

1992: The implication for British shipping

P Le Cheminant, CB, BSc (Econ), CBIM

General Council of British Shipping

SYNOPSIS

The message of 1992 is the opportunity for enlargement of the domestic market and the consequent possibilities for growth. The success of the 1992 exercise hinges, therefore, on the actual achievement of greater access to markets and of a climate of freer and fairer competition.

This paper singles out those areas of the 1992 legislative programme which may enhance or endanger the creation of this free and fair competition for shipping. It focuses in particular on: (1) the transport of goods to reduce the costs of frontier formalities with goods traded within the Community; (2) the transport of people to remove controls on persons at frontiers, an area where progress has slowed almost to a standstill; (3) the mutual recognition of ship and marine equipment where a draft regulation should permit the transfer of all cargo vessels below 500 grt between Member State Registers; (4) the free movement of workers – mutual recognition of seafarers' qualifications; (5) cabotage; (6) merger control; (7) state aids; (8) the harmonisation of indirect taxation – VAT and duty free; (9) the social dimension – health and safety requirements, worker participation.

1992 is examined as a continuation of the common policies which have been developing within the Community over many years – one of which is the Common Transport Policy. This paper briefly looks at where we are in the evolution of the common Maritime Transport Policy, stages one and two, which is now aiming at a fully integrated Community shipping industry. It also compares the present position of the UK shipping industry with that of the shipping industries in other Member States.

INTRODUCTION

I have been asked to speak on the implications of 1992 for British shipping. 1992, in my view, goes well beyond Lord Cockfield's familiar White Paper. The Community is trying to form a single economic entity whose internal economic activity will be no more hampered by the actions of member states than is, for example, economic activity within the United States of America by the actions of California. Moreover, like the United States, it makes total sense for the European Community to adopt a common economic stance to the outside world.

It is one of the great 'might have beens' of history that the UK shied away from joining the European Community in the 1950s. We did so from reasons which no doubt seemed good at the time, but which, with hindsight were a mishmash of emotion, self-delusion and lack of vision. The result was that the Community was initially founded on a single bargain. The manufacturing industries of the Community would benefit from an internal market devoid of tariff barriers and protected by a common external tariff; and the agricultural producers would receive the comfort and solace of the world's largest feather bed. The creators of the Community of course knew that an economic policy concerning itself solely with manufacturing industry and agriculture was damagingly incomplete. They were well aware that service industries like transport existed; they knew that non-technical barriers to trade – in the widest sense – were important; and they knew that their service industries were not really ready for the cold blast of competition. In the transport sector, for example, most of Europe's railways were expensively nationalised; the trucking industry had a lot in common with peasant agriculture and, like agriculture, had a disproportionate influence on local politicians; and the aircraft industry was held in a rigid mould by everything

Peter Le Cheminant, the Director-General of the General Council of British Shipping, was born in London in 1926. After service with the Royal Navy from 1944–47, he took a degree in economics at the London School of Economics and entered the Civil Service as an Assistant Principal in 1949. He has served in a range of Government Departments including the Treasury, the Cabinet Office, the Cabinet Office (Management and Personnel Office), the Department of Energy (and its predecessors), the Ministry of Technology and the old Department of Trade and Industry.

He was Private Secretary to the Prime Minister from 1965–68. His last four Civil Service postings were: as a Deputy Secretary in the Department of Energy from 1974–79. During this period he served as a member of the Governing Board of the International Energy Agency; as a Deputy Secretary in the Cabinet Secretariat from 1978–81; as a Deputy Secretary in the Treasury responsible for Civil Service pay, pensions and industrial relations from 1981–83; and finally as Second Permanent Secretary in charge of the Cabinet Office (Management and Personnel Office) – effectively the central personnel function for the Civil Service as a whole.

He was appointed Director-General of GCBS on 1st February 1985 and is a member of the Council of King George's Fund for Sailors, a Fellow of the Chartered Institute of Transport, and a Liveryman of the Worshipful Company of Shipwrights.

from law to a degree of cartelisation, which would have made some nineteenth century captains of industry blush. The shipping industry, together with aviation, was expressly set on one

side for later consideration; partly no doubt because in many of its activities it was open to free international competition; partly because in the 1950s the only real problem for most shipping companies was how to acquire enough tonnage to make the most of the opportunities open to them; and partly because of the political importance of the cabotage restrictions protecting coastal trades. Thus, the approach of Governments to their transport industries in the early days of the Community was to protect road, rail, air and coastal sea traffic as part of the national patronage (it is no accident that to this day German railway workers are classified as civil servants in German law), and to leave international shipping to get on with it because it seemed to be doing all right and, anyway, the real political concern in maritime matters lay in shipbuilding with its (then) large numbers of voters concentrated in particular constituencies.

Continuing the theme of what might have been, it is tempting to envisage that, had the UK wanted to join in, the original bargain could have been a tripartite one. In the 1950s the UK was the pre-eminent service economy of Western Europe – shipping, banking and insurance – with distribution and marketing coming up strongly on the flank. We could then have gained as much, or more, in our spheres than our Continental colleagues did in theirs by joining in the enterprise. But we did not. Moreover, the British in their successive, but belated, attempts to join and so catch up on their original mistake, were never able in negotiation to get much beyond the straightforward acceptance of what already existed.

The attitude in Europe has now changed. On the one hand most Governments accept the economic benefits of liberalising the service industries. The reasons are not far to seek. As an old politician once told me ‘politics, my boy, is about who gets what’ and as the economies of Europe mature, with ever expanding service sectors, the political interest is now focussing more and more on them rather than on the conventional areas of manufacturing and agriculture. It is also true and vital for the argument, that the economies of the other member states of the EEC have seen much improvement in their service sectors so that they are much more willing to enter into a competitive battle with the UK.

But back to 1992. To pick up my analogy with the United States. There are really two tasks. One is to create a common policy vis-à-vis the outside world. This has already happened in manufacturing where free trade within the Community takes place behind the barrier of the common external tariff. It happens in agriculture, where the internal follies of the Common Agricultural Policy protect Community producers against outside competition. But it does not yet happen in shipping. The second is to establish free and open competition within the boundaries of the EC for the service trades, the professions and the rest. This is essentially the area at which the Cockfield White Paper is directed.

In the remainder of this paper, the author shall be coming down to the nitty-gritty of the policies needed for both operations, with a concentration on the internal task.

The external position shall be looked at first.

COMMON MARITIME TRANSPORT POLICY

In 1985, the Commission adopted a memorandum which represented the first successful attempt to create a coherent framework for an EC shipping policy. It was based on a

philosophy of free trade and provided for defensive measures against protectionist and dumping activities of non-EC countries, together with a gradual opening up of a genuine common market in intra-Community sea transport. This first stage of the common maritime policy was adopted in 1986.

It should be particularly noted that in adopting the first stage measures The Council of Ministers unanimously agreed on a statement for the Council Minutes – a standard way of setting policy goals. The formulation was:

‘The Council states that its adoption of the present Regulations marks only a first stage in the elaboration of a Community shipping policy whose aims are to maintain and develop an efficient competitive Community shipping industry to ensure the provision of competitive shipping services for the benefit of Community trade.

The Council recognises that if these aims are to be achieved, efforts will be needed to reduce the disparities in operating conditions and costs between the Community fleets as a whole and their foreign competitors.

In this connection measures are required to promote the Community fleet.

Accordingly, ... The Council invites the Commission to submit appropriate proposals as rapidly as possible, with a view to contributing to the completion of the internal market by 1992’.

Last August, the Commission produced its long-promised proposals for the second stage of Community shipping policy. Transport Commissioner Karel van Miert issued his communication on ‘measures to improve the operating conditions of Community shipping’, which contained a comprehensive and useful analysis of the situation of Community shipping and made specific proposals for new Community action.

GCBS entirely supports the fundamental objectives identified by the Commission. The communication states that ‘the Commission is convinced that ... only a combination of concerted measures at Community and national levels with shipowners and seafarers can have the required impact’ and that the objective must be to provide sufficient incentive to ‘register ships within the Community and man those ships to the highest possible proportion with Community seafarers.’

GCBS and its fellow shipping associations in Europe are nonetheless somewhat disappointed that the Commission’s new proposals did not fully match up to their analysis of external competition, or to the 1986 statement of the Council quoted above.

Moreover, governments and industry have been rather less enthusiastic about some of the Commission’s specific proposals, the central one of which was for a new, parallel European Community ship register (EUROS) to which a number of benefits and conditions would be attached. The benefits include liberalisation of cabotage restrictions, improved access to food aid cargoes, mutual recognition of technical standards and seafarers’ qualifications.

While there is general agreement on the more technical aspects of the proposals, it is also agreed that there is no reason why these benefits should be confined to ships entered in any new register. However, viewed as a whole, the proposals fall well short of the Commission’s stated objectives and seem geared more towards internal harmonisation than to the practical improvement of the competitive position of Community carriers vis-à-vis their third country competitors. Moreover, a number of the requirements attaching to EUROS membership would be a burden outweighing any potential benefits; this applies particularly to the manning provisions in the absence of measures to compensate for the inevitably high cost of employing European seafarers.

Finally, the thrust of the second stage proposals, above all EUROS, point to a fully integrated European shipping industry and assume that national shipping policies will be broadly similar, with governments setting broadly similar operating conditions. This is clearly not the case today, where individual European governments take widely differing measures to support, to widely differing degrees, their indigenous shipping industries. And most, but not ours, are aiming their help squarely at external competition.

So much for the external position. Now the internal one.

INTERNAL MARKET

The 1992 programme is really a continuation of the common policies which have been developing within the European Community at a steady, if slow, pace since the Community began. As has already been mentioned, provisions for a barrier-free Europe were written into the Treaty of Rome in 1957 – with a target date of 1970. What is happening now is a committed endeavour to complete that process.

You will be aware that the Commission has divided the programme into four parts: the removal of physical barriers, technical barriers, fiscal barriers and the social dimension.

Physical barriers

The Commission's aim in removing the physical controls on the transport of goods and persons is to shift all controls and formalities away from national borders within the Community and to concentrate them at borders on the perimeter of the Community's territory. This will require a closer alignment of national policies and legislation, better co-operation between national administration and the introduction of more effective control arrangements (such as random checks) away from internal borders.

The continuing simplification – and in some cases elimination – of procedures will clearly benefit shipping and intermodal transport within the Community, by cutting down formality and unnecessary delays. It has been estimated that the myriad border problems and paperwork associated with 12 national markets means that goods carried within the EC travel at an average of 7 mph as compared with 36 mph in the US.

British shipping welcomes all these moves. In regard to the transport of goods, it has supported such developments as the introduction of the Single Administrative Document; and the elimination of national technical conformance checks on means of transport at internal borders, through the adoption and proper enforcement of common vehicle safety standards. Amongst other measures are Fast-Lane Clearance for Community goods, the abolition of Transit Advice Notes for intra-Community trade from 1 July 1990, and a proposal to introduce an alternative system of collecting intra-Community trade statistics. Moreover, because of its geographical situation HM Customs & Excise have continued to maintain that many controls, especially those related to health (eg Rabies control) and prevention (eg drugs) are now efficiently carried out at the limited number of UK entry points. It seems unlikely, therefore, that in the short term the total abolition of frontier controls will be accomplished as far as the UK is concerned.

In regard to the transport of persons, Britain has supported the relaxation of physical checks on Community citizens travelling between Member States. You may know that the so-called Schengen Group, consisting of five European countries (France, FR Germany, Belgium, Luxembourg and the Netherlands), were preparing to abolish their internal border controls

ahead of the 1992 deadline, so putting pressure on Britain and other Member States to follow suit. However, discussions broke down at the eleventh hour last December over fears that West Germany's opening of its border with East Germany would lead to an influx of East Germans and other East European refugees into the Schengen area.

The Schengen Agreement can and will undoubtedly be revised. It is, however, a setback as Schengen was extremely important as a model for a frontierless Community. The magnet effect of the EC has been underestimated. There are other immigration matters which may further delay genuine free movement, ie Hong Kong Chinese, North Africans in Italy/France.

While passenger shipping would benefit from the relaxation of border controls within the Community, little change is anticipated until such time as all members agree that the Community 'fence' with third countries is secure. Even then, authorities would no doubt wish to retain certain controls for health and safety purposes.

Technical barriers

The removal of 'technical' barriers is a catch-all phrase. Underlying it is the realisation that different regulations and standards of safety, health, environment and consumer protection, and – more broadly – varying legal and financial systems, have evolved in each Member State and that all these pull in different directions. Shipping will be subject to Community legislation in this wide and complex range of subject areas in the same way as other industries.

The most important of these for shipping are:

1. *The free movement of goods.* The underlying principle of the Commission's policy is that, although rules may vary in different Member States, if a product is lawfully manufactured and marketed in one Member State, it should have the right to be sold freely throughout the Community. In line with this point of view, the Commission has developed what is called the 'new approach' to harmonisation of technical standards. Under this, Community directives are limited to harmonising essential safety and public health requirements, with which products must conform in order to enjoy free movement within the EC. Measures which conform with the essential requirements in one Member State should be recognised in other Member States. This approach applied to shipping could have an important bearing on the transfer of ships and marine equipment between Member States. The second stage of EC shipping policy recommends the mutual recognition of technical standards to facilitate such transfers, recognising the huge cost-savings this could bring. GCBS very much supports the draft EC regulation prepared by the Commission proposing the ready and trouble-free transfer of cargo ships of more than 500 grt. This is now being studied by Governments and could come into force in July.
2. *The free movement of workers.* The major impact on shipping in this area centres around the mutual recognition of seafarers' qualifications. In early December 1988, the UK Government announced that it would recognise certificates of competence from other Member States (and Norway) and all officers below the key ranks of Master, Chief Officer and Chief Engineer. This move is unilateral, without any immediate reciprocal arrangements from other Member States, but the principle has been supported by all Governments in the context of the second stage of EC shipping policy. This would have obvious benefits for the shipping industry, particularly

regarding flexibility of manpower supply between Member States, although these in practical terms may be limited as almost all are experiencing similar shortages of skilled seafarers as in the UK.

3. *Cabotage.* The completion of the common market in services – ie for shipping cabotage – is proving the most difficult area on which to reach agreement. This failure is a glaring omission in the development both of the Community's shipping policy and of a common market in transport services. The trouble is that the five cabotage states (France, Greece, Italy, Portugal and Spain) are proving very reluctant to open their coastal trades. They give a variety of reasons – on trading, strategic and social grounds – for their opposition and argue that such a regulation cannot be adopted without a certain harmonisation of ship-operating conditions between Member States – which the cynical will recognise as a standard Community negotiating ploy. Negotiations at governmental level are continuing. For its part GCBS considers it important that cabotage restrictions should be opened up genuinely and quickly for all ships, and that any safeguards or exceptions built into the regulation should not effectively negate the process of liberalisation – a formula which does not rule out exceptions to meet genuine national concerns. If this cannot be achieved quickly, GCBS will press the Secretary of State to implement the powers which enable him to set up a licensing scheme for coastal operations in UK waters, in retaliation.
4. *Merger control.* A regulation was passed last December which means that, from October 1990, the European Commission alone will be responsible for vetting the biggest cross-border mergers within the EC, which threaten to impede competition. At one stage it was feared that this might affect shipping, but the thresholds for mergers coming under Community jurisdiction are so high, with a worldwide turnover of £3.6 billion for the companies concerned, that the majority of shipping mergers are likely to be unaffected.
5. *State aids.* State aids are the most important barrier. The restructuring of national markets into a Single European Market calls for closer surveillance by the Commission, in line with Treaty obligations, of all forms of government assistance to industry, in order to prevent distortions of competition between Member States and abuses of dominant positions which could result as a consequence of the process of rationalisation. The intention of broad alignment and transparency is strongly supported by GCBS.

The Commission's aim is not to ban aid altogether, but to limit it to categories which further the Community's objectives and favour economic growth, improved industrial status, reduce regional imbalances and foster research and development. Most commonly, aid is permitted for temporary modernisation and restructuring of essential economic activity and for purposes of regional development. The Commission – primarily the Competition Directorate General (DG IV) – has the duty under the Treaty to determine whether aid in a particular circumstance is compatible with the common market. What is not clear, however, is how state aid can be assessed against a background of disparate general taxation regimes.

Assistance to shipping is the province of DG VII (Transport). Last August, the Commission issued guidelines for the examination of state aids to community shipping companies and is already using them to assess the acceptability of various aid packages proposed by Member States in support of their fleets. All forms of assistance to shipping will be subject to close scrutiny. The European shipping community has ex-

pressed the strong reservations that the guidelines: (1) are unclear and incomplete; and (2) appear to conflict with the Commission's own, publicly stated objective of pursuing a positive and practical second stage of EC shipping policy, which will facilitate significant reductions in operating costs, alleviate the present fiscal burdens on EC shipping companies and redress the competitive disadvantage of high-cost EC fleets against third country competitors.

At present, the UK industry is at a significant disadvantage compared with other EC fleets. For example, three countries – Denmark, Germany and the Netherlands – have both investment aids and measures to reduce crew costs while Greece has long had a zero rate of corporate taxation for shipping companies and reduced income tax for its seafarers. Other European countries have taken – or are taking – similar measures, eg Spain within the Community, and Norway and Sweden outside it, and all are designed to inject confidence into their national shipping industries.

For the future, GCBS considers it essential that the interpretation of Community policy should be sufficiently practical and positive to enable Community operators in this important and international service sector (on which 90% of EC external trade depends) to continue to compete effectively with their non-EC rivals and to do so from broadly the same starting point.

British shipping does not share the Government's view that it is sufficient to 'eliminate subsidy regimes' within the Community. Not only does such a stance ignore the vital area of external competition – and the widespread rigging of markets against European shipping companies – it also flies in the face of the reality of European politics where most EC shipping nations are intent on defending their shipping interests. Moreover, it ignores the fact that the Commission has already shown itself favourable to the continuance of special supportive regimes, provided they do not have the side effect of distorting competition within the EC. GCBS, in its recent Budget submission, called for temporary pump-priming in the form of free depreciation over a limited period, for example 5 years. The purpose is to encourage investment in shipping at a time when the potential returns are high but the volume of investment required is enormous given, for example, the age of our existing vessels. This type of assistance would seem to fit precisely one of the categories of aid which is permissible.

Frankly, the need is for a pragmatic and positive approach by HMG if Europe is once again not to leave us behind. This would bring concrete returns to the nation by: improving the industry's substantial contribution to the Balance of Payments; stemming the outflow of national resources (ships, employment, maritime skills, etc); and underpinning the maritime-related financial and other services, maintaining London as the maritime centre of the world. It would also safeguard a valuable defence asset essential to the UK's national security.

Fiscal barriers

The Commission recognises that fiscal barriers will be amongst the most controversial to abolish, not least because decisions on these require unanimity. The Commission has started with indirect taxes such as VAT and excise duties and the difficulties are already apparent.

If the current proposals were adopted passenger shipping between Member States would be subject to two major areas of impact:

1. first, passenger fares would become subject to VAT, at the lower band of 4–9%.
2. second, the proposals would abolish the present import allowances accorded to passengers who purchase duty-

free goods. Duty-free revenue goes straight to the bottom line for ferry companies and on the short-haul non-Channel routes contributes something like a 35% cross-subsidy for all passengers. This may offend against fiscal purity, but it is a fact of life.

British shipping, as indeed British airlines and airports, are strongly opposing these two proposals. Their cumulative effect could only be to increase passenger fares and discourage travel within the Community – which is not what the Community is meant to be about.

The proposals would also have a wider impact, affecting both passenger and freight shipping. VAT would be applied for the first time at 14–20% on the supply of all stores and services to ships trading between Member States, on freight rates, and on a wide range of shipping-related activities (including ship purchase and charter-hire). The shipping and airline industries are arguing that these proposals would:

1. harm the competitive position of Community carriers vis-à-vis their non-EC competitors;
2. create a bureaucratic nightmare for Community operators, with trading patterns which cover both EC and non-EC ports;
3. drive carriers, in some cases, to provision outside the EC to the detriment of EC suppliers.

Mme Scrivener, the Commissioner with responsibility for Taxation, is reviewing the whole series of proposals for the harmonisation of VAT. It is clear that no decisions have yet been taken within the Commission on the 'final regime', let alone on individual sectoral difficulties. We hope that the concerns of sea and air transport will be taken into account and that the battles on this issue can still be won.

The social dimension

The social dimension has also set off alarm bells in the UK. The first warnings came in Bruges in September 1988 from Mrs Thatcher, with her now famous quotation: 'We have not successfully rolled back the frontiers of the state in Britain, only to see them reimposed at a European level.'

The foundation for EC social policy is the European Social Charter, the aim of which is to lay down the ground rules which should apply to employment within the internal market. A list of fundamental social rights was agreed last December, with the UK dissenting regarding freedom of movement, working conditions, training, worker participation, health and safety, etc. An action programme to implement the Charter was also approved. Running parallel with the Social Charter, a wide

range of health and safety measures is proposed covering, *inter alia*, the handling of heavy loads, protection against exposure to harmful agents in the workplace, medical standards and supplies, etc.

The themes of worker participation and industrial democracy are strong in several of the Commission's proposals and are a response to growing pressure from the unions for social improvements as an integral part of the internal market. The major example is the proposal for a European Company Statute. This would provide a single system of company law for pan-European companies, operating in parallel with – but independently of – national systems. These proposals have been firmly opposed in the past by employers generally in the UK, including the shipping industry, and they are unlikely to be welcomed now.

Many of these proposals are drawn up for land-based industry. The unique nature of shipping means that they will be difficult to implement in regard to shipboard employment. In particular, this applies to part-time working, minimum hours of work, heave, and much health and safety legislation. GCBS has always argued that seafaring employment should be exempted from such proposals, on the grounds that extensive regulation already exists for shipping in IMO and ILO instruments.

CONCLUSION

The 1992 programme and the completion of the internal market are coming to fruition at a time when the whole international shipping scene is in transition from a decade of depression, overtonnaging and low financial rewards to one where great opportunities are available to those able to seize them. We in the British shipping industry have told our own Government this often enough. But the same message is also being directed at the EC by us and our EC colleagues. It is, of course, the case that some EC Governments – that of West Germany for example – have put their shipping industries into a position where they can make the most of the opportunities on offer. Let us hope that our own government is not on track to repeat the classic follies of the early days of the Community – when the UK held back to its enduring loss. The EC is potentially the richest producing and trading entity the world has ever seen. And its merchant shipping industry is well placed to become the world's number one. All it needs for success is a lot of hard work and a reasonable degree of vision and understanding.

Discussion

PH Ballard (The British Sulphur Corporation Ltd) I noted the comments made by Mr Le Cheminant on the question of the replacement factor, the ageing fleet and the necessity for fleet replacement. From his association's point of view, how does he see Europe in world shipbuilding terms in the near future?

P Le Cheminant (General Council of British Shipping)

That is a very good question and I am not sure that I can give you a wholly satisfactory answer. From the point of view of the shipping industry we are after the best ships at the lowest price and we do not really mind where they come from, but everybody, in recent years, has got used to finding that the best ships, at the lowest price, tend to come from the Far East. Of course this situation has been exaggerated by the long depression in which many European shipyards shut because they could not compete, whilst many Far Eastern shipyards did not shut, not because they could compete, they could not, but because their governments were prepared to pay to keep them open, waiting for the better days to come. It is the case, I think, that if you look at the price of new ships, and take your pick of some reasonably representative types over the past decade, you will find that the cost in real terms more than halved from the earlier 1980s to the mid-1980s. Now it took a very very good shipyard with a very lenient government to actually survive through those conditions, and world building prices for ships have now shot up; they are, oddly enough, way above what the earnings of most of the ships would support, the situation changes almost from day to day, but people are now building ships and they are doing so largely on an expectation of the future, rather than the sight of solid profit at the moment. I think that Europe has lost an enormous amount of shipbuilding capacity over this decade. The people who have survived, and that includes some yards in this country and it also includes notably some yards in France, in Northern Germany and so on, are now getting nice full order books. In this country and in Northern Europe we tend to be involved in the high-tech end of the business, just as we are with ships themselves in the way in which the fleets have changed over this decade. Western Europe has been moving away from the workhorse bulk carrier end of the market towards the expensive sophisticated end and the same thing is happening with what shipbuilding is left.

A Alexandrou (Engineers' and Managers' Association) I would just like to endorse some of the comments you made on British and European shipbuilding. We have just recently completed a study, along with our NUMAST colleagues, on the renaissance of the British Maritime Industry and we found several factors that show that the upturn in orders will benefit Europe rather than the Far East, because the Far Eastern market is at full capacity at the moment and Europe will reap the benefit of any extra orders. We have seen this recently, in March, when the Dunstan Yard beat several South Korean yards for a £40M contract to build some new ships and we have seen this repeated over and over again. It is quite true to say that British ships are, in a majority of cases, technologically much better than those of their competitors and, due to the decline in British, European and World shipbuilding over the past decade, they have had to rationalise and are becoming more productive now, which is paying dividends. Now, because the ships are more competitive, wages are some of the lowest

in Europe, and even lower than those in Japan, and at the end of 1989 there were 500 000 gt in British order books for shipbuilding. So I think the picture for Britain and for Europe in terms of shipbuilding capacity is very rosy, and if we can take advantage of that, possibly with some government help in the form of some sort of extra aid, perhaps in the form of tax incentives for shipowners with home orders, then I think British shipbuilding will benefit very well from this upturn.

M H Garside (NUMAST) I probably should not let some of your comments on the social charter pass without some kind of reply, although I agreed with most of the rest of your talk, but the point about the social charter, as you quite rightly say in your paper, is that it partly results from unions wanting a quid pro quo, ie some social benefits from the economic improvement that we all hope will flow from 1992. In fact what is remarkable about Mrs Thatcher's Bruges speech and her general stance is how isolated she is even amongst more conservative governments in Europe, and in fact conservative governments, such as the West Germany Christian Democrats, were quite happy to vote in European forums for the social charter. In my view good industrial relations ultimately depend on good communications and a good dialogue between employers and their employee representatives, the unions. I do not think that in the long run legislation has a big role to play in that kind of day to day communication, which is essential. What is necessary is a general framework which is neither too detailed nor not detailed enough, and I think the social charter has achieved a broad consensus across Europe with all kinds of governments voting for it, and I think it is Mrs Thatcher who is out on a limb with it.

P Le Cheminant (General Council of British Shipping) I agree with some of the things you said, however I cannot accept that our government is out on a limb in its approach to the social charter. You must remember that the European governments who are the most enthusiastic for it are the ones who already have most of its provisions built into their legislation somewhere, so that they are just endorsing what they are doing themselves already. I wholly accept your view that good industrial relations are basically a question of good management and good communications, and I think that the British shipping industry has moved a long way in recent years, in these respects, and I think our industrial relations are good. The great majority of seamen nowadays, as opposed to 20, 30 or 40 years ago, are actually permanent employees of their companies and if you look at these companies it is a roll call of the biggest names in British industry, from Trafalgar House to BP, Esso, Shell, P&O and so on. These are firms who are noted for having reasonably enlightened industrial relations policies, and who are accepted as good managers, and, so, I do not think that the social charter in the European form actually adds an iota to what is already happening on the ground. I think the fear is that it will retard good practice rather than enhance it.

G A Waters (Unitor Ship Service) I would like to take you back to the VAT question if I may. How do you feel this would be implemented, and also you commented on the effects, but do you feel this would be a stage implementation or could it be blocked in total? If it has to be implemented, how will it be legislated for that supplies made to international shipping within Europe would have tax actually paid on them?

P Le Cheminant (General Council of British Shipping) This last question goes right to the root of it, leaving aside whether it is a good thing to tax these things or not. The moment you have ships involved in international trade, when they spend part of their time in community waters and part of their time outside it, and given the nature of tax law, you have a very difficult administrative problem to actually keep track of who ought to pay what to whom and when. At that level it is not worth the candle to get involved in that amount of aggravation for what would actually not be all that much in the way of revenue, given that most companies are perfectly able to collect the VAT from their customers if it has to be paid. As to how it will happen, I am not at all sure that it will happen at all. I think that the commission and Madam Scrivener, who is the commissioner currently in

charge of these matters, have been very impressed by the arguments, first of all, that the imposition of VAT on international transport would simply send people off to buy goods elsewhere, just as the imposition of VAT on passenger fares would mean that many more people would be taking package holidays in North Africa and fewer of them in Spain, because that would then be the cheapest way of doing it. I think that they have been not a little shaken by finding how much of the population, not only in this country but in that of our neighbours and in the countries bordering on the Baltic, have passionately voted for duty free goods, which are part of the way of life, and so I think that however far the theorists actually take us in the end, it will be a very very long slow road to the point where we actually have to pay-up and look cheerful, if we ever have to.

