Title: Inclusion of a ratings training option in the UK tonnage tax training requirement **IA No: 00321** **Lead department or agency:** Department for Transport **Other departments or agencies:**	Impact Assessment (IA) **Date:** 26/01/2015 **Stage:** Final **Source of intervention:** Domestic **Type of measure:** Secondary legislation **Contact for enquiries**: Stephen Eglesfield, Department for Transport, 020 7944 5121

Summary: Intervention and Options

RPC Opinion: EANCB Validated

Cost of Preferred (or more likely) Option				
Total Net Present Value	**Business Net Present Value**	**Net cost to business per year** (EANCB on 2009 prices)	**In scope of One-In, Two-Out (OITO)?**	**Measure qualifies as**
£0	£0	£0	Yes	Zero Net Cost

What is the problem under consideration? Why is government intervention necessary?

The Minimum Training Obligation (MTO) in the UK tonnage tax scheme was designed to correct the declining numbers of UK-based seafarers. It requires firms to train officer cadets or, where this is not possible for a shipping company and subject to DfT agreement, to make payments in lieu of training (PILOT) which should be at least equivalent to actual training costs. There is currently no comparable requirement to train ratings. In order to encourage companies to train ratings, the Chamber of Shipping and the maritime trade unions have requested the MTO should be amended to allow three Able Seafarer (AB) ratings to be trained in place of one officer cadet. This requires government intervention to implement.

What are the policy objectives and the intended effects?

The policy objective is to encourage an increase in the number of ratings being trained by shipping companies in the UK tonnage tax scheme. This measure will provide tonnage tax companies with an alternative option to meeting their training obligation by giving them the option to train three Able Seafarer (AB) ratings instead of one officer cadet. This may help increase the number of trained UK ratings available for employment in the shipping industry and increase the overall number of UK seafarers working in the shipping industry.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

Two options have been considered: ‘Do Nothing’ or The inclusion of ratings training option in the tonnage tax training requirement (policy option 1 and preferred option). The ‘Do Nothing’ scenario represents what would happen if no action were taken. It is the baseline against which all costs and benefits of the preferred policy option (option 1) are measured. As requested by the UK Chamber of Shipping and maritime trade unions, Policy Option 1 is to amend the tonnage tax training requirement to include an option for businesses to fulfil the existing training requirement by training three Able Seafarer (AB) ratings instead of one Officer Cadet. Given the uncertainty surrounding the impacts of this measure, the policy would initially be piloted for at least three years.

Will the policy be reviewed? It will be reviewed. **If applicable, set review date: 1 October 2018**

Does implementation go beyond minimum EU requirements?			N/A		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	**Micro** Yes	**< 20** Yes	**Small** Yes	**Medium** Yes	**Large** Yes
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)			**Traded:** N/A	**Non-traded:** N/A	

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.

Signed by the responsible Minister: John Hayes Date: 5 March 2015

Summary: Analysis & Evidence

Policy Option 1

Description: Amend the tonnage tax training requirement to include an option for businesses to fulfil the existing training requirement by training three Able Seafarer (AB) ratings instead of one Officer Cadet

FULL ECONOMIC ASSESSMENT

Price Base Year NA	**PV Base Year** NA	**Time Period Years** NA	**Net Benefit (Present Value (PV)) (£m)**		
			Low: £0	**High: £0**	**Best Estimate: £0**

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	£0	NA	£0	**£0**
High	£0		£0	**£0**
Best Estimate	£0		£0	**£0**

Description and scale of key monetised costs by 'main affected groups'

Given the limitations of the available evidence base (e.g. the Department does not currently have any evidence on the extent that businesses in the tonnage tax would take advantage of the option to train three Able Seafarer ratings instead of one officer cadet), the costs of this measure have not been monetised in this IA.

Other key non-monetised costs by 'main affected groups'

1) It is possible that some businesses could experience higher costs of complying with the Minimum Training Obligation. This would arise if training three ratings is more expensive than training an officer cadet or paying PILOT for some businesses. 2) Any familiarisation costs are expected to be insignificant. 3) It is possible that there could be a reduction in the number of officers being trained by UK shipping companies. 4) There could be a decline in PILOT payments made to the Maritime Training Trust.

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low	£0	NA	£0	**£0**
High	£0		£0	**£0**
Best Estimate	£0		£0	**£0**

Description and scale of key monetised benefits by 'main affected groups'

Given the limitations of the available evidence base (e.g. the Department does not currently have any evidence on the extent that businesses in the tonnage tax would take advantage of the option to train three Able Seafarer ratings instead of one officer cadet), the benefits of this measure have not been monetised in this IA.

Other key non-monetised benefits by 'main affected groups'

1) It is possible that the number of ratings being trained by UK shipping companies would increase and that there could be an increase in the overall number of UK seafarers. 2.) It is possible that some businesses could experience lower costs of complying with the Minimum Training Obligation. This would arise if training three ratings is cheaper than training an officer cadet or paying PILOT for some businesses.

Key assumptions/sensitivities/risks — **Discount rate (%)** NA

There is nothing to suggest that businesses would adopt these changes if they did not lead to net benefits for business. Therefore, for the purposes of this IA, it is assumed that the benefits of this measure to business are at least equal to the costs to business in line with the Better Regulation Framework Manual (Paragraph 1.9.21). However, there is uncertainty around the specific impacts that this policy would have.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			**In scope of OITO?**	**Measure qualifies as**
Costs: £0	**Benefits: £0**	**Net: £0**	Yes	Zero Net Cost

Evidence Base (for summary sheets)

Section 1 – Background on the tonnage tax, the minimum training obligation and payments in lieu of training (PILOT)

The tonnage tax for shipping was introduced in 2000 to create a more competitive fiscal environment. It applies normal corporation tax to notional profits determined by the tonnage of the ships operated, and thereby provides certainty and clarity about tax liabilities. Shipping companies can opt into tonnage tax, or stay within the corporate tax regime. Tonnage tax regimes exist across the EU and internationally. Over 70 company groups are currently active in the scheme, accounting for around 800 ships. The cumulative officer trainee total for 2013/14 is for over 1,600 trainee places.[1]

A key feature of the UK tonnage tax is the minimum training obligation (MTO). The MTO requires a company to recruit and train one officer cadet each year for every 15 officer posts in its fleet. Trainees must be UK or EEA nationals and be ordinarily resident in the UK. The policy objective of this feature was, and remains, to increase the number of UK-based seafarers to meet both current needs at sea and future jobs onshore in the maritime services sector.

Companies which have elected into tonnage tax and can show good reasons why they are unable to recruit or sponsor cadets may instead be permitted to make payments in lieu of training (PILOT). This is known as “planned” PILOT and will only be agreed by DfT in exceptional circumstances.

PILOT payments may also arise where there is a shortfall in the training which the company should have provided, or where there is an incremental training commitment as a result of additional vessels joining the fleet. This is known as “default” PILOT and it is expected that such payments are a short-term measure, for example in the period between a college’s intake of new cadets.

Where PILOT is paid, the monies are due to the Maritime Training Trust, an industry body whose directors are drawn from the Chamber of Shipping and the maritime trades unions.

Tonnage tax companies also currently have to give consideration to employment and training opportunities for ratings, but there are no numerical requirements in respect of ratings, unlike the training requirement in respect of officer trainees.

Ratings are semi-skilled experienced workers who are not required to revalidate their competencies as certificated officers are. Other staff without maritime training, such as entertainment, hotel, and catering staff also have rating status.[2]

Section 2 - What is the problem under consideration? Why is government intervention necessary?

The minimum training obligation (MTO) was designed to correct the declining numbers of UK-based seafarers. It requires firms to train officer cadets or, where this is not possible for a shipping company and subject to DfT agreement, to make payments in lieu of training (PILOT) which should be at least equivalent to actual training costs.

There is currently no comparable requirement to train ratings. In addition, although Government funded training is available for ratings, the take up is low. With an annual budget of £15million, the SMarT (Support for Maritime Training) scheme in 2013/14 provided training for 790 new starter officer trainees, as well as second and third year trainees. Within SMarT, a nominal budget of £100,000 was set aside for ratings training, yet just £22,500 was used, and this figure included ratings to officer training. The ratings training cost in 2013/14 was approximately £6,600, and the total number of ratings trained through SMarT was just 11.[3] The current suite of maritime apprenticeships also includes a pathway for AB ratings but again take up is low.

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1 Tonnage tax company returns to the Department for Transport (not public documents, as they are tax confidential)

2 Department for Transport (2013) Seafarer Statistics, 2013
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/275606/seafarer-statistics-2013.pdf

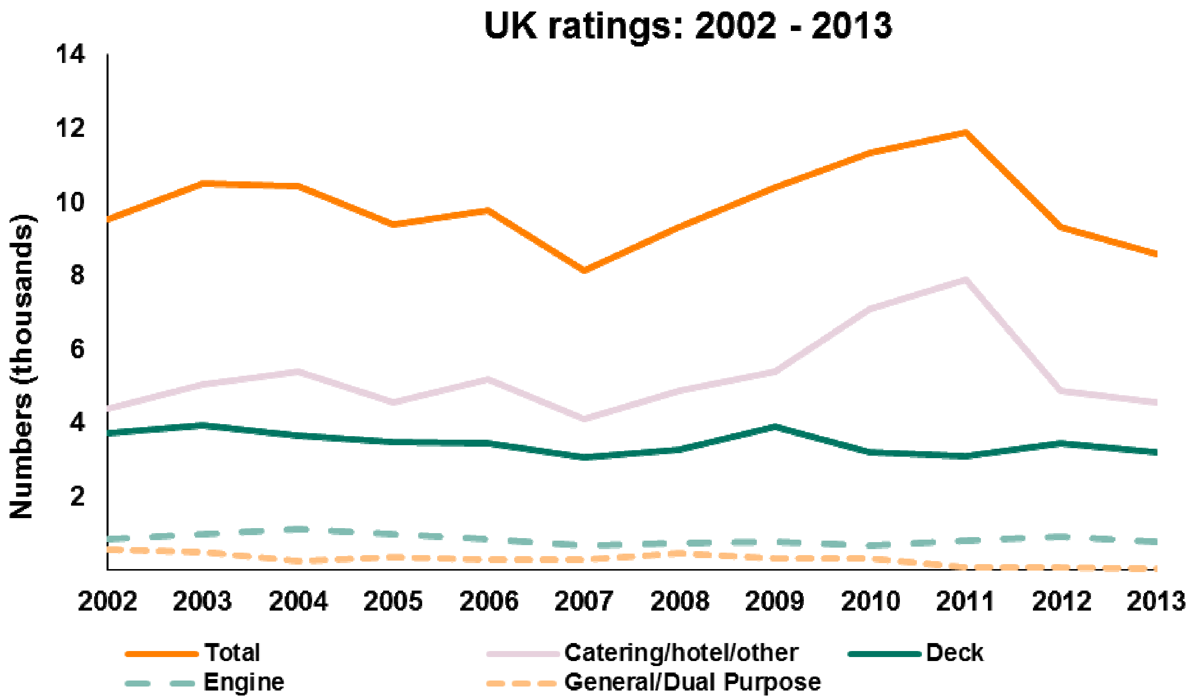
3 Information from the Maritime and Coastguard Agency

Between 2012 and 2013, the estimated total number of UK ratings active at sea decreased by 8 per cent to 8,590 which followed a 21 per cent decrease from the 2011 peak to 2012 (see Figure 1 below).

It should be noted that ratings are largely employed by the cruise and ferry industry which can result in large fluctuations in numbers; and that these fluctuations are driven predominantly by the Catering/Hotel/Other category with the Deck, Engine and General/Dual Purpose categories remaining more stable.[2]

Over half of ratings (53 per cent) in 2013 were employed in the catering/hotel/other occupation category while over a third (37 per cent) were employed as deck ratings. The total number of UK deck ratings declined by 7 per cent to 3,210 between 2012 and 2013 while the total number of UK engine ratings declined by 18 per cent to 760 over the same period, continuing the fluctuating trend seen for both groups.[2]

Figure 1: UK ratings active at sea, 2002 - 2013[2]



Projections completed as part of an independent review of the economic requirement for trained seafarers in the UK[4] suggested that there would be a small decline in the overall supply of UK ratings between 2013 and 2021, but that there would be around a 28% reduction in the supply of UK deck and engine ratings in this period.

To encourage companies to train ratings, the Chamber of Shipping and the maritime trade unions have requested the tonnage tax Minimum Training Obligation should be amended to allow three AB ratings to be trained in place of one cadet.

As the UK tonnage tax training requirement is defined in legislation, Government intervention is required to implement a ratings training option in the UK tonnage tax training requirement.

Section 3 - What are the policy objectives and the intended effects?

The policy objective of including an option for businesses to fulfil the existing training requirement by training three able seafarer (AB) ratings instead of one officer cadet is to increase the number of ratings being trained by shipping companies in the UK tonnage tax scheme.

The intended effects are to provide tonnage tax companies with an alternative option to meeting their training obligation which subsequently may help increase the number of trained UK ratings available for employment in the shipping industry and to increase the overall number of UK seafarers working in the

[4] Deloitte and Oxford Economics (2011) An independent review of the economic requirement for trained seafarers in the UK https://www.gov.uk/government/publications/an-independent-review-of-the-economic-requirement-for-trained-seafarers-in-the-uk

shipping industry.

Section 4 - What policy options have been considered?

4.1 Do nothing (the counterfactual)

The "Do Nothing" scenario represents what would happen if the Government does not take any action.

4.2 Policy Option 1: The inclusion of ratings training option in the tonnage tax training requirement.

The policy option is to amend the tonnage tax training requirement regulations to include an option for businesses to fulfil the existing training requirement by training three Able Seafarer (AB) ratings each year instead of one Officer Cadet.

Given the uncertainty surrounding the impacts of this measure, the policy would initially be piloted for at least three years.

Section 5 - Costs and benefits of Option 1

5.1 Introduction

This IA assesses the additional costs and benefits of Option 1 compared to the "Do Nothing" scenario. The discussion of the additional costs and benefits of Option 1 is structured as follows:

- Non-monetised costs associated with Option 1 (section 5.3); and
- Non-monetised benefits associated with Option 1 (section 5.4).

Given the limitations of the available evidence base (e.g. the Department does not currently have any evidence on the extent that businesses in the tonnage tax would take advantage of the option to train three Able Seafarer ratings instead of one officer cadet), the potential costs and benefits of Option 1 that have been identified are not monetised in this Impact Assessment. Therefore, a full qualitative description of each cost or benefit has been provided.

5.2. Groups and sectors affected

The inclusion of a ratings training option in the Minimum Training Obligation could potentially affect all shipping companies within the tonnage tax regime. However, the option to train ratings is merely an alternative for shipping companies to meet their training commitment and is purely optional.

5.3 Non-monetised costs associated with Option 1

5.3.1 Familiarisation costs.

It is possible that some businesses may incur familiarisation costs in order to understand the proposed changes to the Minimum Training Obligation. However, given the limited nature of the proposed changes to the Minimum Training Obligation, it is considered that any familiarisation costs are likely to be insignificant. This is because the businesses involved within the tonnage tax regime will already be fully aware of the existing requirements for businesses within the tonnage tax regime, and the only change is to give these businesses an alternative option of training three Able Seafarer (AB) ratings each year instead of one Officer Cadet.

5.3.2 Potential higher costs of complying with the Minimum Training Obligation

Compared to the "Do Nothing" scenario, if a company chooses to take advantage of the alternative option of training three Able Seafarer (AB) ratings each year instead of one Officer Cadet in order to meet its Minimum Training Obligation, it is possible that it could experience higher costs of complying with the Minimum Training Obligation. In particular:

a) Although it is noted that the Chamber of Shipping and the maritime trade unions have indicated that training three ratings instead of one officer cadet would be broadly cost neutral, it is uncertain how these costs would vary for individual companies within the tonnage tax regime due to the limitations of the available evidence base. Therefore, it is possible that some companies could experience additional training costs if they choose to train ratings instead of officers in order to meet the Minimum Training Obligation.

b) It is also uncertain how the costs of training three ratings and paying PILOT would vary for individual companies within the tonnage tax regime due to the limitations of the available evidence base. Where it is possible for firms to meet their tonnage tax training requirement by training ratings, this could reduce the need for them to pay PILOT. Therefore, if the cost of training three ratings is higher than paying PILOT, it is possible that some companies could experience higher costs of complying with the Minimum Training Obligation if they train ratings instead of paying PILOT.

5.3.3. Potential reduction in UK officers trained

If some companies choose to train ratings instead of officers and / or there is a reduction in PILOT payments (see Section 5.3.4 below), there could be a decline in UK officer training, which could reduce the number of trained officers available to work in the shipping industry in future years and the benefits of training officers.

With regards to the benefits of training officers, the Impact Assessment for 'The Tonnage Tax (Training Requirement) (Amendment) Regulations 2014'[5] explains that:

- A 2011 independent review into the economic requirement for trained seafarers in the UK[4] predicted a shortfall equivalent to 10% of total projected demand in the case of deck and engineer officers and 9% in the case of ex-seafarers in the maritime cluster by 2021.

- In addition, evidence from the independent review showed that shipping companies have a preference for UK-trained seafarers at the officer level and amongst companies in the maritime cluster there is an even stronger preference for UK trained ex-seafarers.

- The Maritime Training Trust have also identified a number of other benefits to shipping companies that train officer cadets, including that officers trained by a company will gain knowledge of the company (such as its operations and policies), and it would not need to recruit equivalent officers externally, which could have the benefit of avoiding crewing agency fees, the need for language training and the need to check the regulatory certification of seafarers being recruited.

5.3.4. Potential reduction in PILOT payments made to the Maritime Training Trust (MTT)

As explained above, where PILOT is paid, the monies are due to the Maritime Training Trust (MTT), an industry body whose directors are drawn from the Chamber of Shipping and the maritime trades unions. The MTT transfers funds to its charity arm, the Maritime Educational Foundation (MEF), which has the same directors. The MEF uses the funds raised from the PILOT scheme to promote merchant navy training, with the scope of its activities adjusted annually in line with the amount of PILOT received.

If companies utilise the option to train ratings, thus leading to them not having to pay PILOT, there could be a decline in PILOT payments made to the Maritime Training Trust. Nonetheless, on the basis of feedback from the Regulatory Policy Committee in relation to the impact assessment for 'The Tonnage Tax (Training Requirement) (Amendment) Regulations 2013' (DfT00169), a decrease in the value of PILOT payments received by the MTT is not treated as a cost to the MTT in this impact assessment because the MTT spends the funds it receives to promote seafarer training.

5.4 Non-monetised benefits associated with Option 1

5.4.1. Potential increase in UK ratings trained and the overall number of UK seafarers

As firms would have the option of training three ratings instead of one officer in order to meet the

[5] http://www.legislation.gov.uk/ukia/2014/281/pdfs/ukia_20140281_en.pdf

Minimum Training Obligation, it is possible that the number of ratings being trained by UK shipping companies would increase, and that there could be an increase in the overall number of UK seafarers. The latter could arise if firms switch from training officers to ratings; or if firms train ratings instead of paying PILOT.

Benefits to shipping companies that train ratings are likely to include that these ratings will gain knowledge of the company (such as its operations and policies). The company would not need to recruit equivalent ratings externally, potentially avoiding crewing agency fees, the need for language training and the need to check the regulatory certification of seafarers being recruited. In addition, once trained, ratings can do conversion training to become an officer. So this option may provide shipping companies with a wider pool of resources for progression purposes and for trainees an alternative route to becoming an officer.

5.4.2 Potential lower costs of complying with the Minimum Training Obligation

Compared to the “Do Nothing” scenario, if a company chooses to take advantage of the alternative option of training three Able Seafarer (AB) ratings each year instead of one Officer Cadet in order to meet its Minimum Training Obligation, it is possible that it could experience lower costs of complying with the Minimum Training Obligation. In particular:

a) Although it is noted that the Chamber of Shipping and the maritime trade unions have indicated that training three ratings instead of one officer cadet would be broadly cost neutral, it is uncertain how these costs would vary for individual companies within the tonnage tax regime due to the limitations of the available evidence base. Therefore, it is possible that some companies could experience lower training costs if they choose to train ratings instead of officers in order to meet the Minimum Training Obligation.

b) It is also uncertain how the costs of training three ratings and paying PILOT would vary for individual companies within the tonnage tax regime due to the limitations of the available evidence base. Where it is possible for firms to meet their tonnage tax training requirement by training ratings, this could reduce the need for them to pay PILOT. Therefore, if training three ratings is cheaper than paying PILOT, it is possible that some companies could experience lower costs of complying with the Minimum Training Obligation if they train ratings instead of paying PILOT.

5.5. Overall impact of Option 1

This regulatory change is permissive in nature as it allows, but does not force, businesses to do something (Better Regulation Framework Manual, Paragraph 1.9.20). There is no evidence to suggest that businesses would adopt these changes if it did not lead to net benefits for businesses. Therefore, for the purposes of this Impact Assessment, it is assumed that the benefits of this proposal to business are at least equal to the costs to business in line with the Better Regulation Framework Manual (Paragraph 1.9.21). However, as described above, there is uncertainty surrounding the specific impacts that this policy would have.

Section 6 - One-In, Two-Out (OITO)

This policy is considered to be in scope of One-in, Two-out as it is a domestic measure concerning a regulatory change that affects business. This measure is classified as Zero Net Cost (ZNC) because it is a permissive change and it is assumed that the benefits of this proposal to business are at least equal to the costs to business in line with the Better Regulation Framework Manual (Paragraph 1.9.21).

Section 7 - Wider impacts

7.1. Competition Assessment

There is currently no available evidence that there would be a significant impact on competition under Option 1.

7.2. Small and Micro Business Assessment

It is considered that the types of companies operating ships internationally and operating under the tonnage tax regime are unlikely to qualify as small firms. The Department is unaware of whether any of the businesses which have elected to the tonnage tax are micro businesses, although we think it unlikely that many, if any, are. The fewer personnel a company employs, the less likely it is that the company is engaged in the seagoing trades that the tonnage tax regime was designed to support.

Furthermore, this is a permissive change, and there is no evidence to suggest that businesses would adopt these changes if it did not lead to net benefits for businesses.

7.3. Equalities Assessment

It is considered that there are no race, gender or disability equality impacts.

7.4. Environmental Assessment

It is considered that there are no environmental impacts.

7.5 Family Test:

It is considered that there are no significant impacts on families.

Section 8 – Implementation Plan

As the tonnage tax training year starts in October, it is proposed that the measure will come into force on 1 October 2015. Given the uncertainty surrounding the impacts of this measure, the policy would initially be piloted for at least three years.