

JOB CREATION IN THE MARITIME INDUSTRY

Shipping should be at the centre of the Government's transport policy for two reasons: Strategic and Job Creation.

1) Strategic.

- At present South Africa exports about 130 million tons of raw materials each year;
- We import around 20 million tons of oil;
- We import and export around 2million containers each year;
- Effectively all of this cargo is carried on foreign owned and registered vessels. There is presently only 1 deepsea cargo vessel on the South African Ships Register;
- Shipment of the vast majority of our export raw materials is fob, arranged by the foreign buyers. Conversely all of our imports are shipped cif and controlled by the foreign sellers.
- It is strategically unwise for a trading nation dependent on getting its goods to market to be wholly dependent on foreign ships. In respect of low value cargoes such as iron ore, the freight element can make a crucial difference to whether we are able to sell our products in a market when demand is slack. (Unlike today when raw materials such as iron ore and coal are in huge demand because of the expansion in China). The shipping market has risen to unprecedented levels during the last 2 years. In 2001 the freight rate for iron ore from Saldahna to China was a little over \$5 per ton. In 2005 it has been above \$30 per ton. In the same period the price of iron ore has risen from \$32 per ton around \$50 per ton. In 2001 freight comprised 16% of the delivered cost of iron ore. By 2005 freight comprised 64% of the delivered cost.

Whilst the current shipping market is driven by demand for cargo space, it is not always so. It is possible to have relatively slack demand for iron ore and coal and a relatively high freight market. It is quite conceivable that we will have markets where the freight element is the same as or even exceeds the cost of the commodity itself.

2) As a source of job creation:

- Unemployment in South Africa is between 30-40%.
- Skills development leading to sustainable jobs is the best method of alleviating poverty in the country;
- The shipping industry is well positioned to make a significant contribution to job creation in the coastal areas where unemployment is at its highest.

THE POTENTIAL FOR CREATING JOBS

- National Ports Authority statistics indicate that there were 14,000 vessel calls at South African ports in 2003 of which SAMSA estimate that 11,500 were first calls.
- Each cargo vessel employs around 22 people (plus usually around 8 on standby ashore).
- Each vessel's crew earns on average \$45,000 each month.
- Around 250,000 seafarers are involved in some way in the seaborne trade with South Africa.
- All are foreigners except the approximately 700 South Africans employed on foreign flag cargo vessels.
- A target of 10% or 25,000 of the seafaring jobs involved in South African trade is surely not beyond our grasp. The Maritime Charter has as one of its aims that 25,1% of South African cargo should be carried on South African flag vessels by 2014. If this aim was achieved and the South African flag vessels were to employ South African crew this would amount to 86,000 jobs with wages of \$129m paid each month. If one applies a modest job multiplier of, say, 4 one can only imagine the potential for employment.

ARE SOUTH AFRICAN CREWS SELLABLE ON THE INTERNATIONAL MARKET?

I believe they are. There are a number of reasons for this:

- Ships have never been more expensive. Owners can ill afford to have unskilled and inadequately trained crews in charge of them. There have been worrying reports recently about a shortage of skilled crew for LNG carriers and tankers. Larger owners will increasingly have to become proactive and set up their own training facilities in countries where they source their crews;
- Shipping has become a highly regulated industry. The regulations surrounding shipping are increasingly restrictive requiring ever higher and more transparent operational standards from the owners and their crews. OPA 90, the ISM code and more recently the ISPS code all require owners to implement vessel specific safety and security procedures and to see to it that they are adhered to;
- Whilst there is no worldwide shortage of ratings there is a worldwide shortage of officers. Owners are increasingly looking to future sources of labour that can provide officers and ratings for a reasonable period of time at an acceptable cost.

South African officers and ratings will be attractive to shipowners for a number of reasons:

- The limited number of South African seafarers serving at sea have a good reputation;
- There is a long established, recognizably British in origin, maritime tradition in South Africa which can be built on;
- We have high quality training institutions turning out cadets and ratings that are trained in accordance with STCW 95.
- We have a well respected professional shipping administration in SAMSA;
- We have a large population from which to recruit seafarers ensuring long term supply.
- English is the common language in South Africa;
- We are in an ideal time zone to service European shipowners who are likely to be our main market.
- Even at today's relatively high value rand we can be competitive.

WHAT NEEDS TO BE DONE TO ACHIEVE THIS POTENTIAL?

1) The Government, at the highest level, must look at shipping as a matter of strategic importance and as a source of employment.

2) The Legislative framework within which shipping currently operates needs to be amended to encourage to the growth of vessels on the South African Ship's Register.

- Tonnage Tax. This is fundamental. We were all, I am sure, delighted to hear that the Treasury has accepted in principle to introduce a tonnage tax in 2006 and that it formed part of Trevor Manuel's budget speech on 23rd February. Martin Grote who, as Chief Director of Tax Policy, was largely responsible for its acceptance, is with us today. If I have a message for Martin, as he contemplates the form of this new tax, it is this:

Keep it simple, transparent, easy to calculate and competitively priced. (That is 4 messages in one).

- The Ship's Registration Act 1998 needs to be amended to allow, inter alia, foreign ownership of the shares in South African Ship owning companies;
- Mortgage Rankings need to be amended to bring them into line with international shipping practice [Admiralty Jurisdiction Regulation Act 105 of 1983 Section 11].

3) Cargo Exporters

- To cargo exporters fob means, "free of bother". If they could sell their coal or iron ore from the top of the mineshaft they would. Even transporting it to the coast they consider a headache that they would like to be relieved of.

- They need to be persuaded to look at fob as “loss of opportunity”. Most mines belong to large multi-national companies who hedge virtually every aspect of their business from interest rates, commodity prices and exchange rates. Why not hedge freight? Being 100% dependent on foreign ships to get their product to market is commercially and strategically counter to they way they organize all the other aspects of their business.
- The shipping part of the logistics chain at present means a huge outflow of freight from this country without any benefits coming back. If South African commodity exporters can be persuade to use South African shipping service providers it will no cost any more or be any less flexible but it will mean that an increasingly large part of the freight paid out will find its way back to this country.

LOOK AT THE COUNTRIES THAT MAKE MONEY FROM THE SHIPPING INDUSTRY.

- The three countries that make most out of servicing the shipping industry are: **Panama** and **Liberia** who between them have 40% of the world’s merchant fleet registered under their flags; and the **Philippines** is currently the largest supplier of labour to foreign shipowners. There are around 230,000 Filipino seafarers onboard foreign vessels.

CONCLUSION

- South Africa is politically and economically more mature and stable than any of the Panama, Liberia and the Philippines. It has a far more developed infrastructure and it has the cargoes that ship’s need to continue to trade. We have the ability in this country to combine the user friendly registration systems of Panama and Liberia with the supply of labour to those vessels.

HOW CAN WE FAIL?