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## COMPETITIVENESS OF SLOVENIAN CARGO SHIPPING

### SUMMARY

*The paper presents Slovenian cargo shipping, its system of organisation, ownership, age and value structure. It shows the importance of shipping in the Slovenian overseas trade and its impact on the state's balance of payments. The analysis of the competitiveness of shipping was made from the viewpoint of operation costs and in comparison with the competitiveness of EU shippers. The paper concludes with a proposal of possible systemic solutions which improve the competitiveness of Slovenian shipping.*

### 1. INTRODUCTION

Being a maritime country, the Republic of Slovenia also has its own cargo shipping. The sole maritime shipper performing as a state owned enterprise has registered its vessels under the so-called flags of convenience (FOC). At first glance this fact may seem unusual since ships under state ownership almost everywhere sail under their own national flags. The aim of this paper is to establish the reasons for the performance of Slovenian ships under flags of convenience, to analyse their competitiveness on the world market and, moreover, to compare it to the competitiveness of cargo shipping companies in the EU. The results of this investigation will point to the need and possibilities of registering Slovenian ships under their own national flag. This paper features 5 chapters. After the introduction, the second chapter describes the maritime system of the Republic of Slovenia and its subsystem of maritime shipping. Chapter three deals with the significance of Slovenian maritime cargo shipping for the overseas trade of Slovenia and its impact on the state's balance of payments. The fourth chapter analyses the competitiveness of Slovenian shipping by analysing all types of costs within the structure of operating costs, shipping costs and costs of capital. The fifth chapter briefly describes the reason why vessels of the EU are inclined to sail under FOC flags and compares it with the reasons why Slovenian shippers depart to sail under cheap flags. In conjunction with the conclu-

sion and résumé on the competitiveness of Slovenian maritime cargo shipping, suggestions are imported to authorities responsible for directing the maritime policy of the Republic of Slovenia to further promote the expansion of competitiveness of Slovenian cargo shipping.

### 2. MARITIME SYSTEM OF THE REPUBLIC OF SLOVENIA

The Republic of Slovenia is a maritime country of the Mediterranean whose 46 kilometer long seacoast is located in the northern part of the Adriatic Sea bordering with Croatia and Italy. On occasion of gaining its independence, Slovenia established her maritime transport system which can be evaluated as an integral system with all its subsystems, i.e. transporting system, shipping activities, system of port terminal activities and system of building, maintaining and managing the maritime sea route. The maritime transport system of Slovenia is regulated by the Maritime and Inland Waterways Navigation Act Ur.1.SFRJ no. 22/77, 19/82, 30, 85, 80, 89 and 29/90 taken over from the former Yugoslavia, as well as by the Law on Organizational Activities of Ministries, Ur. 1.71/94 which regulates the activities of the Ministry of Transport & Communications, Administration of the Republic of Slovenia for Maritime Affairs which include the Harbour Master's Office of the Port of Koper.

Within the group of basic maritime systemic laws, Slovenia also has a Law on Safety of Maritime and Inland Navigation, Ur.1.SRS no. 17/88, a Seaport Act, Ur. 1. SRS, no. 7/77, 29/86, which were previously laws at the level of the Republic in the former state. The new Law on Public Utility Companies, Ur. 1. RS no. 32/93, among other things, defines port terminal activities, designating them public utility services, whereas the port structure is defined as state-owned, in other words as the property of the municipality. The old and the new laws are in some fields, especially in the sphere of maritime administration, port terminal ac-

tivities and port terminal management, in mutual collision. For this reason preparations for a new Maritime Code, which would wholly replace the mentioned laws, have been under way in Slovenia for several years now.

On the international plane, Slovenia is connected to the world's maritime system through her acceptance, up to the moment of gaining independence, of all the ratified international maritime conventions and other international maritime acts of ex-Yugoslavia, and has joined all the international maritime organizations that the former state was a member of.

In the maritime system of Slovenia's structure of ship transport activities, there is one cargo shipping company, Splošna Plovba. This enterprise with its fleet of 17 vessels, average ship age being 16 years, and a total carrying capacity of Table No. 1 shows the structure of the Slovenian cargo shipping fleet performing within the framework of a state-owned enterprise and its daughter company, Geshipping Corporation, registered in Liberia.

The shipper predominantly performs on the tramp steamer market. Several years back the shipper found himself in a difficult situation. Splošna Plovba as the

shipper was caught in a financial situation that was hard to endure due to the exacting terms of payment of a Japanese credit loan, which the enterprise accepted 20 years ago for purchasing ships in Japan. Since the credit was in Japanese yen, their value in relation to the U.S. dollar was tripled, causing the shipper insuperable difficulties in returning the loan. This problem arose firstly from the fact that shippers performing on the international market charge their revenue and freight payments in USD. In the former Yugoslavia these debts to Japan were entered into the rescheduling debts of the former state, beginning in 1983 and ending with the New Financial Agreement of 1988. According to the NFA, public debts, or the debts of end users respectively, began debt repayment in 1994 to be finalised by the year 2006. Splošna Plovba as the end debtor wished at least to partially repay all of its debts on the secondary market and thereby avail itself of the occasion of cheap buyoff under the conditions of the disintegration of the SFR Yugoslavia. Due to the ignorance on the part of the bankers regarding the nature of the market of credit loans, this undertaking by the Ljubljanska Banka failed to succeed. Splošna Plovba would not have been able to return the

**Table No. 1 - Cargo shipping fleet of the Republic of Slovenia under ownership of the state owned company Splošna Plovba and its daughter company Geshipping Corporation, Monrovia, Liberia in December of 1996.**

	Ship	Type	Flag	Class	Year	DWT	Value in millions \$
1	Adriana	Buld	Antigua	GL	1983	38973	12.25
2	Bled	Bulk	S. Vincent	LR	1983	34947	11.25
3	Bohinj	Bulk	Antigua	LR	1984	39942	12
4	Bovec	Bulk	S. Vincent	AB	1976	34475	5.5
5	Celje	General	S. Vincent	LR	1977	18487	3.85
6	Ariella	Bulk/C	S. Vincent	GL	1983	32441	13.5
7	Ciello di Firenze	Bulk/C.	Antigua	LR	1981	32680	11.5
8	Cielo di Vancouver	Bulk/C	S. Vincent	LR	1983	32454	13.5
9	Kamnik	General	Singapur	LR	1977	184387	3.85
10	Kanin	Bulk	Liberia	LR	1985	45629	10.75
11	Kranj	General	S. Vincent	LR	1976	18487	3.65
12	Kras	Bulk	S. Vincent	NK	1981	38018	10.25
13	Lucija	Bulk	Antigua	LR	1978	40501	6.85
14	Maribor	General	S. Vincent	LR	1976	18487	3.65
15	Piran	Bulk/C	S. Vincent	LR	1987	18242	9.25
16	Planica	Bulk	S. Vincent	LR	1984	42239	12
17	Velenje	General	S. Vincent	LR	1976	18487	3.65
	Total					522976	147.25

SOURCE: Shipping Enterprise Splošna Plovba, Portorož

Japanese credits as per their current capital sum value and calculation of interest since, in addition to this, the company had other credit loans from foreign banks against a collateral giving them mortgage on the ships and cession of claims on the ships.

With the start of the process of financial restitution and finding that the amount of debts of Splošna, Genshipping and other sister companies exceeded the value of the ships, and that the obligation of repayment of the Japanese debt in the end obligates the Republic of Slovenia, a decision was brought to solve the financial restitution in the following way:

- the state undertakes 86% of the Japanese debt
- the remaining 14% of the Japanese debt is rescheduled through the assistance of Splošna Banka Koper and Splošna Plovba returns the debt
- Splošna Banka Koper approves a credit loan of 4.0 million USD to Splošna Plovba for credits which fall due
- the debts of Splošna Plovba towards its workers and seamen in the amount of 3.3 million USD will most probably be solved in such a way that the workers become company shareholders
- all the other debts of Splošna, or Genshipping and other daughter companies will be returned by Splošna Plovba from the company's business operation on the international maritime market.

For the time being, the state decided that the daughter company abroad (Genshipping Corporation) should continue, since business operations in that way are cheaper for the shipper, meaning that the state subsidies are lesser, in other words that the taxpayers of Slovenia are exposed to a minimum tax burden by the Splošna Plovba problem.

The restitution program anticipates that Splošna Plovba will in the forthcoming period, in spite of the large credits, purchase second-hand vessels averaging ten years old, at the same time selling the oldest vessels and thereby rejuvenating the fleet. This decision is likewise the result of a general government policy which, as early as 1991, on occasion of gaining state independence brought forth a Resolution on the Maritime Development of the Republic of Slovenia announced in the Official Gazette Ur.L RS no. 10/91.

### 3. THE IMPORTANCE OF SLOVENIAN CARGO SHIPPING FOR THE NATIONAL ECONOMY

The analysis of business operations of national shippers always shows how much and in which way shippers participate in the transport of cargo of national seaborne trade exchange. In the context of such an analysis we may conclude that the seaborne trade of the Republic of Slovenia is quantitatively relatively small (15-20%) since the majority of the country's trading partners are in Europe, so that the commodities of import and export are mostly transported overland. The bulk of the seaborne imports (which make up 70-80% of the seaborne trade) mainly consist of raw materials which are as a rule transported by ships performing on the tramper market. Raw materials transported by ships performing on the tramper market are also predominant in exports. Analysis shows that seaborne imports and exports regarding quantity and directions are not of such an extent as to justify the maintenance of a national fleet whose business in importing and exporting could be economically exploited in the sense of a safe and cheap transportation and whose activities could expand the competitive capacity of Slovenian products on the world market. For a better understanding of this assertion it is necessary to recall that in the world today only the most highly developed countries, such as Japan, USA, Germany, France, Korea, Singapore, Switzerland, the Netherlands, etc. have modern state-owned container ship fleets (liner shipping).

Within its activities, Splošna Plovba has transported and still transports cargoes that are the subject of foreign trade exchange of third countries. Its operations include exporting the services of maritime transport and thereby contributing to the enhancement of the balance of payment of Slovenia and previously to that of ex-Yugoslavia. Such a role of shippers in the national economy is quite normal and desirable if the net foreign currency incomes pour into the calculations that are the targets of the state balance of payments. In the current account of the balance of payments of the Republic of Slovenia, the traffic services

**Table 2 - Balance of payments for maritime services of the Republic of Slovenia for the period from Jan 1, 1993 to Sep 30, 1996\***

Year	Maritime traffic - total			Cargo transport			Passenger transport			Other services		
	import	export	balance	import	export	balance	import	export	balance	import	export	balance
1993	25668	72331	47187	25127	71698	46571	109	108	-1	436	525	89
1994	28527	55969	27432	27459	55503	28044	534	81	-453	535	372	-163
1995	44641	81586	36945	27856	56599	28743	915	83	-832	15868	24904	9036
I-IX 96	26191	57364	31173	17178	36718	31172	1216	109	-1107	7794	20536	12742

Source: Banka Slovenije\* (data assembled and classified in accordance with IMF methodology for making public balances of payment)

note a positive balance and the maritime cargo shipping with its positive balance makes up 78.8% of the positive balance of traffic services in 1993, 41.1% in 1994, 41.1% in 1995, and 87% in the course of the first nine months of 1996. The targets of the balance of payment of Slovenia in the domain of the sector of maritime transport are shown in Table No. 2.

#### 4. COMPETITIVENESS OF SLOVENIAN CARGO SHIPPING ANALYSED FROM THE STANDPOINT OF OPERATION COSTS ON THE WORLD MARITIME MARKET

The competitiveness of an individual vessel or a national fleet can be measured in various ways. One of the common methods is an analysis of the ship's or fleet's operation costs, thus enabling comparison with other ships or fleets. Certainly, other elements can also be included into an analysis of competitiveness, for example, such as the safety level of the fleet, which takes into consideration the quality of the ships' construction and the equipment that provides safe navigation and affords protection of the environment. The level and quality of education of crew members is also one of the criteria for the evaluation of a shipper's or

fleet's competitiveness, and it infers the ability of a shipper or a fleet to perform safe and qualitative transports of cargo and provide safe navigation and afford protection of the environment, etc., thanks to the developed capacities and knowledge of the crew. In this phase of analysis the starting point is an analysis of costs of the Slovenian merchant marine fleet, which is ascertained through a systemic organisation of shipping operations and the economic system in general.

In maritime cargo shipping the shippers have conventional groups of natural costs. For the needs of this analysis it is best to employ a scheme of costs that are used in the course of calculations for conclusion of charter agreements. UNCTAD recommends such a scheme of costs.

The amount of freight rate or the amount of the rental fee for a ship on the world tramp steamer market depends chiefly on the amount of operating costs that the shipper has.

##### 1. Costs of fuel and lubricants

Shippers buy their fuel at destinations world-wide when their fuel reserves run low and when in light of the voyage length and fuel consumption and quantity of loaded cargo a bunkering place has to be chosen. The prices of fuel are known, and announced in all publications dealing with navigation and shipping. One of the features of fuel prices is their tendency to

Scheme 1 - Scheme of costs for conclusion of charter contracts

Type	Costs	Voyage	Time charter	Bare-boat charter
I. Costs of cargo and navigation	Cost of fuel	Cost of fuel		
	Cost of loading and discharging	Cost of loading and discharging		
	Stowage costs	Stowage costs		
	Port charges	Port charges		
	Canal charges	Canal charges		
II. Operating costs	Costs of crew	Costs of crew	Costs of crew	
	Costs of expendable material	Costs of expendable material	Costs of expendable material	
	Insurance	Insurance	Insurance	
	Repairs and maintenance	Repairs and maintenance	Repairs and maintenance	
	Management costs	Management costs	Management costs	
III. Costs of invested capital	Depreciation of ship or	Depreciation of ship or	Depreciation of ship or	Depreciation of ship or
	Repatriation of capital return of capital sum and interest or	Repatriation of capital return of capital sum and interest or	Repatriation of capital return of capital sum and interest or	Repatriation of capital return of capital sum and interest or
	Leasing charges	Leasing charges	Leasing charges	Leasing charges
IV. Profit	Repatriation of capital return of capital sum and interest or	Repatriation of capital return of capital sum and interest or	Repatriation of capital return of capital sum and interest or	Repatriation of capital return of capital sum and interest or

change, which has an impact on the shipper's costs and on world shipping in general. Another important feature of fuel prices is that at certain destinations in the world, fuel can be purchased at somewhat lower prices, and this might motivate shippers to undertake more distant voyages for the purpose of fuel supply (but the experienced Chief Engineer is also well aware that fuel qualities are very variable, and this also has an effect on maintenance of the engine complex).

According to the Slovenian customs law all Slovenian companies, thus shippers likewise, must pay customs duty on fuels and lubricants purchased abroad in the amount of 10% and a turnover tax of 5%, which naturally increases the price of fuel and the total expenditure of the shipper.

## **2. The cost of loading, unloading and cargo stowage that shippers have in ports.**

Ports charge these services in accordance with their tariffs, and the amount of these costs depends of the quantity of cargo and tariff rate for the respective kind of service. The amount of these costs depends to some extent on the equipment of the ship itself, since it might have its own transshipment mechanisation facilities, thereby decreasing this category of costs. All shippers are equally burdened with this type of cost.

**3. Harbor dues and sea canal charges** are costs on which shippers have no influence, since they are charges stipulated in port and canal tariffs and depend on the size of a vessel.

**4. The cost of crews** may amount up to 50% of the total operative costs. They include all direct and indirect costs arising from crew employment (basic salaries and wages, social security, pensions, foodstuffs, repatriation costs).

The level of crew members costs is determined by two factors, the number of crew members and the various direct and indirect costs linked to employment.

The number of crew members is largely determined by the requirements of maritime authorities in the country of registration, as well as by the agreements between the shipowner and the Seafarers' Union. As regards crew member costs, ITF determines the minimal monthly salaries for all jobs on the ship for crews in developed countries, crews in underdeveloped countries, and crews on ships under FOC. The national legislation laws of the country of registration determine the national affiliation of the crew members.

Slovenian shipping enterprises are obliged to employ crews in accordance with Slovenian labour laws. This means that they have to afford permanent employment to crew members, pay contributions for retirement and disability insurance, health care insurance, insurance in cases of unemployment and other compulsory payments. Besides this, the salaries of seafarers have to be disbursed each month, which means, even when the seamen are not on ships. Such payment

conditions for crews are far more expensive than for employees of companies performing under flags of convenience. There, the crew members are paid only for the time spent on board ship, whereas the contributions from salaries are much lower (there are differences from one flag to another). All this results in a multiplication of costs which are caused primarily by the number of paid crew members. The Slovenian Seamen's Union, who is an ITF member, has, with the consent of the ITF brought ITF rates down 80%, which definitely decreases the crew members costs, yet in spite of this the Slovenian crew on Slovenian ships still remains more expensive. The comparison of the cost of a Slovenian crew on a Slovenian ship with a Slovenian crew under a flag of convenience (FOC) shows that the ship sailing under the Slovenian flag has 30% higher expenditures for the costs of crews. Splošna Plovba has proved that the difference amounts to 6.6 million USD per year on a fleet of 17 ships. This means that the Slovenian shipper on the world maritime market due to the higher cost of crews employed and paid in accordance with Slovenian labour laws is subjected to higher crew costs by 30%, thereby reducing the competitiveness and achievement in business operation by that same percentage. Table No. 3 shows the tariff of Slovenian crew members as per collective agreement with the Seamen's Union of Slovenia, and the Genshipping Corporation as accepted by ITF, and which is valid for the year of 1996.

Table No. 4 presents a comparative calculation of crew costs in the Slovenian merchant marines under conditions of registration of ships and crews in Slovenia and respectively under other flags with more favourable conditions of employment of seamen.

**5. Every vessel has stocks of expendable materials.** In this sense the **cost of expendable materials** are included into the structure of costs of the ship, in other words into the price for the service of transportation, or chartering of the vessel. According to the Slovenian customs law regarding materials and spare parts purchased abroad, the Slovenian shipper is liable to pay duties and turnover taxes, which again increases operation costs and decreases the shipper's competitiveness. Lower, preferential customs rates are valid for materials purchased in countries of the EU, CEFT, and in Croatia.

**6. The insurance of the ship** and the shipper's responsibilities are one of the common costs which a conscientious shipper covers. Tariffs throughout the world are usually balanced, and the amount of the insurance cost depends on the system of bonuses and penalties applied by the various insurance companies and insurance systems.

**7. Repairs and maintenance** are common costs that all shippers are exposed to. On the average, this kind of expense is equally demanding on all shippers.

**Table 3 - Salaries of Slovenian seamen as per collective agreement on board vessels of Genshipping for 1996 and certified by the ITF**

Field of activity	Part of monthly wages paid via bank account in \$	Part of monthly wages paid on board in \$	Amount of compensation for over time in excess of 42 hours weekly	Average salary for 240 hours per month in \$
Master	2295	1080	15	4335
Chief mate	1800	810	10	3250
2nd officer	1485	630	8	2627
3rd officer	1080	540	7	2068
Boatswain	990	450	6	1824
Helmsman	855	360	5	1535
Mariner	630	270	4	1156
Chief engineer	2070	990	14	3956
First engineer	1800	810	10	3250
2nd engineer	1485	630	8	2627
3rd engineer	1080	540	7	2068
Electro-engineer	1485	630	8	2627
Donkeyman	990	450	6	1824
Electrician	990	450	6	1824
Fitter	990	450	6	1824
Motor mechanic	855	360	5	1535
Greaser	630	270	4	1158
Radio operator	1485	630	8	2627
1st cook	1035	450	6	1869
2nd cook	720	360	5	1400
1st waiter	990	450	6	1824
2nd waiter	720	360	5	1400

Source: Annex No. 2 of collective agreement for crew members on vessels of Genshipping Corporation, Monrovia, Liberia, valid for the year 1996.

**Table 4 - Crew cost on the example that the Slovenian shipper has ships and crew sailing under Genshipping Corporation as compared to sailing as a constituent part of the Splošna Plovba, Portorož**

	Expenditures	Genshipping	Splošna plovba	Differences
1	Salaries	10,513,651	6,717,118	-3,796,533
2	Calculation of salary taxation	0	2,409,117	2,409,117
3	Foreign exchange bonus	0	2,957,668	2,957,668
4	Contributions	613,295	5,712,881	5,099,586
5	Crew replacements	850,295	850,295	0
6	Sick-pay benefits	1,079,297	1,079,295	0
7	Insurance	148,485	14,455	-134,030
8	ITF membership	158,042	158,042	0
9	Health care services	121,688	171,580	0
10	On-board payment expenditures	27,561	27,561	0
	Total cost for crews of the fleet	13,512,418	20,098,118	6,585,700

Source: Restitution program of Splošna Plovba Portorož, 1996

**8. Administration costs** are also expenses that all shippers have. The amount of these costs is certainly dependent on the number of employees in the administration. Greater productivity and corresponding proficiency in the management allows for a lesser number of employees. It is otherwise a well known fact that shippers dealing in tramp navigation have a smaller number of employees on land than do shippers dealing in liner navigation, which calls for a larger number of personnel to work on the acquisition of cargo.

**9. The cost of capital** are costs that the shipper has for the purpose of return of capital invested in the purchase of a vessel. This group of costs is of great significance for shippers, and the successfulness of the shipper often depends of this group of costs. Due to market trend cycles the price of new and second-hand ships oscillate even up to several tens of millions of dollars. The purchasing of a vessel during a cycle of low prices brings profit to the shipper during the entire life span of the vessel, of course provided the shipper skilfully exploits it in the course of periods of crisis. Today ships are mainly purchased on credit, thus the interest rate on credits increases the price of the vessel and, of course, the cost of return of capital. The amount of the interest rate certainly has a big influence on the price of the ship. For the costs of return of capital in maritime shipping another factor of importance is the foreign currency used to make the purchase. The safest is to buy ships in USD \$, since at present, freights throughout the world are concluded in USD \$, thus this type of cost can at least be linked to the currency of income. Special emphasis is made on this point in this analysis, since the Slovenian shipper had at one time, 20 years ago, purchased ships in Japanese yen and subsequently, due to the tripled value increase of the Japanese yen the price of the vessels increased accordingly, thereby increasing the amount of the costs for the return of capital. On the maritime market today we come upon a large number of vessels whose building or purchases were financed or subsidized by states, for the purpose of developing or rejuvenating national fleets. When ships are purchased from government budget funds, and when governments grant credits for purchasing ships, it is recommendable to effect the purchase of vessels in times of depression when their prices are lowest. Naturally, such vessels also have lower return of capital costs and precisely for this reason they can be more competitive than others.

Slovenia has no shipbuilding yards and is obliged to import ships. According to the new customs tariff which came into force as of January 1996, there is no duty on importation of vessels. When we consider the costs of return of capital for Slovenian vessels which were purchased through credits granted by Slovenian banks and which are owned by the Slovenian shipper

(fly the Slovenian flag), then these costs are higher than on the same kind of vessel purchased on a mortgage credit by foreign banks and sailing under the flag which the banks consider as safe. The difference in the costs of return of capital was caused by the higher interest rate that has to be paid in Slovenia. According to specific information of foreign banks that deal in purchases of vessels, for the time being there is still not enough trust in Slovenian maritime legislation in which the institution of mortgage has not yet been appropriately solved. The banking world is expecting a new maritime legislation in Slovenia, and if it proves satisfactory, cheaper credits could also be granted to ships that fly the flag of Slovenia.

At the end of the analysis of costs, the purpose of which is to establish the competitiveness of the Slovenian maritime cargo shipping, the enclosed table No. 5 is a comparative presentation of total costs for a ship in a Slovenian enterprise performing under the system of Slovenian legislation, and that same vessel if it were to perform within the framework of Genshipping in Liberia, registered under the flag of St. Vincent. The analysis was made by the expert services of Splošna Plovba. (Table from the restitution program, page 52).

**Table 5 - Comparison of total costs of second-hand vessel in an example of ship registered under FOC flag and bought against a foreign bank credit, as compared to total costs of vessel registered under the Slovenian flag and bought against a credit granted by domestic Slovenian bank in USD**

Year	Total costs of vessel			
	Foreign bank and FOC flag	Domestic bank and slovenian flag	Diference	
			Per year	Per day
1	4,822,507	6,497,765	1,675,258	4,590
2	4,551,606	5,351,948	800,342	2,193
3	4,139,106	4,855,365	716,259	1,962
4	3,976,606	4,617,032	640,426	1,755
5	4,096,106	4,667,938	573,832	1,572
6	3,651,606	4,140,365	488,759	1,339
Total	25,235,537	30,130,413	4,894,876	2,235

Source: Restitution Program of Splošna Plovba, Portorož.

## 5. COMPARATIVE ANALYSIS OF COMPETITIVENESS OF THE SLOVENIAN AND EU SHIPPING

The problem of departure of EU fleets to sail under the so-called flags of convenience is a very serious one, and the problem of competitiveness continues to be investigated, all with the objective to enhance their

competitiveness and get them to return to the flags of the owner countries. An all-inclusive analysis of the causes and effects of the transference to FOC flags, the proposition for a solution and further researching, are given in the publication entitled Structure and organization of maritime transport. The study is a result of the Transport Research APAS-Maritime Transport researching activities that are financed by the General Directorate of the European Commission for Transport. It was published in 1996 and deals with the period from 1985 to 1994. During that period 1,974 ships of the EU fleet transferred to FOC flags. The consequence of this departure of ships to flags of convenience was a drop in the number of seafarers in the EU countries. Estimations say that during the said period a decrease in the number of seamen from 230,000 to 150,000 took place. According to statistical data, 68% of the EU fleet for dry goods, 54% of the vessels for general cargo, 47% of the container ships and 44% of the vessels for liquid cargo were registered under FOC. The ships registered under FOC flags are on the average older than the ships registered in the EU registers and according to the performed analysis many are in the so-called substandard group of ships which, due to their age and lower standards, endanger the safety of navigation and safety of protection of the environment.

Shippers most often transferring to FOC flags are mostly from Greece, Germany and Great Britain. The most attractive open registers for the EU shippers are Cyprus, Panama, Liberia, Malta, Bahamas and Antigua. These registers attracted more than 5,000 ships from the EU, which is 85% of the EU fleet under FOC flags. Among them the most attractive are the registers of Cyprus and Panama, and more than 45% of the fleet are registered to them, which in the number of ships means more than 1,000 ships.

According to investigations, the open registers afford several important advantages: these are the anonymity of ownership, economic benefits, political advantages, and altogether these advantages enable EU shippers more lucrative business operations.

From the cost aspect, shippers are most susceptible to costs for crews and taxes. Going under flags of convenience shippers achieve significant economy in areas of both categories of cost. The amount of savings depends on the type, degree and flag (of convenience). On the average, yearly crew costs differ between FOC flags and EU flags up to 1.2 million \$ per ship, in other words they are up to three times higher on ships sailing under EU flags. Depending on the amount of profit and the percentage of tax on earnings, as well as on the type and size of vessel, savings on taxes may run between a couple of hundred to a couple of tens of thousands dollars per year per ship. These are all average values, whereas detailed analy-

ses evaluate all the elements of competitiveness for every single flag of an EU member. Perhaps the most interesting among them is Greece, which has relatively low crew costs, very low taxes, but as a country with a large number of ships Greece does not have enough Greek seamen, thus making this the primary reason why Greek shippers sail under other flags.

European shipowners and their managers sometimes keep their ships under national flags. This is done in cases when the charterer demands a national flag under certain charter party contracts, and in conditions when the government helps the new building of ships. When the convenience of the national flag lapses, in other words, when they are no longer needed, the ships move to the FOC flags. The choice of the flag of open register depends on the type of vessel.

The most common reason for transference of EU vessels to flags of convenience are the crew costs and tax on company earnings. The ships sailing under the open registers are in most cases managed by officers from the country of the shipowners, while the other crew members are from other countries. In most cases the crew usually consists of two nationalities. Other parallel registering societies have not been attractive to shippers from other countries, since they prefer the open registers.

The research investigation ends with recommendations whose objective is to stop the departures of EU shippers to FOC flags and get them to return. Experts are assured that the competitiveness of EU shippers can be improved by an appropriate solution of the crew costs and appropriate policy of taxation on earnings. The return of fleets to EU flags along with harmonised high standards of safety would have an impact on greater safety of navigation, a lesser number of accidents and damages, which would make amends or respectively recompense the losses of smaller taxes and subsidized salaries. Further research efforts will be required to find a satisfactory solution, thus continuing the investigations performed today within the framework of the Research & Development program in the area of maritime transport.

A comparative analysis of Slovenian and EU shipping shows that the causes of low competitiveness of the subject shippers are to a large extent diverse. The only Slovenian cargo shipper, even though a state-owned company, performs through a daughter company in Liberia which is a formal owner of the ships. Due to lower operating costs the ships are under FOC flags. The state has decided in favour of a company in Liberia and FOC flag because with the implemented restitution and taking over of the shipper's old debts, the state's budget in this way bears a minimum burden. This reason for going under FOC flags will cease once the state repays all the debts it has undertaken. Due to the prevailing inappropriate systemic organi-



sation, Slovenian shippers have higher operation costs in Slovenia that they have under FOC flags. Due to customs tax burdens the shipper is exposed to higher costs for fuel, lubricants and spare parts. Due to the poorly organised system of the mortgage institution in the Inland & Maritime Transport Act, the shipper cannot get credits from world banks which are cheaper than credits granted by Slovenian banks. Due to Slovenian labour law legislation the shipper is obliged to employ in the course of the year all seamen who move (transfer) during the year, thereby paying high contributions on their salaries in the course of the year. According to the work agreement accepted by ITF, the cost of Slovenian crew is in fact lower than the cost for crews performing on vessels of EU shippers. Table No. 6 gives a comparative presentation of crew costs on ships of various members of the EU and the ships and costs of Slovenian crews.

**Table 6 - Cost of crew on vessels of EU, vessels of the Republic of Slovenia and vessels outside Europe**

Country	Monthly cost of crew in \$	
	Officers	Other seamen
Austria	9504	5741
Belgium	6033	3181
Denmark	8979	4768
Finland	6979	4768
France	10604	4809
Greece	3440	1770
Ireland	6076	3114
Italy	6050	3546
Luxembourg	6033	3181
Germany	9504	5741
The Netherlands	7988	3680
Portugal	4300	1685
Spain	5894	3272
Sweden	6979	4768
Great Britain	6480	3181
Slovenia	2978	1676
Non-European Average	3288	955

Source: Annex No. 2 of Collective (Work) Agreement for seamen on vessels of Genshipping Corporation of Jan. 1, 1993, Annex of Jan. 1, 1996

Structure and Organization of Maritime Transport, Transport Research APAS-Maritime, 1996.

The taxes on earnings which Slovenian enterprises pay are 35%, which are mainly the same amount as paid by enterprises in the EU. This portion of costs equally reduces the competitiveness of Slovenian and EU shippers.

## 5. CONCLUSION

According to the present system of organisation, the Slovenian cargo shipping is not competitive on the world market if we compare it to vessels sailing under flags of open registers, which have attracted more than 50% of the world's fleet thanks to their conveniences. In comparison with the ships performing under FOC flags, the Slovenian shipper(s) have higher costs of fuel, lubricants, spare parts, higher capital costs, higher crew costs and higher taxes.

Comparing the competitiveness of Slovenian shippers with the competitiveness of EU countries, we come to the conclusion that the reasons for the poor competitiveness of EU shippers is mostly because the business activities of the shippers are different. The essential problem of EU shippers is the high cost of EU crews and generally, the high taxes on earnings. At present we may conclude that the problems of competitiveness of EU shippers is more serious and harder to solve than that of the Slovenian. Namely, Slovenia could without consequences abolish customs on fuel, lubricants and ship spares, since these are all products which Slovenia imports anyway, so that the customs do not function as protection of domestic production. Bringing the new Maritime Code which ought to be passed soon, should arrange the institution of mortgage of vessels in such a way as to make it acceptable to banks on occasion of their approving of credits for purchasing of vessels. In that way Slovenian ships could have equal costs of capital as do other ships on the world maritime market. The problem of crew costs is actually in some way already solved, if we take into account that the ITF has recognised relatively low cost of labour for Slovenian seamen in comparison to crew costs in the EU. In case of greater flexibility of labour legislation in Slovenia. Slovenian seamen could be able to sail on ships under the Slovenian flag and yet be competitive in relation to EU seamen. On occasion of formulating the labour legislation for seamen, it might perhaps be wise to take over the system that has been accepted in Croatia, which allows shippers to conclude contracts with seamen under conditions similar or equal to those on the majority of vessels of the world's merchant marines fleet. The decrease of the rate of tax on earnings of shipping companies should also be considered, looking up to the example of Greece which has a very low rate of tax on profits of shipping enterprises.

The improvement of competitiveness of Slovenian shipping would not be in opposition with the maritime policy of the EU. As has already been mentioned, EU is also considering the possibilities of reducing taxes on the profits of shipping enterprises, whereas the possibility of introducing subventions for seamen's salaries is being studied and efforts are being made to

prove that there is just cause for this. On occasion of Slovenia's acceptance by the EU it will certainly be necessary to satisfy the standards of navigation safety and protection of the environment, since safe and well equipped vessels will be the imperative for the competitiveness of EU shipping.

The feasibility study as the pretext for introduction of a new system of paying seamen, as well as of reducing the tax on earnings of shipping enterprises in the Republic of Slovenia should be made within the framework of the project report on the competitiveness of Slovenian shipping.

**SAŽETAK**

**KONKURENTNOST SLOVENSKEGA TERETNOG BRODARSTVA**

*U članku se predočuje slovensko teretno brodarstvo, njegovo sustavsko uređenje, vlasnička, starosna i vrijednosna*

*struktura, značenje brodarstva u slovenskoj prekomorskoj trgovini i njegov utjecaj na platnu bilancu države. Analiza konkurentnosti brodarstva izrađena je s aspekta troškova poslovanja i u usporedbi s konkurentnošću EU brodarstva. Rad završava prijedlogom mogućih sustavskih rješenja koja poboljšavaju konkurentnost slovenskog brodarstva.*

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Year	Value	Unit
1992	100	Index
1993	105	Index
1994	110	Index
1995	115	Index
1996	120	Index
1997	125	Index
1998	130	Index
1999	135	Index
2000	140	Index
2001	145	Index
2002	150	Index
2003	155	Index
2004	160	Index
2005	165	Index
2006	170	Index
2007	175	Index
2008	180	Index
2009	185	Index
2010	190	Index
2011	195	Index
2012	200	Index
2013	205	Index
2014	210	Index
2015	215	Index
2016	220	Index
2017	225	Index
2018	230	Index
2019	235	Index
2020	240	Index
2021	245	Index
2022	250	Index
2023	255	Index
2024	260	Index
2025	265	Index
2026	270	Index
2027	275	Index
2028	280	Index
2029	285	Index
2030	290	Index