occurred in the amount of UK registered tonnage. This can be explained by the replacement of older (UK flag) tonnage by newer, yet second hand tonnage already registered outside of the UK. The structure of the 1975 cruise fleet was very much characterised by remnants of the ex-colonial trades passenger fleets. Newer vessels were required for a successful transition into the cruise market. Cunard's purchase of the Bahamas registered *Sajafjord* and *Vistafjord*, and P&O's takeover of the Italian owned, Liberian flag, Sitmar Line, typifies this trend. The continued success of the *Queen Elizabeth 2* and the *Canberra* points to the prestige value of these major UK flag ships. The decision of P&O to place its major new building (1994), *Oriana*, under the UK flag points to the longevity of the sector (as well as bringing a 25 per cent increase in tonnage terms).

Where decline has occurred it has been more the result of the structural changes in the deep-sea passenger market, rather than market forces. By concentrating at the premium end of the cruise market the blend of UK shipping expertise and conglomerate financial backing has attained a stable core base in the cruise sector. Whilst this reflects the market strength of the two-UK market leaders, their international success - resulting in expansion - has led to activities under a range of flags, to the detriment of the UK flag cruise sector. Within the context of the international spread of the organisation and repute of the two conglomerate owned cruise liner companies the following key points are offered as causes of decline in UK flag cruise liner sector:

rationalisation in the sector leading to the dominance of P&O and Cunard Line;

the organisational changes in these lines leading to a business behaviour more influenced by conglomerate objectives than the maritime heirloom of these traditional liner companies;

the ability of these lines to blend their UK expertise with a selective use of global capital and labour sources and flag of registry.

From this perspective, the 281,000.grt decline(54 percent) in the UK flag cruise sector becomes a symptom of the business success of the conglomerate owners in financing, marketing and operating the inherited UK passenger liner heirloom!

The Coastal Sector

By splitting the coastal shipping into sub-sectors it has been possible to recognise the range of factors which shaped its size and composition in the 1975-90 period. Although the coastal fleet declined by 347.000.grt(46 percent) in this period, this can partly be explained by the demise of the domestic coal trades and the replacement of coastal liner shipping by ro-ro freight ferry services. Against this the relative success of the coastal dry bulk and independent tanker sector has been contrasted with the almost complete collapse of its deep-sea counterparts. The entrepreneurial tradition in this sub-sector has provided for market success, consolidated by new investment. In the competitive short-sea/inland waterway trades the UK owners have been able to retain a major presence. The deep-sea contrast draws attention to the absence of such factors as over-tonnaging, sub-standard and(limited) FOC operation in the coastal sector. Investment in coastal tonnage has remained primarily within the ambit of the UK and North European owners; the global spread of investment has not occurred. This has led to a much closer balance between supply and demand. The high standards of seamanship demanded by the coastal waters, plus the increased possibility of port-state inspection, has ensured that sub-standard operation is minimised. The (UK flag) retention of the major sector components provided by the coastal tanker fleets of Esso and Shell can be explained by the need to maintain high standards. In addition, the less centralised industrial relations in the coastal trades allowed for more flexibility on crew productivity an area major importance in determining competition against the German captain/owner coastal fleets. The relative success of the UK owners in the coastal trades points to the importance of the qualitative factors of organisation and business behaviour which determine level of shipping activity in each sector. Where decline has occurred organisational analysis provides explanation. Whilst the traditional, entrepreneurial, coaster owners have been able to maintain their presence in the dry-bulk and tanker trades, the relatively small scale, regionally based organisation has prevented expansion into the capital intensive short-sea ro-ro trades. In addition, the principal European competitors in the coastal trades - Germany, The Benelux countries, Denmark - benefited from the advantage of state and investment community support in the financing and operating of coasters.

Within the context of the reduced domestic coal and European coastal liner services and subsidised/supported competition, the following key points are offered as causes of decline in the UK coastal shipping sector:

> **the organisational structure of the leading lines led to concentration on the traditional dry-bulk and tanker trades, precluding any diversification into the more capital intensive coastal growth opportunities, post 1975.**

It can be seen that the organisational structure of the coaster owners provided the strength of expertise and market acumen in the traditional trades, but proved to a be a weakness in limiting the scope of investment into new opportunities.

The main impact on the ferry sector in the 1975-90 period has been caused by the privatisation of the British Rail, Sealink fleet. This change in ownership was to lead to radical changes in business behaviour. Of particular importance to this study was the decision to flag out around 50 per cent of the Sealink fleet to the ex-British dependency flag, Bahamas. The Bahamian registry has built up an expertise in ferry registration in the post 1975 period. For such operators as Stena-Sealink, Bahamas combines the advantages of fleet regulation standards comparable to those under the UK flag with those of tax haven and renegotiated crew agreements.

The continued success of P&O and Stena-Sealink in the traditional passenger/freight routes contrasts with the failure of UK coastal lines to penetrate the new ro-ro North Sea freight trades which had developed in the post 1975 period. These trades have been dominated by Scandinavian, German and Benelux tonnage. This experience points to the limitations of British shipping enterprise in that this area of opportunity was overlooked. Rather than this providing a simple case of failure in the market place, it is more accurate to associate the structure of British shipping organisation to business behaviour. Whilst the two main (UK) ferry companies, P&O and Stena-Sealink concentrated on the traditional routes, the shipping entrepreneurs in the dry bulk and independent tanker sectors, lacked the financial resources necessary for diversification into ro-ro shipping. Between 1975 and 1990 the UK flagged ferry sector declined by 134,000.grt(30 percent), the main explanation for this is the business behaviour of Sealink following the organisational change from state to private sector ownership. This led to the flagging out of approximately half the tonnage to the Bahamas flag. As with the cruise liner operators Sealink's business behaviour concentrated upon the blend of UK expertise and prestige with the ability to selectively seek lower cost registries. Given this perspective, decline in the ferry sector is more a measure of organisational change than any suggestion of failure to compete. What the evidence points to is:

> **that the 134,000.grt(30%) decline of the UK ferry fleet was primarily brought about by the organisational changes occurring at Sealink, with flagging out resulting from the change in the business behaviour which accompanied privatisation.**

The last coastal sector to be considered, that of the off-shore oil supply vessels (OSV's), provides a mixture of evidence. The diversification of UK owners into the sector, post 1975, illustrates one growth area where opportunities were not overlooked. In the post-boom North Sea oil market conditions, from the mid 1980's onwards, the share of OSV tonnage under the UK flag declined. One major explanation identified has been the market incursions by the state protected Norwegian OSV fleet. In a time of over-tonnaging, resulting in falling charter rates, state protection gave the Norwegian fleet a market advantage over the UK OSV fleet. This again points to the need to look beyond the market view of competitive failure, as it is political, rather than economic, decisions which were influencing the size of the OSV fleet. The evidence of the OSV sector is highly pertinent to extending beyond the market view. This was a sector which actually achieved a modest growth measuring 1975 with 1990. The successful development of the OSV fleet, peaking at 294.000.grt in 1980, points to the vibrancy in UK flag shipping investment; the erosion of market share by the state protected Norwegian fleet raises questions over the structure of the market. This again demands analysis which extends beyond the market view. Within the context of state intervention(Norway) and limited intervention(UK),the following key points are offered as causes of decline in the market share of the UK flag OSV sector:

> **the market penetration by high quality Norwegian tonnage subsidised and protected by the Norwegian Government;**
>
> **the protection of the Norwegian sector which has prevented**

UK vessels from entering the market and thus improving their utilisation and efficiency.

The evidence from the OSV sector serves to endorse how non-market factors influence the operations of shipping and can be seen as a key determinant of decline. It lastly remains now to make the final comments on the findings of this dissertation.

Final Concluding Comments

Having considered the evidence generated by the core analysis employed here, it finally remains to reiterate the importance of extending the study of the UK fleet's decline beyond the market view. What has been achieved by this work is the recognition of the many factors which have contributed to decline. In order to understand the decline it was necessary to appreciate the sectoral diversity of the fleet, the evolving pattern of shipping organisation and its impact upon business behaviour. The evidence here has pointed to the many contrasts in the principal fleet sectors in their organisation and business behaviour. Having identified and analysed the key areas of the fleet's 1975-90 decline by the categorisation into sectors, explanation becomes specific to the distinct set of organisational and business behaviour circumstances in each. This has taken the questioning beyond the confines of the market view, and has revealed a wide range of factors which have had such a detrimental impact on the total fleet.

APPENDIX 1: OUTLINE OF VESSEL COSTS

AVERAGE CAPITAL COSTS 1980 & 1985($m)

SOURCE: H.P.Drewry, World Shipbuilding Market Prospects to 2000(London: Drewry, 1988)

PERCENTAGE OF OPERATING COSTS ATTRIBUTABLE TO EUROPEAN CREW COSTS, POST 1975.

* Crew costs as a percentage of total container operations.

SOURCE: Galbraith's Shipping Advisory Services, Crew Costs-The Shipowner's Dilemma?(London: 1979, Galbraith's) and Department of Transport, British Shipping: Challenges and Opportunities(London: HMSO, 1990).

APPENDIX 2: COMPARATIVE FERRY PRICES 1989

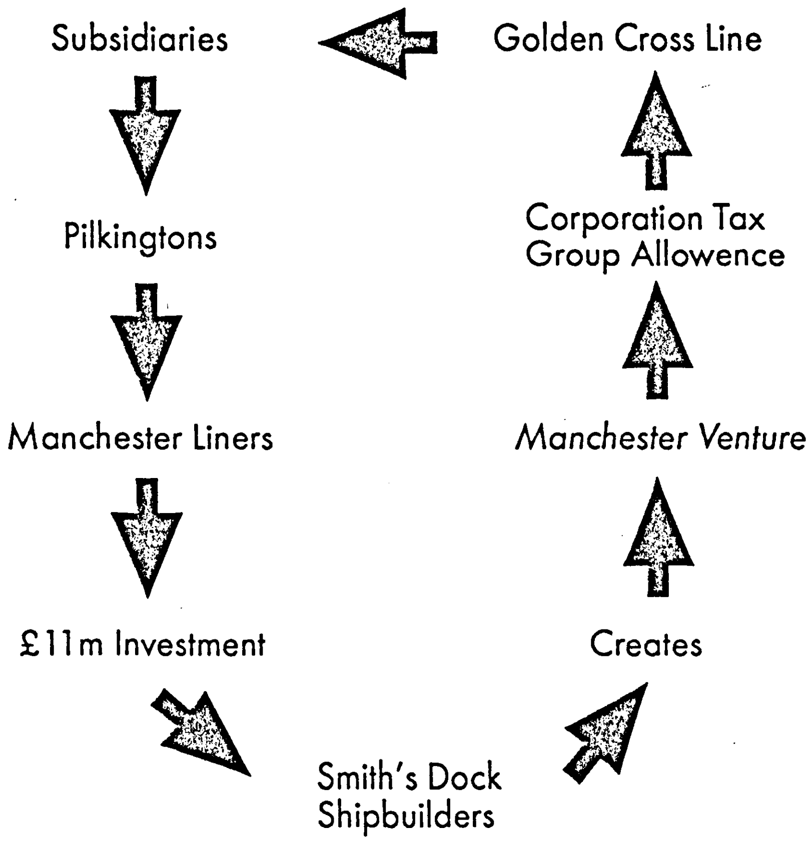
* Average 4 metre car; ** 2 Adults, 2 Children.

SOURCE: MMC, Cross-Channel Car Ferries: A Report on the Existence or Possible Existence of a Monopoly Situation in Relation to the Supply in the UK Cross-Channel Car Ferry Services and a Proposal to Enter into Agreements for the Joint or Coordinated Supply of Such Services (London: HMSO, 1989), p.28.

APPENDIX 3: P&O EXPANSION 1910-90.

SOURCE S.G.Sturmey, British Shipping and World Competition (London: Athlone, 1962), pp.366-7. Fairplay International Shipping Yearbooks. S.Rabson, K.O'Donoghue, P&O: A Fleet History (Kendal: WSS, 1988).

APPENDIX 4: MANCHESTER LINERS-PILKINGTON'S BUSINESS NETWORK.



SOURCE: Derived from "Pilkingtons v Inland Revenue Commissioners," British Tax Cases 1982(Bicester: CCH Editions, 1982), pp.79-89.

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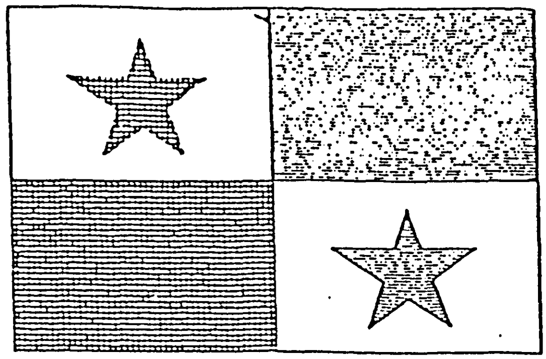

PANAMA

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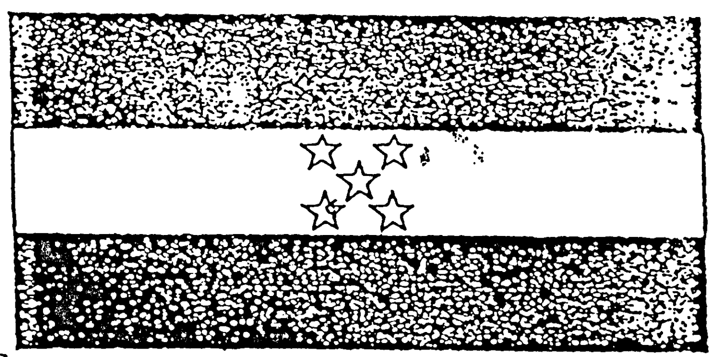
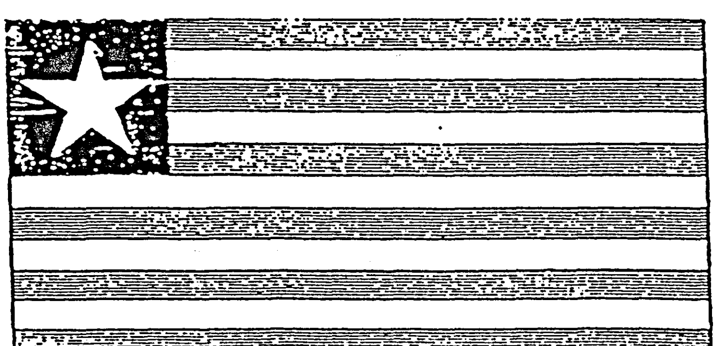


HONDURAS



LIBERIA

THERE are two sides to every story. The last few months have seen further propaganda by the European maritime countries against what they describe as 'flags of convenience', of which Liberian and Panamanian are the most important. This propaganda is now starting to crystallise into suggestions regarding action to be taken by the European maritime nations, either by banding together, or individually, or through the O.E.E.C. In view of this it is highly desirable that the other side of the story, namely, that of the United States owners of ships registered in Liberia and Panama, should be told, and their point of view appreciated. That is the purpose of this booklet, which consists in the main of material already widely circulated in the U.S.A. and published either in full or in part in some European maritime journals.

Threat to Freedom of the Seas

GREAT BRITAIN and Norway, the two principal maritime countries of Europe, have for many years been the champions of liberty and free competition in shipping and the principal antagonists of all restrictive practices in that field. Under the banner of these noble principles, they have been fighting, and still are fighting, the American 50 per cent rule, the object of which is to secure some participation by United States flag ships in United States Government cargoes destined for foreign countries under United States foreign aid programmes.

This was as long as these nations, themselves, had the upper hand in the competition. They now feel that they no longer have the undisputed upper hand but have to give room, to some extent, to participation by United States citizens and companies operating vessels under the Panamanian and Liberian flags, and overboard goes the principle of freedom of the seas and free enterprise and competition.

In the words of Lord Simon, past-president of the Chamber of Shipping of the United Kingdom, no possible line of action should be rejected 'merely because it conflicts with some guiding principle which up to now we have found it advantageous to adopt'. In other words, the former President of the Chamber of Shipping, will not reject the very same type of measure, which Great Britain and Norway have been preaching so nobly against for generations. The line of action referred to includes discriminatory actions of different kinds, such as penal port dues, sanctions, special freight taxes—all of which have that, in common, they constitute clear cases of flag discrimination. It seems that Lord Simon never believed in these principles, he merely found it 'advantageous' to adopt them as long as Great Britain's dominant position in world shipping was undisputed. When this position is threatened, these principles are no longer 'advantageous'.

It is interesting to examine the principal pretext which the European maritime countries find it convenient to make use of in their current abuse of Panamanian and Liberian shipping in order to conceal their real motives, which are to destroy, or at least curtail, the new competition from United States legitimate interests. The principal pretext is that of inequality of taxation.

Panamanian and Liberian shipowning companies owned by United States citizens are taxed in the United States in the same way as other American-controlled foreign investments. Earnings of foreign corporations owned by United States capital are not taxed in the United States until dividends are declared by the foreign corporations and remitted to the United States. Is there any logical reason why the United States should tax Panamanian and Liberian shipping companies any differently from other United States foreign investments? Is it up to European maritime countries to criticise or dictate taxation policy to the United States? The extent to which American-owned Panamanian and Liberian shipping companies pay dividends to their American owners depends on the same considerations as determine the dividend policy of other American foreign investments, such as plantations, factories, etc. During the last few years, it has been inadvisable for American-controlled Panamanian and Liberian shipping companies to pay large amounts of dividends to their United States owners, for the simple reason that the money has been required to pay for new ships. A Panamanian or Liberian shipping company, like any other soundly-managed company, will consider its commitments for newbuildings and all other factors concerned, before deciding what dividends shall be paid. There is no reason why Panamanian and Liberian shipping companies should pay dividends to their United States owners merely to please the European maritime countries.

The records show that during the past ten years, American oil companies have received very substantial amounts by way of dividends from their Panamanian and Liberian shipping company subsidiaries. If it were not for the necessity of expanding the fleets to meet American requirements for additional tonnage, the dividends would undoubtedly have been larger, but it is not up to the European maritime countries to criticise American judgment in this respect.

It is interesting to read what Mr. Robert D. Ropner stated in his presidential address to the Chamber of Shipping of the United Kingdom on February 27, 1958, in regard to taxes paid by British shipowners:

> 'It is probably true to say that, on a reasonably good market, a large shipping firm with a substantial and continuous replacement programme to finance will not have to find much money to meet taxation. Under these conditions, therefore, the British owner would not be very much worse off than his flag of convenience competitors.'

It is difficult to understand why this significant admission should not hold good, whether the market is 'reasonably good', 'very good' or 'bad'.

Actually, the difference between the taxes on shipping of Great Britain, Norway, Denmark and other European maritime nations, and those of Liberian and Panamanian flag ships owned by United States citizens, is one of form rather than substance. United States citizens controlling Liberian or Panamanian shipping companies can, if they so desire, let earnings accumulate in the Liberian or Panamanian companies and, as long as those companies do not declare and pay dividends, they are not subject to United States income taxes. But this is merely a postponement, similar to that postponement which European shipowners enjoy by virtue of their special depreciation allowances as long as they follow a continuous and active replacement programme. It could probably be shown that the taxes paid by American

APPENDIX 6: UK FISCAL REGIMES 1966-90.

SOURCE: P.B.Marlow, "Shipping Investment Incentives: A Trilogy. Part 3: The Effectiveness of Investment Incentives for Shipping-the UK Experience 1950-87," Maritime Policy & Management, Vol.18, No.4, Oct-Dec, 1991, pp.283-311.

The Pre-1984 System of Capital Allowances:

The pre-1984 regime had evolved from the 1945 period. Up to 1984, the 100 percent first year allowance allowed the full cost of a new ship to be written off against tax if profit levels allowed this. The free depreciation facility provided the shipowner with the option on using the first year allowance in any year of the vessel's trading life.

The Post-1984 Reforms:

The reforms led to the dilution and final phasing out of the first year allowance in 1986. In its place a 25 percent writing down allowance, combined with a new application of free depreciation based on the reducing balance, was provided for shipping investors.

SOURCE: Memo by Inland Revenue, "Tax Incentives and the Shipping Industry," House of Commons Transport Committee, Session 1987-8, First Report, Decline in the UK-Registered Merchant Fleet, Vol.3(London: HMSO, 1988), pp.77-80.

APPENDIX 7: 1975 CAREER PROSPECTS

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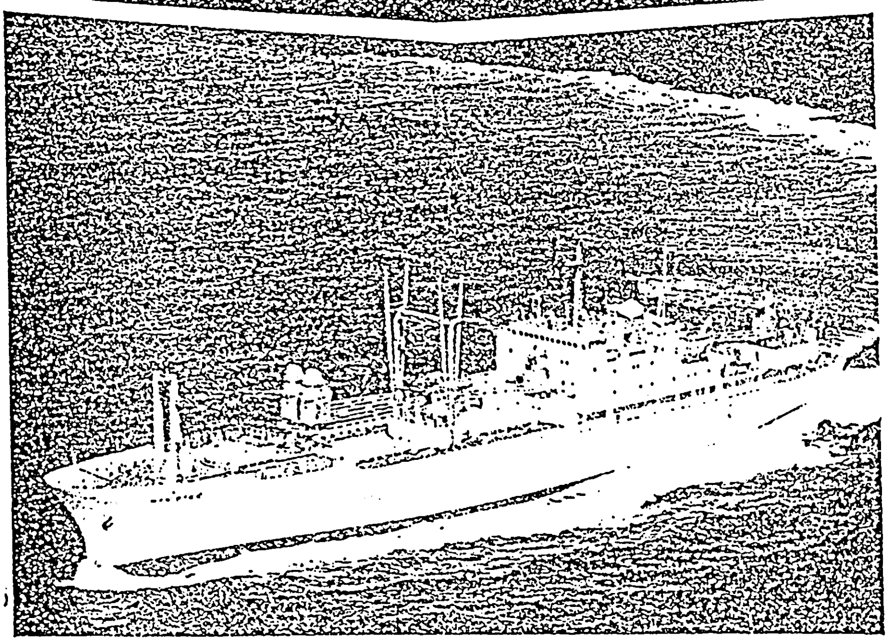

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APPENDIX 8: BULKER LOSSES JAN 1986-JUNE 1987

SOURCE: D.Foy, "Bulk Carrier Losses: Unanswered Questions," Seaways, May 1988, pp.21-3.

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