

Report from the Group of Senior Shipping Professionals

I. Introduction

Early in 2008, the European Commission initiated a strategic review of the maritime transport priorities of the European Union in the horizon 2018. As part of the review, the Commission invited a group of very high level senior professionals to deliver an independent opinion on the shipping industry challenges for the next 10 years and their recommendations thereof.

This report constitutes the contribution of the group of senior professionals to the strategic review exercise conducted by the Commission.

The members of the group were personally appointed by the European Commission (annex 1 – list of members). They represent different sectors of the shipping industry, ranging from banks, ports, liner shipping and short sea shipping to shipowners and seafarers. Nevertheless, they share the same optimistic outlook for the future and an appreciation of international rules, free trade, and European competitiveness.

II. Ambition

European shipping is developing positively, contributes significantly to the economic welfare of the EU/EEA countries and provides a valuable service to European and global industry and consumers. Shipping also performs 40 percent of EU-internal transportation and is the only transport mode that grows as fast as road transport. It is today a thriving and attractive industry in its own right.

At present European shipping faces a number of important challenges, which threaten the further positive development. Third country shipping centres strive to attract global shipping companies and employees through attractive business conditions; European infrastructure is facing congestion; environmental and security demands are increasing; and administrative obstacles and market developments could lead to short sea shipping losing its potential for further growth. Meanwhile, the outlook for the global economy could lead to regional pressure for protectionism.

Nevertheless, the group believes that a European maritime strategy can and should be ambitious – for the benefit of the shipping industry, including the maritime cluster, as well as for the surrounding society so that both can prosper and achieve economic growth.

European shipping has a long-standing commitment with quality shipping and with sustainable development principles. Ambitious goals for coping with the in-coming challenges are possible to reach, if we build on the strong financial situation of the European shipping companies and continue the constructive approach already taken to maritime policy in the EU. However, we face increased competition from operators who do not adhere to the same principles and other challenges outlined below.

The EU strategy – and with it the goals to steer after – should encourage the industry to benefit from globalisation and acknowledge that every country in Europe, as elsewhere in the world, depends upon shipping services for economic viability and quality of life.

But, in recognition that environment and business go hand in hand, the strategy should also contain clear and stringent environmental goals. After all, addressing environmental concerns is a prerequisite for the ability to do business and attract customers. In other words: to operate a profitable quality fleet.

The new EU maritime strategy for the next ten years should thus combine financial and environmental goals.

Ambition

The European shipping industry should maintain or increase the relative global market position.

The European shipping industry should be based on quality shipping, contributing in a decisive manner to ensure safe, secure and efficient shipping in a cleaner environment.

III. Background

The positive development of European shipping since the mid 1990s is attributable to maritime tradition, know-how and business skills in the European shipping companies, and not least, to a forward looking European shipping policy based on a real understanding of the business and the related political challenges.

The 1996 Kinnock strategy paper¹ was based on an appreciation of the global nature of the shipping sector and cemented the following outward looking sound principles for EU policy-making in the maritime field. Measures taken since have generally respected these principles:

- Competitiveness of the shipping industry and preservation of know-how based on positive measures. Alleviation of tax burdens for shipping companies and seafarers as an intelligent response to the global competition that faces European shipping. Maintaining a level playing field while keeping up normal commercial pressures on the industry.
- A trade policy based on the pursuit of free and fair trade. European shipping is at the heart of the globalisation process and derives the main part of the income from ocean transport. To actively seek market opening and consolidation of open markets in bilateral agreements with third countries and in the WTO.
- Global technical and environmental regulation of shipping, adopted by the IMO/ILO and subsequent enforcement on all vessels.

European shipping at a glance today:

- Shipping continues to be the most environmentally friendly mode of transport, thanks to continued scientific progress and increasing economies of scale. For example, from 1980 to 2008, the reduction in emissions has been much bigger for maritime than for road transport. While road transport reduced its CO₂ emissions by 26%, maritime transport experienced a reduction of about 70%.²

¹ Communication from the Commission: Towards a new Maritime Strategy (COM(96) 81 final)

² A comparative study on CO₂ emissions between trucks and ro/ro ships between Salerno-Valencia

- The European shipping industry has achieved constant improvement on safety and security records. Shipping services provided by the European industry are a guarantee of quality shipping in all parts of the world.
- Almost 25 percent of the world fleet is registered in EU/EEA-registers.
- About 40 percent of the world fleet is owned by European shipping companies.
- Around 40 percent of the world fleet is controlled by European shipping companies.
- Four of the five largest container lines are European.
- The most technologically advanced offshore service and specialised shipping companies are European.
- More than 30 percent of the chemical tanker fleet is registered in EU/EEA countries.
- The EU RoRo fleet is the largest and the most technologically advanced in the world.
- European shipping companies are the core of the European maritime clusters. European shipping is one of the largest export industries in Europe; it contributes significantly to the performance of the European economy as a whole: Europe takes benefit from an extensive maritime economy including the world's largest merchant fleet, a large number of ports and the most advanced maritime manufacturing industry. Some 70% of shipping-related jobs are know how intensive on shore jobs.

IV. Challenges for the next 10 years

Over the next decade, the shipping industry faces economic as well as political challenges. Below we have outlined the challenges which we believe will have the greatest potential for affecting the shipping industry.

- **A growing market with increased global competition**

In recent years, shipping markets have generally been strong. The large demand has been driven by a number of countries with China in the lead – and the demand is likely to continue to grow, cf. economic growth rates in developing markets.

Nevertheless, the global competition pressure on European shipping companies will certainly persist or increase, depending on the actual increase in demand. The reason is that shipowners have ordered an unprecedented high number of vessels at yards, mainly in the Far East and Europe, increasing sea transport supply significantly.

The massive number of vessels that will result, and the trend towards further containerisation will also put enormous pressure on port facilities and inland connections in Europe.

With the introduction of tonnage tax and alleviation of tax on seafarers, European shipping companies have developed into more sophisticated logistics companies drawing on a multitude of competences. Today, the companies have shown that they benefit from globalisation and that they are attractive employers, offering international careers to European employees. However, other maritime centres like Singapore, Dubai, etc. aggressively seek to attract maritime activity by offering even more attractive business conditions.

The EU has unilaterally removed the limited exemption from the general competition rules regarding shipping conferences. The consequences for the competitiveness of European shipping are still unknown.

- **Avoiding regionalism and protectionism**

Increasingly, regional unilateral maritime rules are suggested to address the environmental concerns of coastal states. Examples are ballast water requirements in various countries or unilateral regulations pertaining to bunkers. The regional rules may seem like a “quick fix” to many problems instead of patiently waiting for the more effective international rules, with greater benefits, to enter into force. Effective international transport of goods is also dependent on global harmonisation of rules on carriage of goods at sea and connected transport.

Regional rules are not beneficial to international trade and shipping. Shipping is a global industry and as such requires global rules, both when it comes to rulemaking and to protection of trade areas. Only global rules (through UN bodies like e.g. IMO, ILO and UNCITRAL) ensure that all ships are required to meet the same legislative requirements, irrespective of flag, and thus guarantee an international level playing field and have global effect. Regional rules for European flagged ships place our ships at a disadvantage in the global competition.

A variant is regional rules put into place to protect the domestic market – and domestic jobs. Recently, protectionist ideas have been floated in key countries. While this may benefit the country in question in the short term, it will at the same time forego reaping the benefits from globalisation. The difficulties in concluding the WTO Doha Round should therefore not be misused to reintroduce protectionism.

Shipping, especially containerisation, and globalisation are strongly interlinked. For maritime transport to benefit further from globalisation and vice versa, open and unrestricted market access, and therefore also, inter alia, trade and maritime agreements with third countries are crucial elements.

- **Attracting sufficient maritime competences**

Within the maritime sector, as in any other sector today, the comparative advantage of the EU countries is know-how rather than headcount. Shipping companies depend on a wide range of competencies ranging from business knowledge of the global shipping markets, engineers for planning and ship design, legal expertise, as well as navigational experience. Some 70 percent of shipping-related jobs are on shore. Global competition for these skills is fierce and attracting and retaining the right people to careers in shipping companies is a major challenge.

With regard to manning of the vessels, the challenge is to recruit a critical mass of Europeans to preserve and develop the necessary nautical experience on all types of vessels, not least the technologically advanced service vessels and ashore in the technical positions in the shipping companies. The challenge is not protecting jobs but filling the vacant positions. Manning restrictions would only have the effect of making registration of vessels in EU countries less attractive. Instead, control with education institutions should be vigorously pursued, to ensure that a training certificate actually represents a certain level of training.

Nautical knowledge and know-how are also important for the land based shipping related industries, which need to incorporate the experiences at sea in their business in order to adapt and develop their products and support the actual shipping industry.

- **Quality shipping, climate change - and pursuit of higher global standards**

The EU registered fleets stand for quality shipping - quality operators, high levels of safety and security, along with environmental protection.

We expect that the public will increasingly come to view quality shipping as synonymous with high levels of environmental protection. Of particular importance will be how the shipping industry combined as well as the individual company address the fact that shipping emits around four per cent of global energy related CO₂ emissions³. IMO is the only international regulatory body that is able to address shipping’s CO₂ emissions efficiently. This is due to the

³ BLG 12/6/1: Review of MARPOL Annex VI and the NO_x technical code: Report of the outcome of the Informal Corss Government/Industry Scientific Group of Experts established to evaluate the effects of the different fuel options proposed under the revision of MARPOL Annex VI.

fact that, more than 75 percent of the world fleet is registered in countries that are not part of the effective Kyoto regulation (non-annex 1 countries).

It will be a challenge for European shipping to continue to stand for quality shipping and set still higher environmental goals in a way that is compatible with on the one hand, the necessity of an international level playing field, and on the other the opportunity to use quality shipping as a competitive edge.

This development can be encouraged in part through industry self-regulation and progressive voluntary initiatives, in part by authorities through international rule-making, setting ambitious climate and environmental goals, covering all vessels, regardless of flag. We firmly believe that international regulations are the right way forward. National or regional regulation would neither solve general climate problems nor promote equal terms of vessels and the elimination of substandard shipping.

That said, in general, a large body of new regulations have been adopted in recent years, and it seems appropriate to focus on implementation and enforcement rather than developing new regulations.

Fortunately, there are, among the EU countries, many strong shipping nations, with a good understanding of the shipping industry and real influence in the IMO. These EU countries are well-placed to create alliances with third countries and to create and maintain a good negotiating atmosphere accommodating to EU views in the IMO. A general co-operation and sharing of work load vis-à-vis the IMO is thus important. The latter includes the possibility of drawing on the knowledge and expertise of EMSA.

- **Ensuring uniform implementation of rules and subsequent enforcement**

Global rules, with global application and enforcement in a uniform manner are prerequisite for a level playing field of the ships as well as maximum effect of global rules and a practical necessity for compliance.

Consequently, it is a serious problem that there continues to be maritime nations that either fail to or only slowly ratify international conventions, even though flag and coastal state responsibility also involves implementation of international rules and ratification of international conventions. Without ratification of international conventions, regional rules will prevail and create distortion of competition.

A related problem is the subsequent enforcement of rules, when enforcement is carried out in a non-uniform manner. There are many examples of discrepancies between e.g. port state control practices towards ships and the availability of reception facilities.

Obviously, the EU cannot guarantee uniform ratification and enforcement in third countries, but it can provide technical assistance to developing countries, where relevant, to assist those countries sooner acquiring the necessary knowledge for ratification and subsequently competences to ensure enforcement. Only flag states have the infrastructure – and the authority – to follow ships worldwide and ensure that their vessels have the appropriate quality also when operating in third countries.

With regard to compliance, it should be added, that the greater the difference between implementation and subsequent enforcement of the same rules, the more difficult it will be to comply and the greater the risk of criminalisation of seafarers. That is not desirable – neither from the point of view of the individual sefarer or from the industry as a whole – as it significantly reduces the ability to maintain and attract seafarers.

- **A smooth supply chain**

In today's globalised economy, multimodal, door-to-door operations have become the name of the game. It is therefore even more important that a smooth, seamless and efficient supply chain from origin to final destination is provided for. This is challenging in the face of e.g. pressure on port capacity, increasing security checks and other administrative procedures.

The European seaports face dynamic growth of their turnover. For example, in the German seaports alone, the turnover according to the new sea traffic prognosis will increase 2½ times to 760 million by 2025.

To obtain a seamless transport chain and the ability to benefit from these growth opportunities, the handling capacity must be expanded, the inland connections developed through adequate funding, and the necessary number of ports with adequate port and hinterland capacity secured. Moreover, existing resources should be used in the most efficient manner, ensuring productivity gains and the long terms competitiveness of the European port system as a whole. This will sustain and support trade to and from the EU – and thus also the economic growth.

At the same time, the regulatory framework must be applied in the same manner across the EU. It also has to be sufficiently clear, efficient, stable and flexible to enable long term planning and encourage investments in ports and terminals in a fair manner. That goes for rules on state aid, environmental protection, financial transparency and access to provide cost-efficient services in all European seaports. Also, it is important that port services such as pilotage, mooring and towage become more attuned to the demands of the customers to allow for more flexibility and innovation.

Finally, it is important to monitor developments in neighbouring countries to avoid unfair competition based on subsidies.

- **Development of short sea shipping**

Short sea shipping performs 40 per cent of EU internal transport of goods, and transport at sea grows with the same rate as land transport. European short sea shipping is thus already a strong reality, especially from the industrial point of view. The European RoRo fleet is the largest and most technologically advanced in the world, and the traffic moved from land to sea is continuously increasing.

The positive development is also to a large extent due to the fact that short sea shipping is an integral part of the effective global maritime transport system. Short sea shipping shares the challenges above and has on top of that specific challenges due to the competition with other transport modes.

In spite of its strong development and its significant contribution to the European modal redressing, short sea shipping continues to suffer outdated and penalising procedures and practices that are hindering its further development. For example customs and other administrative procedures related to port calls hamper the possibility for short sea shipping to gain a larger proportion of EU transport. Port fees and other shipping specific costs can also put maritime transport at a disadvantage compared to other transport modes. It is crucial that any introduction of special rules on bunker oil used for short sea shipping (e.g. the content of sulphur) is well considered and timed. A too hasty introduction of such rules could lead to a significant cost increase and a “modal back shift” from sea to road.

V. Recommendations

1. International global competitiveness

European shipping faces strong competition from third countries, with attractive registers and special tax regimes. The aim should be to maintain stable and predictable globally competitive economic conditions for European shipping that support the growth of the maritime cluster. The group recommends the following:

- Maintain the EU state aid guidelines. Clarify the scope of the guidelines including service and dredging vessels and the necessary flexibility regarding time chartered vessels.
- Avoid flag or labour protectionist measures. In the global market, registration of vessels in EU countries and employment can only be obtained by making it attractive. Protectionist measures would have the opposite effect.
- Monitor the consequences of non-uniform maritime competition rules.

2. Free trade

European shipping depends on open and liberal global shipping markets. Unrestricted access to maritime markets is generally the case today.

- The EU should consolidate this situation by concluding more bilateral trade and maritime agreements with third countries.
- A possible future WTO agreement should also cover maritime transport provided that real commitments are made by a critical mass of countries including the major established and growth markets.
- The EU must be alert towards possible tendencies of net-subsidies and "state sponsored" (national champion) shipping companies and protectionist measures in other countries.

3. International rules

- Shipping is a global business and should have global rules only
- Any new rulemaking on maritime law, safety and environment should be done in the IMO and be based on a proven need, so that superfluous burdens are not placed on quality operators. Focus should be on implementation and enforcement of existing rules. Fast track procedures for adoption and implementation of the rules should be considered.
- Rules affecting shipping should be goal based, and allow for technical competitive advantages that facilitate development and innovation.
- The EU should use voluntary measures to encourage the individual flag states to ratify international conventions, alternatively use directives whereby ratification of the international conventions and notification thereof is sufficient to comply with the directive.
- The EU member states and the European Commission should cooperate, drawing on their respective expertise and contacts to third countries, to achieve maximum influence in the IMO.

4. Quality shipping

- New IMO rules that address climate change, and which apply to all vessels regardless of flags, should be developed and supported. The Kyoto-system is not an option as 75 percent of the world fleet is registered in countries that are not part of the effective Kyoto regulation (non-annex 1 countries).
- The EU should initiate a "Quality Shipping Campaign" focusing on enforcement of existing safety and environmental rules and to promote mechanisms and incentives to reward quality operators and to discourage substandard operators. A key aspect in this regard is to make flag and port states live up to their responsibility and enforce and police vigorously substandard operators as well as spreading EU best practise regarding port state control administration to third countries.
- The efforts of the EU should be to ensure a consistent and uniform enforcement of EU rules.
- EMSA is well-placed to take an increasingly active role in port state control within the EU.

- The EU should develop consumer differentiation towards green transport, with the aim to differentiate EU shipping services and provide a competitive advantage.

5. Developing European Maritime know-how

European shipping companies compete with foreign companies and other sectors for the qualified people to fill the many positions ashore and at sea. To secure the necessary maritime know how in the EU, the group recommends the following:

- Ensure that the shipping companies are able to compete in the global market place; i.e. maintain the state aid guidelines for shipping.
- International recruitment is of key importance for the competitiveness of European shipping companies. Nationality requirements for seafarers and officers serving onboard European registered ships in international trades must be avoided. The aim is to attract a critical mass of European officers to maintain European maritime know-how of value on board the vessels and ashore for example in technical departments of the shipping companies – not the number as such.
- Best practices should be exchanged between EU/EEA-countries concerning information campaigns to attract youngsters to the seafaring and maritime vocation, Trainee Programmes to attract graduates to a career to land based management positions in the shipping industry and maritime industries, and international co-operation in training and recruitment.
- Develop attractive university programmes and educational institutions aimed at developing the technical, management and maritime skills for the future. Co-operation and exchange programmes between maritime educational institutions at national and European level should be promoted.
- Develop training schemes for ratings to convert to officers.
- Promote the image of shipping and the good works of shipping to the European society at large.
- Defend shipmasters and officers from the increasing exposure to detention and potentially draconian fines and jail sentences. The EU should promote fair treatment of seafarers in all ports in the world. Implement the ILO maritime labour convention and rules on seafarers' identity documents. Measures to protect against piracy should be considered.
- Allocate more research funds to shipping related research and ensure that research and development results are well focused on industry needs.

6. A smooth supply chain

- Any envisioned security enhancement should be effective, balanced and take into account similar initiatives from counterparts around the globe so that the industry is not burdened with different regional rules.
- Follow up the EU port policy with an aim to clarify state aid and environmental rules in order to avoid litigation and ensure timely delivery of the required port capacities. Maintain a secure and predictable investment climate preserving the freedom of negotiation between port authorities and service providers.
- Prioritise investment in port and hinterland infrastructure.
- Ensuring effective market forces for port services, especially concerning ancillary services and avoid protectionist employment rules in ports.
- Monitor developments in neighbouring countries to avoid unfair competition based on subsidies.

7. Enhancing the use of short sea shipping

The aim is to increase the share of maritime transport of goods in the EU. The group recommends to:

- Alleviate administrative burdens so shipping is not subject to more burdensome procedures than other transport modes.
- Analyse the effects of introducing special rules on the content of sulphur in bunker oil used for short sea shipping to avoid a "modal back shift" from sea to road.

- Build on the experiences with funding through the Marco Polo-program and TEN-T (Motorways of the Sea) to promote innovative solutions.
- Avoid interfering with market developments by artificially imposing performance indicators, forced concentration of goods flows and the like.
- Target new initiatives towards the shippers to make it attractive to choose multimodal transport including a sea leg.
- E-shipping. It is developing quickly, allowing cuts in brokerage costs, and increasing the competitiveness of the sector. It will further increase in the future, provided that e-customs and e-freight is further developed.

Annex I

Group of Senior Shipping Professionals

- Mr. Knud Pontoppidan, CEO, A.P. Moller – Maersk A/S (Denmark) - rapporteur
- Mr. Leo Delwaide, ex-president of the Port of Antwerp (Belgium) - rapporteur
- Mr. Emanuele Grimaldi, CEO Grimaldi Lines (Italy) - rapporteur

- Mr. Detthold Aden, CEO, BLG Logistic Group (Germany)
- Mr. John Coustas, CEO Danaos Corporation (Cyprus)
- Ms. Cecilia Eckelmann-Battistello, CEO, Contship Italia, Eurokai (Italy)
- Mr. Nikos Efthymiou, President of the Union of Greek Shipowners (Greece)
- Ms. Elisabeth Grieg, CEO Grieg Shipping Group AS (Norway)
- Mr. Philippe Louis-Dreyfus, CEO; Louis Dreyfus group (France)
- Mr. Dagfinn Lunde, CEO DVB Bank AG (Germany)
- Mr. Brian Orell, President UK Seafarers Association, OBE (United Kingdom)
- Mr. Marnix van Overklift, CEO, Seatrade Group (the Netherlands)