

# SEMAPHORE

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## AUSTRALIA, IMPERIAL TRADE AND THE IMPACT OF WAR

A trade system may be defined as *carrying capacity* used efficiently. Its purpose is to move tonnage and volume at minimal capital and operating cost, while making sufficient profit to replace expended capital and resources and expand the infrastructure available. Trade is a global entity, and the trade of the British Empire was a mutually interdependent subset of the global trade system. Attacks on shipping in 1914–18 and 1939–45 impacted significantly on the efficiency of the system. System efficiency loss comes from the fact of attack, more than from any other factor, because this forces the system to change in ways for which it was not designed. Ship sinkings cause change, and are important, but most trade system disruption flows from *the fact of attack*, not from sinkings *per se*.

Before WWI, Imperial trade was carried out with surprisingly few resources. The capital investment of £405 million in 1913 was about equal to that of two large European railway companies. The Empire possessed 3,888 oceangoing ships of over 1,000 gross registered tons (GRT), comprising about 50 percent of the world total. Trade types were in two general groups - Liner and Tramp. Liners were operated by large well-administered companies that were sensitive to competition. They moved on fixed schedules with high value cargoes that mostly changed out at each port. Only about half of them carried passengers. Tramp companies were small, with cheap, simple ships, and each voyage was a separate venture. They mostly carried bulk cargoes between ports, or on time charter. Ships swapped from one trade to another as needed and were replaced frequently - in 1913, only 32 percent of ships had been built before 1900.

In August 1914 the world was even more globalised than today. The impact of war wrecked financial markets, stock exchanges in 20 nations collapsed, and the international credit market was destroyed. All trade stopped until the War Risk Insurance Scheme was introduced—owners could not get insurance, and they could not run ships uninsured as one or two losses would destroy a company. The British Government underwrote this scheme and the great Imperial Shipping Associations ran it. It was also a powerful trade control mechanism, as the Government refused insurance for unnecessary or luxury cargoes, thereby freeing shipping capacity for essentials. Simultaneously, massive shipping requisitions started (4 million GRT in 1914 alone). The tramp trades were ruined, leading to a temporary global tramp tonnage glut. Freight rates then began rising relentlessly as requisition for military use drained carrying capacity from the global system. Above all else, economy of carrying capacity became a critical government concern.

From August 1914 the free market began to disintegrate, and a global control trade system was instituted. Freight rates were fixed under 'Blue Book' rates for requisitioned ships, and rates on the remaining 'Free' market soared, reflecting global

tonnage pool shortages of ships. Port congestion, loss of close resource sources, and longer voyages for less cargo imported raised a new and unexpected factor: that *tonnage could increase but system carrying capacity could decline*. From 1915 the Government began taking over entire trades as monopolies. Australian wool, wheat, and meat exports became Commonwealth monopolies. Shipping control grew via licensing mechanisms, but there was still no national or Imperial plan for imports. Sinkings outpacing building during 1915, and on 27 January 1916 the Shipping Control Committee projected an import deficit of 13 million tons for the year. This illustrated the limits of import control by licence.

On 25 May 1916 the Empire possessed 3,572 oceangoing steamers, of which 1,313 were requisitioned, 680 were Government directed, and 1,579 were 'free'. However, 'free' ships were license controlled and their refrigerated space was government controlled. In 1916, the Government realised that success required global management of *carrying power*. On 11 October 1916 grain imports became a government monopoly, and from 22 December 1916 the Ministry of Shipping instigated full control of all shipping. This, and the shipping losses of 1916–17, created a carrying capacity crisis that stripped ships from the longer routes for 'Atlantic concentration'. International shipping administration through the Allied Maritime Transport Council led to efficiency of import control measures. By 1917, 56 percent of the ships of 1913 imported 68 percent of the imports of 1913. The UK developed methods to prioritise all imports against each other.

In 1914 the Australian export markets in Europe vanished overnight, limiting exports to Imperial destinations (no re-export to neutral countries was permitted). The UK asked the Commonwealth Government to purchase all export meat and grain as its agent. However, there were too few ships to carry the tonnages, which were shipped as top up stock only, and most grain had to be stored. Much rotted or was destroyed by mouse plagues. By 1915, shortage of carrying capacity was fully conditioning Australian trade. The problem was distance – 5,000 tons of food imports to the UK needed 15,000 ship-tons from Australia, 10,000 from Argentina, and only 5,000 from the USA or Canada.

As most trade was carried in Imperial, not Australian hulls, Australia was very vulnerable to loss of carrying capacity. Due to its isolation at the furthest limit of the Empire, Australian trade was the first to be abandoned and the last to be re-instituted, being used to top up British imports and supply the closer demands of Italy and France. Australian trade was only kept going in WWI by Britain's need for 30,000 tons of frozen meat per month not elsewhere available, and the fact that there was 75,000 tons of dry cargo space available in these refrigerated ships. Basically, Australian trade was seen as expendable and was stripped early. This perceived disregard for Australia's economic health, together with the perceived



reckless expenditure of Australian lives on the Western Front, may have helped shape a more independent view of Australia within the Empire.

Requisition and control was run down from November 1918, but on 30 June 1919 18 percent of ships were still requisitioned. Control of shipping continued until April 1921 due to the need to lift huge grain, butter and meat stockpiles in Australia and New Zealand. The government quickly released government-built and operated ships to industry to restore the private lines, but the Empire had lost entire trades to American and Japanese lines during the war. The critical strategic lesson of the WWI carrying capacity management system was that *logistics sets the borders of the possible* in war.

In 1933, the Headlam Committee considered the merchant fleet equal to the task of supplying the UK during war. In 1939 they were proven wrong, as imports declined steeply. The subsequent Hoare Report of 1940 demonstrated the inadequacies in British prewar assumptions. Shipbuilding, ports, and rail were all inadequate, losses outpaced building by 5:1, and imports were down from 50–55 million tons in 1938 to 26 million in 1943. All of this had a profound impact on Australia, where trade still relied on Imperial, not Australian hulls. Despite the harsh lessons learned in WWI, in WWII, international management of shipping was far less advanced due to America's refusal to accept the need for it. The loss of Allied and neutral shipping fleets in the early war years added to the British burden on global carrying capacity. The British Government, under Churchill, ignored the lessons of WWI and carried the Empire deep in to strategic overstretch. Churchill also believed that he could control America, gambling the Empire on logistic dependence on the USA—and losing. The result was overt US control of UK logistics by 1943.

In February 1941, 25 percent of Imperial dry cargo tonnage was awaiting repair. Port carrying capacity losses due to congestion *alone* equalled losses to all enemy action. The convoy system cost 10–15 percent of carrying capacity, requisition and military use cost even more. Sinkings outpaced British construction, and only US shipbuilding resolved the situation in 1944. The trade system existed to feed the civil economy, the use of shipping for military purposes was at the cost of civil use. British miscalculations were demonstrated in Africa where the decision to fight a major theatre war was logistically imprudent. All infrastructure had to be brought in, and this meant that the best, fastest refrigerated cargo ships were used, stripping the Australian trade. A cargo to Port Suez often meant a global circumnavigation for the ship as cargo was collected in Singapore, Auckland or Sydney. By early 1943 the UK was faced with either supporting military operations or imports to stop starvation. Part of the answer was again Atlantic concentration by slashing all non-Atlantic trades. Among the effects of this policy were the 1943–44 Bengal famine and the near cessation of Australian trade. Only 20 percent of the merchant fleet was being used to support the British economy, yet, astonishingly, some US authorities believed the UK actually had surplus tonnage they could use.

The situation for Australia was worse than in WWI, as the British Government was more self-focussed, wanting to use Australian resources but offering little in return. By April 1941 UK exports were at the minimum needed to sustain Dominion war efforts. However, from 1942, there was a large US build up in the Pacific, and Australia and New Zealand were the only local sources of supply. There was deliberate American pressure on Australia to divert UK trade to supporting US

forces in the Pacific. In the end, it was only this that absorbed Australian export surpluses. Most Australian export industries collapsed during WWII. The export wheat trade was a prime example, falling from 125 million bushels in 1938 to just 19 million in 1945.

Most Australian interstate coastal shipping was requisitioned for war use. The pressure for freight rate rises started in 1940, but was mostly resisted, and by December 1941 they were irrelevant due to a lack of shipping. In addition, there was a severe decline in overseas shipping visiting Australian ports, port movements by 1945 falling to 40 percent of 1939 figures. A Central Cargo Committee was formed in early 1942 to ease port congestion and sort out refugee shipping fleeing the Japanese advance. The Ministry of Supply and Transport, and the Australian Consultative Shipping Council were subsequently formed to oversee participation in international control systems. They acted to minimise non-essential cargoes, maximise exports, and minimise coastal shipping use.

In both wars, there was a greater affect on Imperial trade from the *fact of attack* than from the actual *losses* inflicted. In both wars, carrying capacity was stripped from the Australian trade, and entire export industries were lost, or reduced to expensive (in carrying capacity terms) 'top-up' sources. Also in both wars, special circumstances gave Australia and New Zealand an 'out'. In WWI, Britain purchased the exports but only lifted what she had to. In WWII, local and regional presence of large US forces consumed the export surpluses. Australia lacked the industrial capacity or political will to develop the business environment that allowed an efficient merchant fleet and military industrial base sufficient to control her own logistic destiny. In essence, Australia was a logistic mendicant during both wars. This placed limits on government, and forbade Australian strategic independence to the point where Australia had little voice even in the strategic councils of her Allies. Given that Australian trade is still reliant on non-Australian ships, the implications for Australian trade and the impact of future disruptions to the global trading system remain issues of concern.

*This is a summary of a forthcoming SPC-A Working Paper.*

## Sea Power Centre Australia

Defence Establishment Fairbairn, CANBERRA ACT 2600

Director	CAPT Richard Menhinick	(02) 6287 6253
Facsimile		(02) 6287 6426

### Naval History Section

Director of Naval History	Dr David Stevens	(02) 6266 2423
Facsimile		(02) 6266 2782

### Research Section

Research Officer	LCDR Glenn Kerr	(02) 6287 6411
Facsimile		(02) 6287 6426

