THE ECONOMIC CONTRIBUTION OF SHIPPING AND THE ROLE OF THE ROYAL NAVY TO 2020

The Chamber of Shipping is the trade association for the UK shipping industry with 139 members and associate members with about 912 ships of 24 million gross tonnes.

Since 2000 the UK merchant fleet has grown significantly as a result of positive national fiscal policy and the high demand for its services, due to, until recently, strong global economic growth and
the UK owned fleet now consists of 750 ships earning almost £27mn every 24 hours; of which more than £17.5mn is earned from export or cross-trades activity.

This performance is as a direct result of the introduction of the Tonnage Tax in the Finance Act of 2000 which provided a critical and very welcome sharp correction to a 20 year decline in UK shipping and has lead to a revival of the UK owned trading fleet and of the UK registered fleet. In 2007 the UK shipping industry contributed £4.7 billion to UK GDP and provided direct employment of 40,000 shipping jobs.

In the last two years we have tried to better represent the maritime contribution to policy makers and to the public and in the most recent report commissioned by the Chamber of Shipping and conducted by the highly regarded 'Oxford Economics' the direct and multiplier impacts are estimated at 212,000 jobs with a value added contribution of about £9.8 billion, equivalent to around 1% UK GDP.

In numerical terms - the flag fleet has grown by 267 ships and the owned fleet by 120 ships, since 2000.

British shipping remains in the top five service sector export earners.

London remains a world centre for maritime services and over 14000 people are employed in this sector. The presence of a strong domestic shipping industry and global profile is considered an important factor in the continuing success of this maritime services sector.

Globalisation has been mentioned several times in the last two days and, of course, shipping is the original 'global industry'. 80% by volume of world trade moves by sea – and maritime volumes grow historically at the rate of a little less than 10% a year. Shipping is the transport mode which facilitates and mobilises this key 'economic contribution' which delivers benefits across both developed and developing national economies and sustains world economic growth.

At the same time while emphasis is rightly placed on the importance of UK bi-lateral trade, it should be remembered that some 60% of UK shipping's freight earnings come from the carriage of goods between third countries; these 'cross-trades' generated some £2.8bn in 2008 and are a vital and integral part of the UK shipping economy.

Similarly, the UK cruise sector earned over £1.7bn in 2007 with nearly half a million cruise passengers embarking on cruises from the UK. Overall the UK cruise market is growing at 12% p.a and at any one time more than 20,000 UK passengers will likely be afloat - and embarked on a cruise ship.

The UK remains a major trading economy, 6th in global terms, maybe dropping to 10th by 2020 but currently more than 92% of all UK trade is moved by sea and this represents 6% of total world seaborne trade. This will not change neither will the fact that as a proportional of world trade UK shipping carries a greater share -about 10% of world maritime trade volumes.

Recent trends and the pre-eminence of the UK's services sector has drawn public awareness away from the stark fact that UK, as an island nation remains totally dependent on sea borne trade for its prosperity, and for its continued and ensured economic well being on the continuing free and unimpeded flow of maritime trade.

Energy dependence is seen as a new national vulnerability and more work is needed to define precisely what this means in terms of a new role for the Royal Navy but from the industry viewpoint we accept that while a diversified mix of energy sources will increase the security of energy supply in a UK context, as it does in other similar developed economies, and the regulation of energy markets promises competitive pricing, we must recognise in the defence debate that LNG is becoming increasingly critical in meeting UK gas demand. Much gas is imported into the UK by pipelines from Norway and the Netherlands but seaborne gas shipments, and the first has just been received at the South Hook complex at Milford Haven, will increase in the next decade to meet 50% of national demand. According to Government by 2020 we will be reliant on overseas resources for 80% of our energy needs.

First Sea Lord yesterday mentioned our dependence on just enough/just in time supplies and we all can imagine what havoc even short interruptions to the energy supply can cause. But few know there is no strategic gas reserve in UK, that UK plc runs only on what is 'in the system'.

To put the 'economics of UK shipping' in an defence context I need to make a short comment or two about; maritime threats, vulnerabilities and industry concerns. Some of these are security threats others more strategic; I am confident this audience will be able to distinguish between the two.

You will not be surprised to be told that the Chamber views the protection of maritime trade - of ships, cargoes, UK trading interests and seafarers as a fundamental defence obligation – What seems to have been forgotten of late is that it is as important now as it ever has been.

Let me simply state what we all know and that is that the maritime security environment changed in September 2001. And that while the risk profile of some shipping sectors is seen as being low, and the majority of the world's sea lanes are benign there is substantial 'interest' and 'profile' to be found in shipping. Particular defence and security vulnerabilities we think exist in energy supply, the cruise sector, in specialist ships and in the container trades.

We are all aware that maritime security incidents are on the increase. On Somalia on which I would enjoy speaking but will not do so now except to record that the shipping industry has been immensely impressed by the international response and appreciative of EU NAVFOR and other coalition efforts.

Further in the future, projected climate change poses a serious threat regardless of what is done to mitigate emissions, as rising sea and temperature levels will compound existing resource problems.

Climate change is certain to introduce a set of destabilising influences in the maritime environment, which will likely encourage and aggravate territorial disputes; alter access to resources and infrastructure, and upset the stability achieved by the UNCLOS regime.

Maritime borders are of key importance in defining territorial integrity and will likely become more so in the future than in the past.

To conclude: The Chamber of Shipping has quantified a strong resurgence in the maritime contribution being made and this requires a strategic reappraisal.

As an island nation UK has a vital strategic interest in the continued security and freedom of navigation on the high seas to meet the needs and aspirations of its citizens.

At the same time there is also a wider international duty for the UK to respond to nation states or other entities which may wish to influence or threaten the stability of the global trading system.

The economic crisis and recession in which we find ourselves now is I suggest an indication that global trade is not invulnerable, is not as secure as we thought and is perhaps as only as strong as the weakest link.

The Chamber of Shipping recognises that the Royal Navy is both configured for high intensity warfare, and practised at working within, and contributing substantially to the military objectives of major global alliances and we accept the remains the outlook.

However, in terms of national interest, The Chamber of Shipping, at this particular time, sees Britain - as represented by a dwindling number of deployable units – at risk of losing the capacity to deliver presence in support of the UK's trading interests and – in contrast to the expanding national merchant fleet - to be seen as a decisive maritime influence across the globe.

The UK is seen as a major player in the globalised economy and the UK has a leading maritime role to play.

The developed world cannot dis-invent consumerism or restrict the world trade. All indicators point towards an increasing complex and interdependent world - trading ever increasing volumes of seaborne trade.

While defence of the realm remains the ultimate purpose of sea-power, in the future maritime environment sea power must be capable of being applied more proactively for the protection of commerce and for the protection of the national economy.

This requires greater prominence in future national and international security policy and Policies, Mechanisms and Contingencies developed to ensure its smooth and continued operation under all conditions.

09.06.04
GWS