South African owned shipping and potential benefit for South Africa: A ship owners’ perspective

Tebogo Gift Mabiletsa
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SOUTH AFRICAN OWNED SHIPPING AND POTENTIAL BENEFIT FOR SOUTH AFRICA: A SHIP OWNERS PERSPECTIVE

By

TEBOGO G. MABILETSA
South Africa

A dissertation submitted to World Maritime University in partial Fulfillment of the requirements for the award of the degree of

MASTER OF SCIENCE
In
MARITIME AFFAIRS
(SHIPPING MANAGEMENT AND LOGISTICS)

2016

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DECLARATION

I certify that all the material in this dissertation that is not my own work has been identified, and that no material is included for which a degree has previously been conferred on me.

The content of this dissertation reflects my own personal views, and are not necessarily endorsed by the University.

(Signature):

(Date): 19 September 2016

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ACKNOWLEDGEMENT

IN THE WORD I TRUST

Thank you to everyone who played a supportive role in the preparation of this dissertation.
ABSTRACT

Title of Dissertation: South African owned shipping and potential benefit for South Africa: A ship owners’ perspective

Degree: Master of Science in Maritime Affairs

The dissertation is a literature research study of South African owned shipping that aims to establish a theoretical framework in order to contribute partially to the area of study. It further attempts to evaluate how and to what extent South African owned shipping contributes to the country. A detailed layout of the current domestic maritime industry and maritime activities is drawn. Ship owning is prestigious and can be seen as a tool to forge economic growth and trade development through increased commercial participation.

South Africa is rich with natural resources and viewed as the largest economy in the African continent. Ship owning in South Africa has not been represented assertively compared to industries like mining, aviation, rail and road freight transportation etc., the development in the industry has remained at less significant levels. The National Department of Transport conducted a research that identified South Africa as the only country not to have its own ships in the economic group, known as BRICS. However, in 2014 the South African government introduced a project (Operation Phakisa) aimed at tackling the country’s lack of indigenous maritime participation by investing towards the development of ship owning and other ocean economy activities. This study advocates for the development of ship owning by South Africans as a cornerstone for economic growth and development. Arguments are made in the study that development of ship owning has the potential of establishing South Africa as a maritime nation. Despite the challenges identified such as lack of business skills, lack of investment and under-representation, analysis tools indicate that South Africa holds a positive prospect towards being a ship owning nation.
In view of the current maritime environment, particularly ship owning, the study argues that South Africa can learn from experienced maritime nations, establish sustainable and forward-driven legislations and a focus body that will represent ship owning interests.

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List of Abbreviations

The following abbreviations are used in the dissertation:

BBBEE  Broad-Based Black Economic Empowerment
BRICS  Brazil, Russia, India, China and South Africa
CEO    Chief Executive Officer
CIF    Cost, Insurance and Freight
COA    Contract of Affreightment
CPT    Cape Town
DEA    Department of Environment Affairs
DNA    Deoxyribonucleic acid
DBN    Durban
DoT    Department of Transport
DTI    Department of Trade and Industry
EL     East London
ESKOM  Electricity Supply Commission (South Africa)
FDI    Foreign Direct Investments
FOB    Free on Board
FOC    Flag of Convenience
FTZ    Free Trade Zones
GDP    Gross Domestic Production
IMO    International Maritime Organisation
IVS    Island View Shipping
PDC    Previously Disadvantage Community
PE     Port Elizabeth
PPP    Public and Private Partnership
MB     Mossel Bay
MOL    Mitsui O.S.K. Lines
MSC    Mediterranean Shipping Company
NDP    National Development Plan
NQF    National Qualifications Framework
OP     Operation Phakisa
RB     Richards Bay
R&D    Research and Development
SA     South Africa
SADC   Southern African Development Community
SAMSA  South African Safety Authority
SAQA   South African Qualifications Authority
SASR   South African Ship Registry
SFSBF  Ship Financing and Ship Building Fund
SPC    Special Purpose Company
SWOT   Strengths, Weaknesses, Opportunities and Threats
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>TCF</td>
<td>Trillion Cubic Feet</td>
</tr>
<tr>
<td>TEU</td>
<td>Twenty-Equivalent Units</td>
</tr>
<tr>
<td>TC</td>
<td>Time-Charter</td>
</tr>
<tr>
<td>TNPA</td>
<td>Transnet National Ports Authority</td>
</tr>
<tr>
<td>TTC</td>
<td>Total Transportation Company</td>
</tr>
<tr>
<td>UNCLOS</td>
<td>United Nations Convention of Law of Sea</td>
</tr>
<tr>
<td>UNCTAD</td>
<td>United Nations Conference of Trade and Development</td>
</tr>
</tbody>
</table>
Chapter 1

1. Introduction

The role of shipping as a driver of socio-economic development cannot be overly stressed. Socio-economic development simply would not be possible if it were not for ships and the maritime industry. The United Nations (2016) expressed on the same note that maritime activity maintains an important role in the alleviation of extreme poverty and hunger as it already offers an important source of employment and income for many developing countries, such as the supply of seafarer personnel and ship recycling, ship owning and operating, shipbuilding and repair and port services, among others (United Nations, 2016).

In the days of the Dutch settlement in the Cape, this period saw the birth of maritime activity in the region. As settlement grew along the Southern African coast with steam whalers operating off the coast of Cape Town, Saldanha Bay and Port Natal, a gradual phenomena of local ship owners began to emerge such as the Barrys, Thesen, Stephan Brothers Smith, Webster and Company, N. Price and Smith’s Coasters (Ingen, 2015). Although some of the ship owners’ experiences were short lived in shipping, like elsewhere, new opportunities arouse in South Africa. South Africans can confidently say that the nation has been linked to the shipping industry despite the size of its fleet always being disproportional to the traded volumes of goods.

South Africa has a promising shipping industry that remains untapped to its potential in regards to local ship owning. Over the years of its existences, South African shipping has not seen much growth in the local ship owning sphere. Despite the country being a cargo-owning nation that generates approximately more than 80 percent of export cargo, foreign owned ships dominantly undertake the carriage of the cargo. Figure 1.1 depicts the exports of South Africa and taking the economic slowdown into consideration an estimate of about 61.7 percent of seaborne trade cargo is carried by foreign owned ships with a dominance of about 85 percent in
South African. At the South African Maritime Industry Conference held in Cape Town, 2012, there was a call for the maritime industry to be separately governed due to concerns of no focus given to the sector. The emerging stakeholders further alluded that the sector is complex and the Department of Transport has too much to deal with. The Department of Transport manages the aviation, road freight and logistics, rail and maritime sector. The president of the South African Chamber of Mines added that mining conglomerates saw no intention in having offices in South Africa as the fact remained that at that time there were no South African owned ships/ companies to undertake cargo reservation if it were initiated (Transport World Africa, 2012).

Figure 1.1 depicts the South African exports focused on seaborne trade cargo. Source: Trading Economics (2016).

It is without a doubt that there is an urge to develop local participation in the maritime industry. It is believed that the improvement of local maritime participation would provide a reserve for trained seafarers, improve freight revenue for local shippers, earn and conserve foreign exchange and ultimately aid in developing local ship owning capacity to competitively compete globally.

In recent years, the South African maritime industry has faced some interesting developments that could be alluded to as substantial changes. Whether the
changes are focused on transformation or not, it is still early days to say. It is however believed that the focus is on transformation as this paper’s interest is focused on the development and enhancing of South African owned ships.

1.1 Research Problem Statement

This research study explores the nature of the South African maritime industry and how the market structure can present opportunities for the development of local ship owning. The low growth rate of South African owned ships has been of extreme concern thus has prompted the formulation of the research questions. There seems to be no clear indicative tool or measure regarding the contribution that the South African maritime industry has on the country as a beneficiary.

There is an assumption that over the past years, it seems that the maritime industry in South Africa has not received adequate focus or attention from the government and the lack of maritime attentiveness has left the country’s maritime industry inactive. A further assumption is that the lack of maritime participation has accounted as one of the reasons for South Africa’s ship owning business being underdeveloped. Lastly, it is assumed that the spinoff of lack of maritime attentiveness has led to a deficiency of maritime professionals to lead and run maritime activities.

1.2 Research Aim

The principle motivation of this dissertation is fostered by the gap identified in the area of study thus this study hopes to fill the gap by adding a contribution partially. The identified gap also lead to the critical questions raised by the author concerning South African owned shipping. The contribution of this study hopes to create a platform for further research to be carried out in the area of study at hand.
1.3 Research Questions

*What can be the initiatives to re-industrialize ship ownership for South African shipping?*

To assist in answering the primary question seven additional research sub-questions have arisen:

- How is the South African shipping market structured?
- How much of Government involvement does South African shipping need?
- Does the South African government have a detailed understanding to how the shipping segments work and how the dynamics of demand and supply can be crucial in the decision making process?
- How to attract South African entrepreneurs to become ship owner?
- Which shipping segment can entrepreneurs look into investing in?
- What contribution does South African owned ships add to the country?

1.4 Research Objectives

This research study seeks to explore and establish some findings on what initiatives are or intervention is required to aid the improvement of indigenous participation in developing South African owned shipping. The desired results of the research are pragmatic findings on potential approaches or methods for developing South African owned shipping.

The objectives of the study are as follows:

- To describe the radical change in the concept of Ship Owning and discuss South Africa’s perspective and applicability of the concept.
- To analyse the governing framework against the development of Ship Owning in South Africa and the benefits to the country from potential opportunities.
• To analyse the importance of the improvement of indigenous participation and ship owning development in South Africa as an instrument of socio-economic development.

To evaluate the significance of sustainable economic activities in the country that creates a platform for the growth of South African shipping.

1.5 Research Design

This research study is a qualitative study that follows a literature approach, which is going to concentrate on indigenous participation in ship owning within the South African maritime industry. The research further takes an exploratory strategic approach in attempt of producing results that are not presently known to the questions brought forth. In the process of unpacking the potential methods - the procedure undertaken will be exploratory in order to produce possible answers. In the first chapter, the introduction of the research is presented together with the principle motivation and research objectives. In addition, following the brief discussion the research questions and problem statement are presented. The chapter concludes with the outline of each chapter and structure of the research paper.

The second chapter, an extensive literature review is presented that is made up of two parts. Part A presents the general outline of the maritime industry such as the economic role that maritime and seaborne trade have. This is to bring to attention the relationship that maritime has with trade, as it is a demand derived from trade activity and does not exist in isolation as a demand on its own. For this reason, the supply of ships is normally a response to the demand derived in the market. Moreover, the current chapter analyzes shipping segments and market structures that exist together with the different companies and their classes that operate within the different market structures. Part B of this chapter is significantly more dedicated on the current maritime environment presented in South Africa with a focus on the geographical location of South Africa and government’s perspective on the shipping industry. A further analysis is presented on the South African ship registry and its attributes to the development of the country’s maritime industry. Lastly, the Broad
Based Black Economic Empowerment (BBBEE)\(^1\) is presented, a brief analysis of the adoption of the strategy and how its introduction to the South African maritime industry is incorporated.

The third chapter will discuss the research methodology. The SWOT Analysis framework will be used to present the data collection.

The fourth chapter is the most important chapter as it provides a comprehensive data analysis and a presentation of the analysis results. The data presented in chapter 3 is explored and discussed and an attempt is made to draw results from the exploratory discussion. This is to assist with producing results and answers to the questions presented in chapter 1 under the research questions section.

Finally, in the fifth chapter the conclusions is presented with an overview of the prospects that South Africa holds in the development of indigenous participation in its local ship owning. An analysis on the questions presented in chapter 1 is reviewed. In addition, a range of recommendations, which are related directly and indirectly to the development of indigenous ship owning and a presentation of supplementary strategic investments to the general South African maritime industry to ensure that each component plays a supportive role to each other to improve indigenous maritime participation will close off the dissertation.

\(^{1}\) Broad Based Black Economic Empowerment (BBBEE) is the South African Government's set of policies intended to bring about the involvement or participation of previously disadvantaged communities (PDCs) into the mainstream economy.
Chapter 2

Literature Review

Part A

2.1 Introduction

The literature review section will present a platform to establish a theoretical framework of the topic in order to help address the research questions and goal. Firstly, there will be a review on the economic literature in relation to the role of ship owning, seaborne trade, and various other shipping components. Shipping has played a significant role in connecting markets and continues to contribute to the world economy development. In particular to South Africa, seaborne trade has formed quite an important component to the country’s economy but its development has lagged behind as a result to lack of investment and under-representation by the government (National Department of Transport, 2011 and 2015).

Proceeding with the literature review, a discussion will also be drawn to the structure and organization of the shipping operation. Secondly, the literature review will then highlight the position in which South African owned shipping is currently in and its role in the local shipping industry. This is to represent the government’s perspective in as far as the South African shipping industry is concerned. Lastly, the primary goal and purpose of the literature review is to extract a global perspective that creates the framework of ship owning and potential benefits to a country. This is to help point out to the reader a clear overview of the subject in a global perspective. Furthermore, in an attempt to logically understand shipping, and with the above-created base, the discussions and arguments in this literature review section will focus on South Africa, and South African owned shipping.
2.2 Economic Role of Shipping and Seaborne Trade

In order to understand the economic role of shipping and seaborne trade, it is paramount to understand what shipping and seaborne trade means first. Shipping is inevitably one of the most international industries in the world with about 90% of world trade being conveyed using ocean transport (International Chamber of Shipping, 2015). It is believed that shipping provides efficient and low-cost transportation whilst its effective use presents a significant role to economic development for countries. The latter accounts to the economic growth and contribution to their domestic production and consumption, lastly also to their foreign trade.

Seaborne trade has a dynamic relationship with economic growth as mature and maturing economies interact in trade transactions driving the need for sea transport. According to Stopford (2009); “seaborne trade has a central place in our lives in the twenty-first century. Walk into any shop, and much of what you see will have come from overseas” (p. 385). The statement is evidence of how seaborne trade is the backbone of economic activity and development. This could be seen with the 2008 financial crisis as markets crashed – the economic woes caused unrest in the shipping industry. Ship owners did not react to this in a very pleasant manner as the crisis rippled the industry to such an extent that some major and emerging players in the industry were on the verge of bankruptcy. This strongly highlights the entwined relationship between seaborne trade and economic activity as one variable has a spillover effect on the other.

In addition, the shipping business is interwoven with globalization. Globalization has created global economic development through connecting various global markets in which multiple trades exist. When sanctions were lifted on South Africa in the early 1990s, South Africa opened its trade gates to the global market as a form of claiming their trade participation, this has seen its economy develop at a substantial rate as
seaborne trade activity increased (South African History, 2013; and CQ Press, 1991). However, it is believed that there is more to understand when it comes to shipping and the link that exist with global economic development.

On the same notion a country’s trade competitiveness is directly influenced by the efficiency of their maritime transport systems efficiency while simultaneously countries need to identify and assess the relevant issues that affect global seaborne trade and the demand for maritime transport. Thus the fundamental role shipping contributes to a country’s economy in terms of the balance of payments should be greatly understood (Branch, 2007).

According to Branch (1982), countries that participate in international trade often come across what is known as the balance of payments. Made up of three components: the balance of trade, the balance of invisible and the balance of capital items. The balance of trade is the difference between the total of visible items exported and imported, these are goods seen passing through ports and airports. Whereas, services rendered to foreigners or services received from foreigners are known as invisible trades. For instance, banking, shipping, insurance, air transport, tourism and income from foreign investment are examples of invisible trades. Together, the balance of trade and balance of invisibles form the current account of the balance of payments as distinct from the capital account. The predicament associated with the balance of payments is normally a government and treasury matter, which dictate policy, and as a result the exporter and importer can merely operate within the framework laid down. Essentially, a way for a country to reduce the deficit on its balance of payments is to increase its income and reduce its expenditure, that is, increase its exports of goods and services and reduce its imports.
The above statement reveals how shipping is the heart of a country’s ability and position to participate in trade with other countries. Shifting the focus to South Africa, as already mentioned in the opening paragraph, shipping has lagged behind due to lack of investments and as a result shipping has not had significant inputs and outputs towards the South African economy, see figure 2.1.

![Figure 2.1 Balance of Trade of South Africa](image)

Figure 2.1 Balance of Trade of South Africa Source: Industrial Development Corporation, Department of Research (2016).

According to Trading Economics (2016), in 2015, South Africa’s balance of trade recorded the biggest trade deficits of R57.1 billion, see figure 2.1. The trade imbalance deterioration was due to the unfavourable terms of trade concerning commodity prices and a drop in volume demand. Due to a strong increase of R20.5 billion in services receipts (e.g. travel, tourism and transport earnings) in the final quarter of 2015, the net services balance increased by R6.5 billion to a deficit of R5.1 billion. Conversely, the income account dividend inflows fell sharply, with total
income receipts dropping from R96.5 billion in the third quarter to R77.2 billion in the last quarter of the year. Despite dividend outflows also declining over this period, subsequently, the deficit on the income account increased by R7 billion to R112.9 billion. The shortfall on the current account of the balance of payments denoted 5.1 percent of GDP in the fourth quarter of 2015, increased from 3.1 percent in the second quarter. However, looking at the entire year the current account deficit measured 4.4 percent of GDP (or R174.3 billion), a significant improvement from the 5.4 percent (R206.6 billion) recorded in 2014 (Industrial Development Corporation, 2016).

It is however of importance to mention that the South African president has encouraged the promotion of the re-industrialization of the shipping industry through a project known as ‘Operation Phakisa’\(^2\) that aims to address the country’s priorities as stipulated in the National Development Plan. This initiative is critical in creating a far more attractive phenomenon in doing business with South Africa. The first phase of the project is unlocking the economic potential of South African oceans through investments in the shipping industry (Department of Environmental Affairs, 2016). More detail about the project shall be discussed in part B of this paper.

Shipping is an integral part of the global economy, as resources are not always situated where the people most need them, therefore, shipping makes it possible for such resources to move to where they are desired (economically justified if consumer demand is great enough). Through this process the balance of payments of a country may become either healthy or unhealthy (deficit). Due to globalization low-labour markets overseas have been discovered, which encouraged shipping of intermediate products and semi-raw materials to where costs of manufacturing is economical. A common trend today is harvesting agricultural products at one continent, then shipping them to a different country for intermediate processing, and shipping them to a third continent for final production, and lastly delivered to

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\(^2\) Operation Phakisa is an adaptation of the Big Fast Results methodology that addresses the national key priority areas such as, poverty, crime and unemployment and in aim of delivery of the economic transformation.
market. In this regard, the importance of shipping as the heart of the global economy is again paved. For instance, iron ore exported through Saldanha to Shanghai. Assuming that Island View Shipping (IVS)\(^3\) fixes a ship, loads it and sails on time, the cargo reaches the port of unloading in time and all processes occur within the agreed and planned schedule. The final product gets sold and delivered to the market. Efficient productivity will give South Africa and China a good image and position as trading nations of the particular commodity, thus encouraging trade and demand for shipping.

2.3 Supply of Shipping and Owned Shipping

It has been more than 50 years in which shipping has transformed into a globalized business itself. This phenomenon led most countries to specialize in certain maritime businesses where a ship is built, owned, registered and manned in different countries. While other countries entrenched their market position through more than one maritime businesses especially developed and developing countries. However, this was not the case in the 1960s and 1970s where traditional maritime nations would have the ship built, owned, registered and manned in one country.

Ship owning has not been a seed of many nations as the countries with a traditional DNA for shipping have continued to play a major role in the industry. Countries like Greece continue to lead in terms of the largest ship owning country with a market share of about 16 percent, whilst Japan, China, Germany and Singapore make up the top five ship owning countries. In the African region, the country that maintains the largest fleet ownership is Angola with Nigeria and Egypt claiming their participation as well in the industry (Review of Maritime Transport, 2015).

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3 Island view shipping was founded in 1976, acquired by Grindrod limited in 1999 and has become a prominent bulk ship owner and operator, shipping between 15 and 18 million tonnes per annum globally. IVS moved location to Singapore in 2004 and trades under the name of Island View Shipping – a division of Grindrod Shipping (PTY) ltd. IVS is involved in the handysize, supramax and capesize drybulk markets.
Therefore, it is very important to understand that ship owning by a country does not mean that the ship is necessarily registered in the ownership country. The complexity of ship owning has become more succinct where an owner based in country A will receive financing at advantageous rates from country B and the ship(s) would be registered under flag C with the management office located in country D. The employment of the ships can be chartered to charterers in country E whilst the manning crew is from country F, G and H. Some scholars would however disagree that the complexity of ship owning has become succinct but rather has become complicated due to the separation of the asset from the owner.

Figure 2.2 the ship owning nations by tonnage. Source: The Economist (2015)

2.4 Shipping Segments and Market Structures

Shipping is a fascinating industry that is characterized by cyclicality and turbulence, which may seem quite unfriendly to a lot of entrepreneurs. It is of crucial importance that it is mentioned that shipping requires one to understand it and posses the ability to establish an effective commodity-based strategy in order to stay resilient through
the rough seas. According to Lorange (2009), successfully implementing a commodity strategy rests on three principles:

- Timing is everything: short-term (spot) and long-term (futures); entering and existing at the right time, and turning points in the markets are key.
- Margins: squeezing them out of the business; a low cost base is key.
- Cutting your losses: a stop-loss attitude; strive to win always, but don’t be greedy as good times don’t last forever.

On a wider view of the three principles it is vital to identify market segments in which there exists a strong demand for your unique competencies. Today a company can own vessels suitable for a particular market segment and although they are considered under the same umbrella of shipping it does not mean that the environments, issues, rules and fundamentals between them are necessarily identical.

To clarify the above statement, Island View Shipping is utilized as an example to illustrate the fact that a company can own Tankers and Handysize bulkers, which are subject to different challenges and operations.

For instance, a Handysize bulk carrier vessel approximately 30,000 deadweight tons in size, often equipped with cargo gear to handle different types of cargo like precious ore, scrap, clay, sand, forestry products and grain. While a Capesize bulk vessel carries homogeneous full shipload cargo like iron ore and/ or coal. It is gearless and is approximately in the range of 160,000 deadweight tons. Therefore, its operations are commodity related. Lastly, a MR tanker that carries oil products has a deadweight ranging between 25,000 to 50,000 tons.
Table 2.1 shows the different ship classification and sizes

<table>
<thead>
<tr>
<th>Vessel Type</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
<th>Very Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>Container vessel</td>
<td>1,530 – 4,600 TEU</td>
<td>6,400 – 10,000 TEU</td>
<td>11,000 – 19,000+ TEU</td>
<td>-</td>
</tr>
<tr>
<td>Dry bulk vessel</td>
<td>25,000 – 39,999 DWT</td>
<td>40,000 – 64,999 DWT</td>
<td>65,000 – 119,999 DWT</td>
<td>120,000+ DWT</td>
</tr>
<tr>
<td>Tankers</td>
<td>10,000 – 45,000 DWT</td>
<td>45,000 – 80,000 DWT</td>
<td>80,000 – 160,000 DWT</td>
<td>160,000 – 550,000 DWT</td>
</tr>
</tbody>
</table>

Source: Compiled by Author based on Clarkson Research

The table above merely demonstrates the complexity involved in ship classifications, as different ship types and size are prone to different operations and challenges. Such differences may have ship owners feeling good or bad depending on the market conditions they are subject to. For example, when the market experiences an increase in freight rates, cargo rates tend to increase as well as a result of supply and demand issues moving the shipping markets up. For that reason, a shortage in tonnage to carry cargo will push freight rates up and eventually cargo freight rates will increase as well. According to Stopford (2009) this phenomenal principle is lateral mobility.

2.5 Shipping Companies and Their Classes

Shipping companies can seem quite intricate to manage because of shipping being the most global industry in the world. A shipping company requires good governance that is built around action orientation and an open attitude. Such a culture will allow managers to adopt the approach to fail early is to succeed sooner through the actions of decision-making. This will become apparent with managers who have made poor decisions and over time show the ability to learn from such decisions when faced with decision-making in the future. Today, information forms the heart of world trade; thus companies need to experiment as well as work fast since the shipping markets move quite fast and good opportunities can be easily lost just as quickly. All this requires a platform and structures that will allow ship owners, managers,
operators and charterers to carry out processes that will help manage the complexities involved in the day-to-day work of running a shipping company. The different shipping companies and their classes will be discussed at this juncture to give the reader more understanding of what kind of corporations run deep-sea vessels.

2.5.1 Tramp Shipping Company

The organization of a tramp shipping company is much simpler than that of a liner company. Due to the reason that tramp shipping solely deals with bulk goods transportation and normally chartered as a whole, this has allowed tramp shipping companies to operate without numerous departments and personnel. The organization of such companies mainly depends on the number of vessels owned. Where there are fewer vessels the simpler the organization of the company. If the company only has one vessel, the organization of the company can be run as a one-man business. However, when there is a reasonable number of about 10 vessels or more, a tramp company will have a similar company organization like a liner company. To some extent it will consist of an operations, administrative, financial and technical personnel. There will be certain departments that are of less importance to a tramp shipping company such as department for cargo handling and stowage, claims and insurance and Research and Development (R&D). This is primarily because this segment mainly carries homogeneous cargoes, which are less prone to damage and are cheaper (Maritime knowhow, 2014).

At this juncture it is important to mention that tramp shipping’s core activity is chartering so the chartering department will be much larger as compared to liner shipping. It is believed that chartering is important as it allows ship owners the flexibility to trade their ships on the freight market in order to take advantage of the freight rates volatility. This department is highly characterized with more qualified personnel, with experience and expertise on different kinds of cargo such as grain, ore, coal and other bulk cargo. These personnel are frequently in communication
with brokers and other related shipping agencies using e-mail, fax, telephone, telex and data transmission services to receive latest data regarding the freight market and other markets of concern. Tramp owners are not quite influential in the fluctuations of the freight markets therefore tramp shipping is considered as a perfect market. They often try to juggle the market needs whilst they attempt to keep expenses as low as possible to ward off competition. This can seem like a good strategy but at times the freight is so low that only the operating costs are covered and no profit (Maritime knowhow, 2014; and Branch, 2007).

In a different context, smaller tramp companies often transfer their business division to the care of specialists such as shipping managers, shipping operators or managing companies. As a result of the type of market tramp ships operate in, investing in strong relationships with major industries/ and corporations is highly important as they are able to secure employment either for part of the fleet or whole fleet. For this reason, the organization of such companies is more simplified and manageable.

2.5.2 Liner Shipping Company and Liner Shipping Market

A liner company is very complex in nature as its business and trade to a large extent involve various countries and ports. It is however more organized in terms of staff and onshore support and normally have a general manager who manages the company and responsible to a board of directors. Some of the elements that liner companies have to undertake are establishing agents/ regional offices at all ports of operations and the inland area to foresee the marketing of its services.

South Africa has several liner carriers that render their services to its ports and foreign owned carriers such as the major players like Maersk, MSC, CMA-CGM and Hamburg Sud who dominate the South African shipping market serve the 3.5 percent of South African generated seaborne trade. Furthermore, quite a number of carriers withdrew their services aftermath the recession with schedules amended and certain South African ports not serviced as more carriers restructured their services to reduce fuel consumption through slow steaming. This has to some extent reduced the
extensive presence and dominance of foreign owned ships with an opportunity for the development of South African owned shipping presented in the South African shipping market.

Liner shipping offers cargo owners cargo space on a regular scheduled service between specific ports. The advantage with liner services would be that regardless of whether the ship is full or not, the ship will sail on scheduled dates and time. This is similar to the bus service where users know the published timetable in which the bus follows between different stops. In liner service ship owners prefer to maintain punctual sailing and arrival dates in order to sustain a prestige service and meet customer needs as well.

2.5.3 Special Purpose Shipping Company

A Special Purpose Company (SPC) is a company with specialized operations that involve specialized vessels designed to handle a certain type of cargo, either in bulk or packages. To give the reader an idea of specialized vessels, these are vessels that carry automobiles, trucks, and chemicals in liquefied form, liquefied natural and petroleum gas, paper products, forestry products to name a few.

Although they are specialized carriers they are classified under tramp shipping however the management style is different as the core growth of specialized companies is based on efficiency, reliability and quality services. Such companies always strive to keep their clients satisfied through quality performance and R&D investments. In addition to that, new markets for cargo are frequently explored and this has been a contributing factor to the very innovative, technologically advanced and sophisticated vessel designs – to meet new business opportunities.
2.5.4 Total Transportation Company

A Total Transportation Company (TTC) is a company that offers complete transportation solutions. They usually follow a departmental approach that divides company activities into different departments, i.e. freight services, shipping, financial services and ship brokering. Such companies render innovative ocean freight logistics solutions to its clients through adaptable unique single-source experience services from start to the end. Grindrod Shipping⁴ for example, operates from Victoria Embankment in Durban and operates a fleet of more than 50 ships. It labels itself as a fully integrated freight logistics and shipping service provider that aims to create sustainable returns whilst achieving long-term value for its shareholders and its clients. Other examples of companies that are total transportation companies are; TTS Worldwide, China Shipping Container Lines and Intercargo etc.

Companies of such nature may also have different divisions that foresee bulk, liner and other shipping related services. As they are normally well established organizations they are heavily and very much involved in acquiring other companies that are of relevance to their business interests and nature. Through such investments they are able to expand their services and penetrate certain markets that weren’t easily accessible prior to acquiring ownership stakes in companies of aligned or related services. The key to TTC’s lies in the many years of experiences and relationships with different corporations around the world, thus, giving them the global advantage to fulfilling the shipping needs of their clients.

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⁴ Grindrod Shipping is based in Singapore and trades globally under two key brands – Island View Shipping and Unicorn Shipping.
2.6. The Structure of South African Shipping and Who Owns Ships

The South African maritime industry is lead by the Maritime Department within the Department of Transport (NDOT) and has mandated the South African Maritime Safety Authority (SAMSA) to manage and foresee the maritime affairs in a South African context. On the other hand, Transnet National Ports Authority is mandated with the task of managing and controlling all the eight ports in South Africa which are: Port of Durban, Port of Port Elizabeth, Nqgura, Port of Saldhana Bay, Mossel Bay, Port of Richards Bay, Port of Cape Town and lastly the Port of East London. In addition to port affairs there is the Ports Regulator of South Africa administers the economic regulation of the ports system in South Africa, in accordance to the strategic development context of the state. In regards to ship owners there is ship owners association however there is a combined interest entity, known as the South African Association of Ship Operators and Agents (SAASOA), which is said to represents the maritime interests of ship owners, operators and local agents.

The South African shipping market has a currently active registry that is open to local and foreign ship owners. Presently, 3 ships that operate under the South African flag however only two are locally owned while one is foreign owned. The South Africa shipping market has cargo owners such as the mining and liquid fuel industry etc., who charter vessels e.g. long-term time charter, non-vessel owning cargo carrier. It is not clear as to what extent ship management services are offered; there are a few ship management companies. South Africa has no ship financing services for acquisition of ships.

The South African maritime industry is largely dominated by foreign shipping companies from the likes of Maersk, MSC, Hamburg Sud, Grindrod Shipping, K Line Shipping, CMA CGM to name a few. All these foreign shipping line are reputable with a large fleet base under their ownership. Presently, Vuka Marine, which is in a joint venture with K Line Shipping has two ships namely, represents South Africa; Cape Orchid and Cape Enterprise both bulk carriers. In addition, there is a black-owned shipping company MC5 Shipping that is a new...
entrant in the market. The company’s key function was founded on providing maritime transportation to the oil and gas sector. It is however unclear as to whether if MC5 Shipping do own ships or not yet.

South Africa has an enabling governance framework to allow for maritime activities to take place and this is seen with the birth of both Vuka Marine and MC5 Shipping during the 21st century. If maritime activities are properly harnessed South African shipping will have a meaningful participation in world shipping.
Part B

2.2.1 Geographical Location of South Africa for Shipping

According to a 2012 publication by the South African Institute of International Affairs (SAIIA)\(^5\), the southern edge location of South Africa implies that it is not situated between other African states and extra-regional trading partners from Europe, the Far East and North America – erodes the prospective role of a gateway – although it may be outside of these main currents. As a hub for intra-African trade, South Africa’s location is unfavourable because it lacks centrality. However it is the only African country that consists of shores on the Atlantic and Indian Oceans. Thus can be easily reached by cargo ships sailing from the cores of the world economy, including the emerging cores of China, India and Brazil. South Africa is among the most diverse, sophisticated and promising emerging markets in the world. With it being strategically located it attracts key investments for both commercial opportunities within its borders and as a gateway to the rest of the continent especially the Southern African Development Community (SADC) region, made up of 15 countries as seen on the Figure 2.3. In addition, it can serve a market of about 1 billion people in the African continent.

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\(^5\) SAIIA is a South African research institute on regional and international issues. It is an independent, and its purpose is to encourage wider and more informed awareness of the importance of international affairs.
To stress the emphasis again, South Africa has a national, regional and international presence. It is a destination that holds an enormous potential for investments with a unique recipe of a vibrant emerging market economy and highly developed first-world economic infrastructure to support trade. In addition, it is also considered as one of the most broad-based, advanced industrial and productive economies in the African continent. There are some reasons among others that will be discussed in the next chapter that ship owners and entrepreneurs may find as motivating factors to do business in South Africa, namely (South Africa info, 2016):

1. Sound economic policies
2. A favourable legal and business environment
3. Access to markets
4. World-class infrastructure
5. The gateway to Africa
6. Trade reform and strategic alliances
7. The ease of doing business in South Africa
8. The cost of doing business in South Africa
9. Industrial capability and cutting-edge technology
10. Global competitiveness

Globalisation does not mean centralization but the connectivity and accessibility to markets around the world. Thus the author is of a different view than that of the South African Institute of International Affairs that South Africa’s location is unfavourable because it lacks centrality. Centrality is not globalisation but a contributing factor to accessibility and connectivity. The author is of the view that any market that is open to globalization regardless of location will attract investments and trade as integration and interaction of markets does not highly depend on location solely but the motive of trade to encourage economic development and growth is enough of a reason to over look centrality. In addition to the argument, Nel (2016) states that South Africa’s maritime industry has developed around its plentiful mineral reserves and favourable geographic location between major trade routes, meaning that, aside from commodity export purposes, vessels often call South African ports to refuel and take on supplies.

2.2.2 Oil and Gas Exploration

South Africa is heavily reliant on its precious mineral resources for economic growth. According to Workman (2016) of World’s Top Exports, crude oil over the years has accounted as the largest import products with about US$13.5 billion (15.7 percent of total South African imports) in the year of 2015. Figure 2.4 shows the foreign suppliers that provide South Africa with crude oil, which means that South Africa is highly dependent on maritime services to provide the carriage of its crude oil to its shores. As a result of deficiencies in South African ship owning the country has been more reliant on foreign owned ships to carry its cargo and again this
highlights the importance of maritime’s role in the country’s seaborne trade and its socio-economy development.

Figure 2.4 South Africa’s Main Suppliers of Crude Oil. Source: South African Market Insight (2016).

As crude oil accounts for the largest percentage of import products, therefore, any sanctions to the primary suppliers would spell disastrous outcomes for the country. For example, the sanction imposed on Iran in 2012 led to the termination of all imports from Iran whilst South Africa had to seek for alternative crude oil sources. The discoveries of new oil and gas deposits have to some degree assured alternative sources for crude oil in case of unforeseen events. The discoveries are believed to have the ability of unlocking maritime projects from the development of local ship owning to port services, as the country’s refining capacity can facilitate for about 250 million barrels a year (about 700 000 barrels a day) leading to a consumption of about 24.5 billion liters annually (Plaizier, Pearce, Richard, Alberich, Wilczynski, & Sprott, 2013). As shipping is a capital-intensive industry, opportunities such as the oil and gas enables for sustainable projects that the maritime industry needs if it is to
develop the nations ship owning capacity. Oil and gas projects are very labour-intensive and long-term as well thus such industries are able to provide sustainable projects that will not only keep ship owners fleet employed but offer growth opportunities as well.

Figure 2.5 indicates the main entry points for crude oil in South Africa. Source: South African Market Insights (2016).

2.2.3 The Importance of National Shipping

The demand for shipping in South Africa will always be there due to it being a consuming country. This is because South Africa imports more than it exports therefore trade imbalances tend to be almost always there in favour of the countries South Africa trades with. This is primarily due to the fact that South Africa is not a fully manufacturing country but more of a consuming country. South Africa is an importer of several products that range from automobiles, agricultural equipment, cement, electronics, fertilizer, machinery, wheat to mention but a few. These import products embody some direct or indirect sea transport costs, which can add anything
from 10 to 50 percent to the final product costs. From these very general estimates it is understandable why countries desire to lower the costs of sea transport wherever and whenever possible. South Africa is among the developing nations that wish to reduce the costs of sea transport as foreign owned ships carry most of South Africa’s cargo and much of this has been because there hasn’t been indigenous participation in the maritime industry. South Africa’s wish is to reduce the costs of sea transportation, typically paid to foreign owned ships, by developing its indigenous participation in ship owning. According to the former CEO of SAMSA, Tseitsie Mokhele (2015), “about 98 percent of the South African exports are caried by ships, which are dominantly foreign owned and operatored. Thus approximately R160 billion is paid annually to foreign owned ships for seaborne transportation”. At first this sounds irrational, however, the income earned from exports ends up paying for much of the sea carriage charged by foreign owned ships for the loaded export goods. In addition, the loss in revenue earned stems from the fact that South Africa has always shipped its exports under the Free on Board (FOB) agreement whereby the income earned from the sale of export goods to a foreign buyer in turn has to pay for the transportation cost of carriage, which at the end reduces the revenue earned by the exporting party. There is a view that foreign shipping companies can overcharge non-ship owning countries who are mostly dependent on foreign owned ships for the carriage of their goods, normally such cases are found with developing countries with inefficient shipping expertise.

South Africa is a nation that has a history with maritime activities, legacy of ships, ports, shipbuilding, ship repairing and engineering facilities as well as skills. In addition it possess established supportive structures such as maritime education and research institutions together with insurance companies, brokers and qualified seafarers. Shipping in essence is made up of complex interacting activities and any deficiencies in any of the activities can result in efficiency of a nation’s shipping

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6 Free on board (FOB) - the goods are placed on board the ship by the seller at a port of shipment named in the sales agreement. The risk of loss of or damage to the goods is transferred to the buyer when the goods pass the ship's rail (i.e., off the dock and placed on the ship). The seller pays the cost of loading the goods.
service being difficult to achieve. For instance, South Africa has shipping services that are inefficient due to a number of reasons such as lack of: management skills, trained manpower, indigenous ship owning, ship financing, innovation and technology development, maritime awareness, organisational problems and investment difficulties etc.

2.2.4 Significance of ports

According to Cetin and Cerit (2010), traditionally a port is a place where ship operations and cargo handling are carried out. Despite being an intersection point between land and sea transport systems, nowadays they are regarded as more complex, multimodal transport, logistics centres and value-added organizations. Lastly, ports also act as the main link in supply chain systems that add value to port users and final customers. Shipping has always been a driver of economic growth while ports constitute a primary component of the transportation sector and lately serving as a means of integration to the world economic growth. As the world continues to welcome globalization, ports experience substantial business serving as important links of hinterlands to overseas points or other ports. Thus it is of common view that the more efficient a port is, such a port is associated with lower freight charges after all other factors have been considered. For a clear understanding the port efficiency factors are variables such as the container hourly loading rate, the annual average of containers loaded per vessel and waiting time, which are considered in the measurement of port efficiency. Whereas, tonnes per hour is applicable to both bulk carriers and tankers loading rate. Sánchez et al. (2002), states that a 24 percent improvement in one efficiency factor will result in a reduction of about 2 percent in total maritime transport costs.

Since ship owners and operators are more concerned in meeting the needs of their customers while maintaining quality service, port efficiency is paramount to successful shipping. Efficient ports will reduce the time a ship spends at a port thus sailing and arriving on scheduled times at the destined ports. Not only should a port offer efficiency in terms of operations but have efficient auxiliary services that will
assist the master of the ship with any repairs required to the ship, accessible dry-docking facilities and bunker service facilities. However it is vital that the port operates within national and international standards that allow for ease of business not just for the port but for the port users as well. Since shipping constitutes a driver of growth, port infrastructure is of great developmental importance therefore the relationship and integration between shipping and ports is paramount to collaborative efforts that boost economic growth. As per Dwarakish and Salim (2015), ports will continue to play an important role in the economic status of a country, as their effectiveness can result to significant economic benefits. Furthermore, countries that wish to increase their global economic footprint will confront challenges of constructing efficient large ports to assist in the facilitation of trade.

2.2.5 The South African Government Perspective on Shipping

According to a 2011 study by the National Department of Transport, the South African maritime industry was reported as no longer of existence domestically due to less significant contributions to the country and with no considerable measurable performances that could be rated. In response to the difficulties the South African government launched Operation Phakisa in July 2014, which aims at addressing challenges in accordance with the National Development Plan (NDP)7 2030 vision. The first phase of the project will draw attention to unlocking the economic potential of South African oceans. The word “Phakisa” is a Sesotho word, which means “Hurry Up” in light of this it expresses the urgency in which the government wants to focus on the priorities contained in the NDP. The South African government has a view that long-term world development over the years has seen globalisation unlocking new resources onshore and offshore thus countries can no longer be solely dependent on land resources only but must explore their coasts and ocean resources. In expansion to offshore exploration, the

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7 The National Development Plan (NDP) offers a long-term perspective. It defines a desired destination and identifies the role different sectors of society need to play in reaching that goal.
government looks into the untapped oil and gas exploration as they strive to enable and enhance its reserves and possible trade ventures. As a result, an environment with policies and legislative that will promote and allow for oil and gas activities will in turn boost economic growth and to some extent address the skills gap requirements. However, significant challenges remain, especially in terms of infrastructure development. For this reason, infrastructure investment is key when it concerns pipeline opportunities such as oil and gas exploration that has the ability of transforming a country’s landscape and fuelling a widespread of socio-economic development.

One of the reasons why the South African government called for urgent attention to the shipping industry was the fact that each year, approximately three hundred million (300m) tons of cargo is moved through South African ports both exports and imports. While about 1.2 million tons of liquid fuels pass along the coasts of South Africa with new expanding oil and gas activities offshore, these activities need local shipping intervention to support ocean activities thus encouraging local owned ships, industry growth which in the long run will boost the general economy.
Figure 2.6 Trade statistics of merchant ships in South Africa. Source: Department of Trade and Industry (2015).

The South African government recognized the importance of investments in the maritime industry with both the 2016 Budget speech and the State of the Nation address highlighting the need for promotion and re-industrialization. Approximately 17 billion rand has been dedicated to the oceans economy in aim of unlocking the opportunities such as ship owning, port infrastructure, oil and gas exploration, shipbuilding and repairing etc. It is no matter to look over but embrace the position in which South Africa finds itself strategically located to serve the East-West cargo traffic. To take advantage of the opportunities the inception of Operation Phakisa has led to the development of the South African Maritime Road Map, which presents a vision of South Africa being globally recognized as a maritime nation by 2030.
2.2.6 Broad Based Black Economic Empowerment (BBBEE)

This is a strategy initiated by the South African government in attempt to involve and promote the participation of previously disadvantaged communities in the South African business environment. For a clear understanding, previously disadvantaged communities are those South African citizens who, due to the apartheid policy that was in place, had no rights to participate in national elections or benefit from the country’s economic wealth prior to the introduction of the Liberal Constitution.

As the state focuses on re-aligning the economic equality equilibrium by doing business with preferably entities that are BBBEE compliant. This has come as a surprise to some shipowners (carriers), for them to carry any state-owned cargo carriers have to deal with a BBBEE accredited operator that may require a certain relationship or chartering chain to be formed in order to carry state-owned cargo. Meanwhile South Africans acknowledge the attempts to re-align past inequalities it does not look likely that foreign shipowners and operators may be keen to take up the risks of additional expenditure associated with conducting business in South Africa, unless policies are revised in such a way that attracts foreign shipowners as well.

Like it or not, the Broad-Based Black Economic Empowerment (BBBEE) does not seem like an approach that will be negotiable and will confidently be presented on any maritime project in South Africa. According to the Department of Transport (2015), every company in South Africa ought to be BBBEE compliant because it is a constitutional, legislative and an economic imperative in attempt of stimulating a prosperous future for the country. Some ship owners or investors may perceive this not aligned to their business interests and seek business opportunities else where, however, other ship owners and investors may view this as an opportunity of expanding their business into new territories especially when trade seems to shift over time to new territories where the labour force is found to be economical. South Africa among other developing countries is not exempted from offering an economical labour force to the shipping industry. Some industry analysts have forecasted that the slow down in China has led to the discovery of new trade
territories and the African continent has been identified as one of the future territories with a potential to attract increased trade volume traffic, therefore presenting further business opportunities to local ship owners. Due to shipping being derived from trade and shipping shadows trade wherever trade locates to, South Africa will have to structure its maritime activities readily to serve potential shifts in trade patterns to its shores or the African region.

South Africa is known as a rainbow nation because of its multi-cultural feature and diversity of its people. It has a profound history but remains proud as it aims on balancing the equality status among the people within the country. In doing so there seems to be policies that are viewed to be not to follow the course that they are sought to be following like the BBBEE. There are some perspectives that the BBBEE does not really represent the rainbow nation element, as indigenous white South Africans are not included in the policy. A view is that not all indigenous white people in South Africa are privileged with resources and some have remained underprivileged for most of their life. An argument is that in an industry such as the maritime industry that is underdeveloped with no indigenous participation, how will indigenous white South Africans’ participation be welcomed in the South African maritime industry or would there also have to be a policy established for indigenous white South Africans who have not been privileged in the same way as indigenous black South Africans. South Africa is a unique country with an advantage because of the diversity of its people, which the maritime industry requires highly. Therefore, it is suggested that South Africa could establish a unique policy that will be fair and inclusive to both black and white underprivileged indigenous South Africans as the maritime industry is very global and diversity is one of the key traits of the industry’s success. Furthermore, different cultural backgrounds, different practices and different perspectives in a boardroom is the cornerstone of ‘thinking out of the box’, which South African maritime needs in the path of not only the development of indigenous ship owning but for the general South African maritime sector.
2.2.7 South African Ship Registry

Laws that are specific, sensitive and highly obligatory govern shipping just like other economic industries. Although there is high seas open to all nations where no state can claim sovereignty, which means unrestricted access to all ships in these open seas to sail regardless of which National flag the ship is flying. It is quite astonishing how different countries accede to maritime law despite the fact that each country has unique legislations suitable to that nation - however these countries still find a balance in integrating maritime laws with national legislations for corporative governance. The complexity of how the freedom at open seas is exercised and the jurisdiction framework in which a ship is registered as well as the waters where the ship plies its trade form the cornerstone of maritime law. A brief discussion on the South African ship registry shall follow in hope of making the reader aware of the close relationship ship registration has with ship owning and the current status of ships registered in South Africa together with the opportunities presented for flying a South African flag on a ship.

Despite the disproportional tonnage owned against the volume of exports, South Africa can claim a proud history of owned ships that were once registered under its registry to fly the South African flag. It has also enjoyed popularity with its commercial ships such as Safmarine etc. The radical change come about when the Comprehensive Anti-Apartheid Act promulgated in the US in 1986 and drastically had an effect on South African ship owners like Safmarine, which removed its ships off the South African registry to flag of convenience states. In addition, of about 85 commercial ships that operated out of South Africa just four were registered in the South African registry. South African ship-owners deregistered their ships due to the inflexibility of the former registration regime, which obliged for registration of ships wholly owned by South Africans with little to zero benefit to ship-owners.

Soon after owners restructured their corporate affairs in a manner that allowed them to circumvent legislations that weren’t owner-friendly by registering their ships in countries such as the Bahamas, Cyprus, Liberia, Marshall Islands and Panama. These countries possess registries that are attractive to ship owners -
minimal links between the ship-owner and nationality of the ship, on the other hand, relaxed labour laws in regards to manning of a ship and lastly very competitive tax benefits. Over the years South Africa has been making strides in pursuit of reforming its national ship registry by welcoming foreign entrepreneurs to own a share in South African maritime industry. In doing so, the policy-makers amended the compulsory registration of ships owned by South Africans or any South African company. Thus foreign subsidized companies swiftly moved their ships to flag of convenience countries of the likes mentioned earlier. Previously, the registry did not accept bareboat charter ships however after the amendments ships under bareboat agreements may be registered in South Africa currently. Furthermore, amendments in the tax structure to encourage and attract South African flagged commercial ships has had a promising outcome thus far with three commercial ships being incorporated in the South African registry. The courageous approach to pursue on incentivizing commercial ships flying the South African flag has been bearing fruit however there are still areas that will continue to lessen local and foreign interest to the registry due to issues such as BBBEE compliance and liberal labour legislations.

2.2.8 Cabotage in South African Maritime Industry

It is believed that coastal shipping cannot compete with road freight over short distance unit costs and transit time. That has been one of the reasons, which has made cabotage in South Africa not reach substantial growth since its inception. The Cabotage⁸ Policy for Coastal, Regional, and Continental Waters (2015) stated that coastal shipping in South Africa has remained undeveloped due to it being the most misunderstood service undertaking and also less visible. It is not quite clear as to what is meant by ‘less visible’ but it shall be assumed that coastal shipping in the region offers insufficient cargo volumes that it presents no economical interest to large shipping lines to deploy their vessels in the region. According to Funke, Claassen, Nortjie and Meissner (2016), many South Africans have not been taught to

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⁸ Cabotage is trade transit of a vessel along the coast (coastal trading), from one port to another within the territorial limits of a single nation.
love the sea and a maritime culture is not consciously fostered or a know industry in most parts of the country, particularly people living in inland areas that are distant from the sea. The view is therefore that there are a lot of unqualified and untrained individuals who are mandated with the task to manage shipping services such as cabotage when they have no clue of what they are dealing with or what they should do. In addition there is view that because there is a shortage in maritime skilled individuals those who are qualified in other professions are given the task to manage shipping affairs with an instruction that they will learn on the field without any training given to them regarding the task at hand. It is suggested that improvement in training of employees be continuous in order to keep up with the latest maritime trends and standards such as attending international conferences, training conferences etc. Despite the fact, cabotage in South Africa as well continues to be influenced by foreign owned ships (See Table 2.2 on the next page).
Table 2.2 shows the shipping lines that operate in South African cabotage market.

<table>
<thead>
<tr>
<th>Name of Operator</th>
<th>Route</th>
<th>Schedule</th>
<th>Number of Ships on Route</th>
<th>Cargo Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ocean Africa Container Lines</td>
<td>SA Ports to SA Ports</td>
<td>Fortnightly</td>
<td>4</td>
<td>General Cargo and Containers</td>
</tr>
<tr>
<td></td>
<td>SA Ports to Mozambique</td>
<td>Fortnightly</td>
<td>4</td>
<td>General Cargo and Containers</td>
</tr>
<tr>
<td></td>
<td>SA Ports to Namibia</td>
<td>Fortnightly</td>
<td>4</td>
<td>General Cargo and Containers</td>
</tr>
<tr>
<td>Unicorn Calulo Shipping Services</td>
<td>DBN-EL-PE</td>
<td>Monthly</td>
<td>2</td>
<td>Bulk Petroleum</td>
</tr>
<tr>
<td></td>
<td>MB-PE-EL</td>
<td>Monthly</td>
<td>2</td>
<td>Bulk Petroleum</td>
</tr>
<tr>
<td></td>
<td>CT-PE-EL</td>
<td>Monthly</td>
<td>2</td>
<td>Bulk Petroleum</td>
</tr>
<tr>
<td></td>
<td>DBN-RB</td>
<td>Monthly</td>
<td>2</td>
<td>Bulk Petroleum</td>
</tr>
</tbody>
</table>


The information drawn from the table depicts that there is a perception that the low frequency of voyages are a result of lack of sustainable cargo to support the cabotage service in the region. South Africa has been faced with a continued problem of lack of ships to serve its cabotage market. Consequently, this problem has continued to give foreign owned ships the opportunity to serve and carry the cabotage cargo between South African ports and the region. On the other hand, some foreign owned shipping lines deploy their own feeder services as an internal logistics arrangement such as MSC. Supposing, other foreign owned shipping lines practice this notion in a cabotage market where limited cargo volume exist, shipping lines that deploy their vessels solely on cabotage services can only dedicate services aligned to the
available cargo in the cabotage market. According to the Department of Transport the economical route for coastal shipping in which shipping can compete with road freight transport is the Durban and Cape Town route. Conversely, it may be irrational to just look at the distance, as what makes cabotage successful is the availability of sustainable cargo. Thus it makes economical sense that a competitive route should have sustainable available cargo and be economical than when served by competing modes of transport.

Table 2.3 shows the comparative distances between ports in South Africa.

<table>
<thead>
<tr>
<th>Route</th>
<th>Sea (km)</th>
<th>Road (km)</th>
<th>Rail (km)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cape Town - Durban</td>
<td>1,474</td>
<td>1,660</td>
<td>2,106</td>
</tr>
<tr>
<td>Cape Town – Port Elizabeth</td>
<td>787</td>
<td>756</td>
<td>1,068</td>
</tr>
<tr>
<td>Cape Town – East London</td>
<td>1,006</td>
<td>1,042</td>
<td>1,412</td>
</tr>
<tr>
<td>Port Elizabeth – Durban</td>
<td>250</td>
<td>300</td>
<td>740</td>
</tr>
<tr>
<td>Durban – East London</td>
<td>468</td>
<td>667</td>
<td>1,519</td>
</tr>
</tbody>
</table>

Source: Compiled by Author based on South African Maritime Transport Study, National Department of Transport (2011).

It should be said that road freight transport enjoys a higher market share and coverage, which attributes to its visibility and low transportation cost when compared to South African coastal shipping. Part of this is because the coastline covers approximately 2,800 km whereas the land coverage is approximately 4,750 km. In routes where coastal shipping holds an advantage over road freight transport such routes remains being served by road freight transport. One of the reasons why road freight transport prevails over coastal shipping has been the lack of sustainable cargo for ships to carry over those routes. Therefore, if the country aims to develop its ship owning capacity - voyage coverage where coastal shipping holds an advantage but routes are still served by road freight transport such routes have to be re-evaluated as to how to produce sustainable cargo availability for coastal trading ships. Furthermore, as a result of irregular cargo volumes South African for its
coastal trade could invest in multipurpose ships to serve the irregular cargo volumes as multipurpose ships provide space for dry cargo, refrigerated cargo, containers, passengers, mail as well as livestock (if required). Cabotage services can only be as efficient as the ports that serve cabotage services. South Africa has eight ports, which are not all equally productive however each port operates different kinds of cargo or a mix of cargo, see figure 2.7.

![Map of South Africa with ports](image)

Figure 2.7 shows the different ports in South Africa with an exclusion of Mossel Bay Port. Source: Transnet (2013).

### 2.2.9 Factors Mitigating Against South African Owned Shipping

Several factors exist that challenge against the development of South African owned shipping. First, shipping requires large funds to finance it and this has seen a near absence of ship financing institutions to support the development and growth of South African shipping. In the same vein, West (2013) highlighted the concerns raised by industry stakeholders that private and government local finance institutions have no intent in assisting shipping projects. However, following the introduction of Operation Phakisa in 2014, the South African government committed funds in aim of developing South African owned ships, however, the disbursement structure in which assistance is to be offered to local ship owners is yet to be realized.
It is of view that there is no evidence to conclude that a correlation exists between ship registration and employment of seafarers (Lamb, 2013). For example, some of the leading ships owning nations continue to seek crew at ‘economic’ rates, which are normally of other nationalities than of the country of registry. Although there have been policy amendments in South Africa’s maritime industry, the liberal labour legislation could continue to weaken the employment of South African seafarers. Attempts for necessary amendments to the existing labour regime would probably be opposed by local labour unions. For that reason, the focus could be on training as demand for well-trained English-speaking seafarers, who are prepared to work for competitive wages will always be attractive.

According to the South African Department of Trade and Industry (2015), quite a number of key constraints such as the shortage of skilled labour, lack of a clear roadmap for future ports expansions, lack of innovation and technology development, skewness in industry needs and current available training and an extensive number of companies are undercapitalized and face difficulties in investing in product development; among other key constraints – these have continued to hamper the development of the South African maritime industry.

Lastly, there are strict international maritime rules and regulations enforced by governments to govern the flagship, port and coastal state jurisdiction, which to a large extent have presented barrier to entry for potential local ship owners since they do not have the requisite capacity to comply with such standards. It is also believed that the South African government’s skewed interests have constituted as a contributing factor for the lack of investments in helping grow local participation in the maritime industry (Transport World Africa, 2012).
2.2. Conclusion

Shipping has been and continues to be entrepreneurial however it is not an industry to be treated with levity. Its complexities do present huge opportunities and countries and entrepreneurs who want to enter shipping should have the ability to understand and execute effective survival strategies. One could justifiably claim that it is more and more difficult to unearth a sustainable traditional niche in the new global world. This chapter was to give the reader a comprehensive framework of the shipping concept and the perspective of South African shipping. Ship owning has been regarded as prestigious for several years although South Africa has enjoyed historical ship owning as a nation, shipping is not a DNA of many South Africans. According to the Funke, et al. (2016), many South Africans have not been taught to love the sea, thus the South African public is not aware of the importance and contribution of the maritime industry. Therefore, it is imperative that South Africa learns and explores from experienced maritime nations especially those who developed their capacity in shipping from scratch. For instance, the Philippines achieved a reputation for supplying seafarers globally and that has created millions of jobs for their people. South Africa could learn on how Ghana obtained the financial and managerial assistance from Israeli Zim shipping to help set up the Ghanaian Black Star Line. Another example could be of India’s impressive shipping development with less direct government involvement. India developed its shipping through a development plan aimed at carrying 50 percent of India’s overseas trade on Indian vessels. Of course every country has unique shipping development attributes which may not directly guarantee success however exploring of such approaches may assist South Africa in establishing a unique approach that will render success for the country. In section 2.2 it was evident, that due to a strong increase of R20.5 billion in services receipts, which among others comprises of transportation – the earnings reduced the deficit of the balance of payment. This attests Couper’s (1972) statement that shipping can sometimes help solve balance of payments deficits. It is high time that South Africa invests in the shipping sector in order to diversify the economy through exploring new sources of growth and not only rely on its natural resources sector.
Chapter 3

Research Methodology

3.1 Introduction

This dissertation employs the SWOT analysis as a framework to help identify the current maritime situation in South Africa and its potential for growth and contribution to the local economy. The method deployed for data collection was a non-participant observation process of government reports, public records, journals, correspondence with industry practitioners, corporate studies, electronic issues of newspapers, reports of meetings and other related studies, which offer valuable information to assist in achieving the paper’s aim and objectives whilst on the other hand gives a better understanding the current shipping industry conditions. The author follows an inductive and pragmatic approach in analysing the qualitative data in attempt of contributing partially to the study phenomenon. The data collection comprises of reports and studies from the South African National Department of Transport (South African Maritime Transport Sector Study), South African Department of Trade and Industry (Industrial Policy Action Plan), South African Maritime Safety Authority (Skills Development Study), South African Institute of International Affairs, Swot Analysis Of South Africa’s Natural Resources Economics Essay and journals such as Maritime Review Africa, Maritime Transport Review. The author also relied on field notes collected during the academic field studies to different maritime organisations in Denmark, Greece, London, and Sweden.

3.2 Research Limitations

The challenges that were encountered were a lack of accurate statistics to evaluate and measure the contribution of maritime services in South African. An administrative absence triggered by the lack of a maritime culture by the government and business environment in South Africa has been one of the factors to lack of accessible data. This has set some limitations such as sourcing data regarding
indigenous ship owning/participation in South Africa, the number of ships owned by South Africans.

### 3.3 Analysis of internal conditions for South African shipping industry

Table 3.1 shows a brief review of the South African shipping SWOT Analysis.

<table>
<thead>
<tr>
<th>Strength</th>
<th>Weakness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training Institutions</td>
<td>Unfavourable legislative regime</td>
</tr>
<tr>
<td>Service Offerings</td>
<td>Management skills</td>
</tr>
<tr>
<td>English speaking nation</td>
<td>Lack of a consolidated national maritime database</td>
</tr>
<tr>
<td>Favourable exchange rate</td>
<td>Limited ability to berth seafarers</td>
</tr>
<tr>
<td>Strategic location</td>
<td>Shortage of skills development</td>
</tr>
<tr>
<td>Political stability</td>
<td>Inadequate technology</td>
</tr>
<tr>
<td></td>
<td>Electricity problem</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global demand for cadets and officers is high</td>
<td>South African shipping is not cost competitive</td>
</tr>
<tr>
<td>Shifts in trade routes</td>
<td>Insufficient infrastructure</td>
</tr>
<tr>
<td>Grow shipping industry through costal shipping – Cabotage</td>
<td>Low maritime awareness</td>
</tr>
<tr>
<td>Maritime law service offering</td>
<td>Limited partnerships</td>
</tr>
<tr>
<td>Improve ports services</td>
<td>Aging workforce &amp; limited skills transfer</td>
</tr>
<tr>
<td>Transshipment point</td>
<td>Hampering institutional arrangements – a fragmented industry</td>
</tr>
<tr>
<td>Pool of young unemployed labour force</td>
<td></td>
</tr>
</tbody>
</table>

Source: Compiled by Author from various sources.
3.4.1 South Africa’s strength in shipping industry

Training: South Africa offers quality training to seafarers and training standards remain above International requirements. Considered as a skills hub especially by African countries, such countries go to South Africa to acquire and learn maritime skills e.g seafaring, naval architecture.

Services Offerings: The South African offshore oil, gas and mining service offerings is regarded as being exceptional. Some African countries head to South Africa for advice when they encounter challenges in any of the mentioned service offering matters.

Favourable exchange rate: It is believed that favourable exchange rates will increase opportunities for South Africa. This may attract foreign ship owners as they seek to reduce costs by sourcing affordable crew. For instance, ship owners from countries with a strong currency against the South African currency may find it cheaper to source some of its crew from South Africa.

Native skills: South Africa is an English-speaking nation. In addition, South Africa is a multi-cultural nation and this can be viewed as a competitive advantage as South Africans embody multi-cultural skills that shipping companies find difficulty in when sourcing a crew for a ship.

Political Stability: South Africa had a peaceful and stable transition to democracy, this has been recognized as a major achievement. The realities that made the remarkable transition possible are still in place and assure country development. According to the World Bank (2016), the African National Congress (ANC) has been driving the policy of transformation since 1994. This transformation policy led to the attraction of foreign direct investments (FDI’s) to South African shores accompanied with accessible financial aid as international investor and donors were assured potential growth in investments and efficiency in resource allocation within the country.
**Strategic Location:** The ports in South Africa constitute by far the largest and one of the most efficient network and best equipped on the African continent with approximately 500 million tons of cargo managed yearly. These ports serve as strategic transshipment hubs for traffic connecting Asia, Europe, Africa and America.

**3.4.2 South Africa’s weaknesses in shipping industry**

**Unfavourable legislative regime:** It is believed that excessive bureaucracy hampers international relations with South Africa’s maritime industry. For instance the South African registry prior to its recent reform was regarded as an uncompetitive registry due to the then practiced tax regime that obligated ship owners to pay general corporate tax together with secondary tax based on dividends. In addition, South Africa has less competitive and unattractive labour laws when compared to other maritime nations.

**Limited ship finance:** Ship financing in South Africa is quite limited as the private and government financial institutions have not been open to financing of maritime projects. Funke et al. (2016) stated in the South African Maritime Roadmap that although South Africa possess well established financing institutions capital investments in the maritime industry is low as banks and government seem not to understand the industry well. Furthermore, bank guarantees for maritime projects are more expensive in South Africa as compared to other maritime nations like China, Germany, Norway etc.

**Lack of a consolidated national maritime database:** The infrastructure that exists to serve as a maritime database is inadequate, hinders research and benchmarking purposes. Mechanisms to access data in a consolidated form lack efficiency. The South African maritime industry’s knowledge sharing, coordination and collaboration is characterized by poor communication with a high degree of no trust. For example, South African maritime personnel show a sense of no trust or comfort
when it concerns information sharing of the country’s internal affairs of maritime industry.

**Limited ability to berth seafarers:** South Africa has about three merchant ships registered on its registry which is a milestone from having an empty registry in the past few years. However ship accessibility is limited when placement for seafarers is required as a result of low representation of ships on the registry. For example, foreign owned ships with a long term relationship for carrying South African goods from its ports make provision to accommodate a limited number of South African seafarers on board to acquire sea time training.

**Shortage of skills development:** The country has been faced with limitations in skills development particularly in management skills; executive leadership and maritime lawyers. Lack of training facilities and skills development systems have not facilitated adequate efficiency in the development of maritime professionals. It is also believed that the South African maritime industry business skills have not been maximised due to limited maritime professionals (Skills Development Study, 2011). According to the maritime studies conducted by Van Wezel, a senior curricula development specialist, some of the findings were that there is a need to develop the maritime modular content, training of staff to teach maritime courses, develop materials in the engineering curriculum and lastly to establish a business link between local maritime tertiary institution with reputable maritime institutions around the globe (Maritime Review Africa, 2016).

**Inadequate Technology:** Due to lack of technology, South Africa has not efficiently utilized its natural resources effectively. The lack of advanced technology has indirectly caused South Africa to a certain extent lose the opportunity of benefiting from employment and welfare generated from the resources.

**Electricity Problem:** In recent years South Africa has experienced a shortfall in the distribution of power as supply struggles to meet the rising demand thus resulting in power cuts, see figure 3.1. The lack of investment and maintenance in prior years
has been among other reasons why the state-owned power outlet Eskom Holdings Ltd. has been pushed into a daily crisis as it battles to meet demand. Yelland (2015) highlights several reasons that partially contribute to the power supply shortfall as follows:

- A lack of clear policy decision.
- A lack of a funding plan. The construction of the Medupi and Kusile power plants proceeded without a clear indication of where funds would come from to fund the projects. This resulted in delays until government intervened with a funding plan.
- Inadequate geological surveys at the Medupi and Kusile power plants prior to construction. This caused serious delays in the construction of the foundation of the power plants.
- The welding quality of boilers was poor thus required significant rework to be done.
- Shortage of skills and relevant personnel with adequate skills to get the job done.
- Labour issues that led to significant strikes during the construction period and this resulted in no work progression at the power plants. Yelland (2015) adds that part of the problem was due to Eskom not implementing a site-wide labour agreement to have a standardised wage for contracted workers. The different pay-outs by many contractors led to labour unrest and discontent.

Unfortunately, power cuts are threatening to drive Africa’s largest economy to disinvestment, as factories, manufactures and mines lose output whilst foreign investors pull back (Ukessay, 2015; & Wexler, 2015).
Figure 3.1 gives an indication of the percentage of available electricity of the declining capacity. Source: Paton (2015).

3.4.3 South Africa’s opportunities in shipping industry

Global demand for cadets and officers is high: According to World Maritime News (2016), the shipping industry will need approximately 150,000 seafarers by 2025. South Africa has a large pool of young labour force that can help develop industries that are labour intensive like shipping, which is complex and needs the manpower it can get to succeed.

Shifts in trade routes: With the Gulf of Aden being identified as one of the areas affected by piracy. Although it forms an important trading route leading into the Suez Canal, it is however geographically well-positioned with the anarchic of Somalia. The latter has led some carriers diverting around the Cape route in attempt of avoiding piracy. In addition, costly operating costs and insurance to use the Seuz Canal has also led other carriers to use different routes. South Africa is well positioned in the route carriers divert to and has port facilities and ancillary services that are available on a port call.

Grow shipping industry through costal shipping: An approach to grow coastal shipping is through having a regional hub where long-haul carriers will unload/ load
cargo fed by coastal carriers. Cabotage is a possible viable approach to grow the South African maritime industry. The latter is feasible provided tonnage is available for carriers to move.

**Maritime law service:** According to Webber Wentzel (2016), South Africa boasts a modern and expansive admiralty jurisdiction and is a preferred jurisdiction for maritime litigation, not only for the enforcement of maritime claims in South Africa but also for obtaining security for foreign proceedings. The maritime law service offering in South Africa is well received by the world but there are still opportunities to extend the service offering to the global market.

**Improve ports services:** It is believed that there are opportunities for South Africa to transform into a service-oriented maritime industry through generating and sustaining skills development at its ports. On a global view the focus has shifted to regional connectivity and inter-port connectivity. Therefore, the location of South Africa as a shipping hub, connecting the east and west trade routes, is an area of potential consideration. As much as there is a potential for South Africa being a shipping hub for many shipping lines an argument is that the role of Transnet’s monopoly of ports hinders the growth of South African ports. As the current legislative framework would not enable investors to have a say in the management of their investment and that from an investor’s perspective is discouraging and quite unattractive. The South African ports require substantial development for them to remain competitive internationally, especially with the expansion of Africa’s export market in the areas such as copper and coal. It is suggested that South African ports could re-shape ito Public Private Partnerships (PPP’s) with key and strategic partners. An argument is that entering into PPP’s would reduce the country’s control and management over its ports and a fear that the PPP would increase the market share and dominance of foreign owned ship due to relationships formed with shipping lines. South Africa will always be faced with the delimma of how to achieve substantial development and how it will raise funds for port development.
**Transshipment point:** The location of the South Africa gives it an opportunity to become a largest transshipment point in the world. South Africa is between the Asian and American continents so any cargo that needs to go from Asia to Africa or America to Africa can transfer from the South African hub. South Africa is situated in such a way that its between Indian and Atlantic ocean. South Africa thus has the opportunity to develop a transshipment point for American, Asian and Europe.

Figure 3.2 shows the position of South Africa's location to service as a transshipment point the to South-South trade, Far East trade, Europe & USA, East and West Africa regional trade. Source: Transnet (2013).

**Offshore oil and gas exploration:** According to the Department of Environmental Affairs (2016), the major oil and gas deposits exploration have a potential of driving economic growth, lowering CO$_2$ levels in power generation whilst it also may reduce imports of gas and oil, see figure 3.3.
Figure 3.3 shows a map of the developments in Southern African oil and gas. Source: Plaizier et al., (2013).

### 3.4.4 South Africa’s threats in shipping industry

**South Africa is not cost competitive:** The maritime industry in South Africa has been viewed as not being very cost competitive as ports are operated as monopolies that are less innovation and not competitive. South Africa has eight ports that are managed and controlled by Transnet National Port Authority (TNPA), a state-owned enterprise that is, among other tasks, responsible for the financial sustainability of all eight ports. As the landlord, Transnet does not receive financial support from the National Government. In this regard, various perspectives are that the monopolistic governance prevents a competitive environment, which in turn allows Transnet to shift any expenses incurred to the port users in the form of higher charges for port services. On the other hand, the South African shipping industry has not seen ample investments as its uncompetitiveness has not attracted much local or foreign investors.

**Insufficient infrastructure:** The provision of infrastructure to meet global standards has been at a lag. Unfortunately, the lack of investments to aging infrastructure and no continuous maintenance are among the reasons for the deterioration of maritime infrastructure or inadequacy thereof. As trade volumes continue to soar in the African continent, without serious intervention facilities and other ancillary services will remain less efficient while costs increase.
Low maritime awareness: South Africa has low maritime awareness and faces difficulties in attracting young people into maritime careers. Less involvement in the maritime industry over the past years with no ships registered on the registry, lack of maritime investments, lack of maritime-focused museum, lack of maritime education and skewed priorities by government are among other reasons that attribute to low maritime awareness. There is a general view that the South African public and key stakeholders such as government etc. do not understand the maritime industry very well thus the low degree in maritime awareness. Funke et al. (2016) asserts this in the South African Maritime Sector Roadmap that a maritime culture is not consciously fostered and its currently weak in South Africa hence there is low maritime awareness in the country. For example, the country’s ports and harbours are not easily accessible where the South African maritime heritage is displayed.

Limited investments and partnerships: Limited investments in the maritime industry, education institutions have found it hard to sustain higher level maritime professionals whilst expensive fees for studies have created barriers for learners to pursue in maritime studies. The South African maritime industry is characterized by a few professionals with maritime skills in a less maritime-focused education system, therefore, sourcing of such professionals comes at an expense that is highly unsustainable when the industry lacks capital investments or funding for maritime education and training. To this degree the sector is required to retain qualified maritime educators at a costly fee which in turn makes the fees for maritime studies expensive as the few maritime education institutions around South Africa are faced with difficulties of retaining qualified educators whilst at the same time offering maritime education and training at a quality level.

Aging workforce and limited skills transfer: The skills transfer is at a slow pace as there are a few skilled and aging professionals who do not impart their expertise and knowledge with the young generation. There is an argument that aging professionals do not want to retire but continue to occupy job positions even beyond their retirement age. On the other hand, the low maritime awareness adverse of not
attracting young people to the maritime sector has created a gap in skills transfer as there are professionals who are willing to mentor and transfer skills but no candidates to mentor – this is partly due to the lack of a maritime culture fostered within the South African population. A further argument is that maritime skills in South Africa are classified as scarce skills with very few individuals who possess them. It is believed that these individuals often find more lucrative employment opportunities overseas thus hampering the objective of skills sharing and transfer to the young people. The difficulties faced in retaining individuals with maritime skills has placed a strain on the aging workforce and the retired as they are old and tired, therefore, the skills transfer process tends to be less effective as opposed to when the skills transfer process takes place while the workforce still has the ability of competence and energy to act sharply.

**Hampering institutional arrangements:** The South African Qualifications Authority (SAQA)\(^9\) is understood not to be aligned with SAMSA although both parties are aware that students enrolled in certain maritime institutions without sea time will not receive a certificate, which means no employment or the qualification attained is not accredited by SAQA. The two parties are not harmonious in the integration of maritime studies and maritime employment (Maritime Transport Sector Study., 2011). In addition, a senior curriculum development specialist from the Netherlands, Frank Van Wezel stated that among the findings of the maritime studies in South Africa, the gap between South African secondary education and international standards is an area that needs improvement (Maritime Review Africa., 2016).

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\(^9\) SAQA is an organization that evaluates the recognition of foreign qualifications in terms of the South African National Qualifications Framework (NQF).
3.6 Conclusion

The purpose of this chapter was to describe the research methodology of this study, comprehensively analysis the area of study, describe the instruments used for data collection, and unfold the descriptive approach used to analyse the data.

The analysis given in this chapter, based on the SWOT analysis, reveals that the South African maritime industry has great potential to reach sustainable development. However, South Africa cannot shy away from the major challenges facing its maritime industry at present. Perhaps a step of fostering a maritime culture and other developments will encourage meaningful indeginous participation that South African maritime needs. The opportunities that are identified show that with the correct mandate and clear strategies to support the maritime industry, South Africa can attain its goal of becoming a ship owning nation. A view of concern is that it seems as if South Africa aspires to become a ship owning nation however there is no clear indicating objective as to why the country wants to own ships.

A good performance by a country’s maritime industry attributes from correct interaction with the internal and/or external environment of its business management. From the analysis, the strategic goals and market positioning are imbalanced with the strengths and weaknesses of the South African maritime industry. South African shipping has to be market oriented to improve its participation in the maritime industry as well as to mature its ship owning status. Through strengthening strategic collaboration with proficient maritime nations; establishing comprehensive maritime service networks; setting up advanced information management systems; forming win-win partnerships; investing in the development of an internationally accepted framework that will produce and absorb qualified maritime professionals; and enhancing human capital through specialized quality training will assist in achieving strategic goals such as the development towards South African owned ships.
Chapter 4

Results Analysis

4.1 Introduction

This section takes into account the data analysis of the previous chapter analysed using the SWOT analysis framework whilst it adheres to action the research objectives. Before the analysis results can be discussed, the fundamentals that instigated the research study will be highlighted to remind the reader of the purpose and goal this dissertation attempts to achieve. It will be followed by a presentation of the results for data presented in chapter 3.

The topic forms the fundamentals of this dissertation, and stipulates that there are different ways in which ownership of a ship can exist. Firstly, the terms ‘ship owner or ship ownership or ship owning’ imply the same meaning as elaborated in the definition given in the following paragraph.

According to the International Maritime Organization (IMO)\(^{10}\) (2004), a ship owner is a person or persons or company registered as the owner of the ship or, in the absence of registration, the person or persons or company owning the ship. Though, in an instance of a ship owned by a State and operated by a company, which in that State is registered as the ship’s operator, “owner” shall mean such company. This term also includes those who have ownership of the ship for a limited period pending its sale to a recycling facility.

Presently, the South African maritime industry is insufficiently represented from ownership of ships to the shipping business in general. This dissertation explores the broader knowledge of South African shipping as it intends to explore the involvement of the country and its locals in ship owning. In an attempt of

\(^{10}\) International Maritime Organisation (IMO) is a specialized agency of the United Nations, a global standard-setting authority dealing with safety, security and environmental performance of international shipping.
exploring ship owning participation, the study also efforts to identify the opportunities that are available for entrepreneurs who are bold enough to seek business ventures in ship owning. The analysis focus shall exclusively be on the current state of South Africa’s shipping environment and opportunities identified within the industry for indigenous entrepreneurs.

4.2 Results generated from the SWOT analysis

4.2.1 The strengths of the South African shipping industry

The significant value of this dissertation is the shipping industry structure, which provides the indication of ship owning within South Africa. The strengths presented in the previous chapter reveal extensive findings that are positive and give South Africa confidence in building towards a ship owning nation. The supportive structures that are already in place provide a platform that enables the development of ship owning and maritime involvement. According to the South African Maritime Safety Authority, South Africa can be marketed as a skills hub especially for the African region, as it has more developed facilities and well-equipped infrastructure for the training of maritime personnel than most African countries. Although South Africa offers quality education and training that is accredited by international standards it is still faced with a challenge of not having enough maritime education and training institutions to offer to a vast number of applicants. It is believed that the maritime industry is a forgotten industry due to no maritime culture existing in the country. As a result no development or investments have been fostered to the industry and to any of its ancillary institutions such as maritime education and training etc. In light of the skills hub, a Norwegian ship owner expressed his view on how impressed he was with the quality, the stamina and future vision of the South African seafarers. He further elaborated that Torvald Klaveness group would undergo an ambitious fleet expansion programme by 2016 thus challenged the South African Skills Development sector to produce a sustained number of seafarers who will crew their new builds (Maritime Review Africa, 2014). This ascertains that
South Africa constitutes the characteristics and qualities of strengthening it position as a skills hub for maritime professionals especially in its regions. On the other hand, South Africa’s favourable exchange rates implies that South African maritime personnel employed by foreign ships can be offered reasonable remuneration that would be higher than those in South Africa (Skills Development Study, 2011).

Although South Africa’s political stability has been recognized as a major achievement for the peaceful and stable transition to democracy. Unfortunately that notion has been changing, as in recent years the country has had some instability in its political landscape, which at some instance has caused some shakiness to the economy of the country while affecting the growth negatively. This sets an unfavourable image to investors particularly for foreign direct investments (FDIs), as no local entrepreneur nor foreign ship owner would want to invest in a country that will not guarantee their investment return or allow political activities dictate maritime operations. Lorange (2009) asserts that the long-term growth trajectory of shipping is a function of political stability. Due to shipping’s capital-intensive nature it is rational that shipping operations are not influenced by political activities but accelerated professionalism.

A close issue to political instability is corruption, which has been a major hindrance to the progress of South Africa as a developing country. According to Booysen (2015) declares that the Special Investigating Unit estimated that 20-25 percent of state procurement represents approximately 180 billion Rand that is duly lost to corruption each year. Corruption of such a magnitude undermines the legitimacy of the state and service delivery, furthermore, it creates a distortion in market competition whilst making it hard to conduct business when the environment is subject to increasing costs of doing business summed with inefficient regulations etc. South Africa has been suffering from a widespread of corruption, especially institutionalized corruption where government officials use the system to commit to very sophisticated forms of corruption for money to change hands in order to facilitate off-the-record business deals. Unfortunately it is no matter to shy away from irrespective of industry one conducts business in, as everyone in South Africa is
subject to corrupt practices. There is a view that every time corruption is committed it is directly at the expense of the average citizen. Apart from corruption hindering the development of the country, it has impact the country’s business and investment climate for instance, one cannot do business in the country unless they have some form of connection with the system of patronage and this sets a very unattractive environment for investment. It is no secret that South Africa needs foreign direct investment for development and ultimately economic growth as a developing country. Consequently the widespread of corruption further undermines the ease of conducting business in South Africa whilst it could prove damaging the country’s reputation. Examples of elements of corrupt practices in South Africa have resulted in the inadequate and unpredictable availability of electricity, difficulties in dealing with construction permits, and cumbersome legislation around setting up and registering a business. An argument is that although South Africa faces a problem of corruption it performs better than regional averages across several key measurements. It is suggested that South Africa has smoother and simpler procedures with tax officials with an easier enforcement of commercial contracts than comparable regional countries. Moreover, the country has a robust anti-corruption framework however laws are inadequately enforced and exercised. The lack of leadership against corruption and those in power who undermine the constitution of the country having some form of influence on who and whom should face prosecution has led to laws being inadequately enforced. The corruption in South Africa has been central at government level where public procurement is particularly prone to corruption. In regards to Operation Phakisa, which is a government-initiated project to develop the ocean economy of the country. A significant amount of approximately 17 billion rand is allocated for the development of the ocean economy and among others; indigenous ship owning participation is one area in which the country wants to develop in. Ship owning on its own requires extensive sums of money and functions in an environment that is very volatile and cyclical. Therefore, financial understanding is everything in this industry as every cent counts and can be a determinant to whether a shipping line succeeds or faces bankruptcy. There is
simply no place for corruption in the industry due to the volatile and cyclical environment in which business has to be conducted in. Just like in other industries corruption is a major barrier to development and if South Africa is to see growth in indigenous ship owning participation, decisive and punitive consequences must be enforced against those who are found guilty of corrupt practices. South Africa does have an environment that can foster maritime development and growth. Mannak (2015) states that an Open Budget Survey rated South Africa as a country with some of the highest levels of corporate governance, with the Johannesburg Stock Exchange noted to be world-class, and the country having some of the strictest corporate reporting regulations in the world. South Africa is said to fall in the same category as Brazil, Norway, United States, and Sweden - countries with the most transparent budgets. Such an environment is viewed to be crucial for shipping especially when involving financial understanding.

Lastly, through strategic infrastructure investments especially to its port facilities, South Africa can take advantage of its strategic location to attract Asian and American traffic to its ports or a dedicated transshipment hub and perhaps offer shipping lines connectivity in a cost efficient manner. If South Africa is to invest in a transshipment hub it might have to consider incorporating a Free Trade Zone (FTZ)\textsuperscript{11} in order to attract not only shipping activities but industrial sectors as well.

\textit{4.2.2 The weaknesses and threats of the South African shipping industry}

There is no nation with a perfect scope of legislation in this world however nations establish legislations in a manner that enables alignment with maritime requirements that will allow for maritime practices to be exercised. Indeed it is true that excessive bureaucracy or regulations can hamper productivity and progress of an economy. According to the CEO of Financial Intermediaries Association of Southern Africa (2016), South Africa’s business environment is stifled by over-regulation. Doing

\textsuperscript{11} A free trade zone (FTZ) is a specific class of special economic zone. They are a geographic area where goods may be landed, handled, manufactured or reconfigured, and re-exported without the intervention of the customs authorities.
business in such an environment not only must a company comply but must forever balance increasing operating and compliance costs whilst they deal with declining (regulated) income on the other side.

Although other African countries may turn to South Africa for skills training and transfer, South Africa still faces a shortfall in maritime professionals and business skills. This seems to be a result of lack of investments in maritime education. It seems to be of common view that the lack of an appropriate skills development system has hindered the development of the South African maritime industry thus creating a less supportive environment for shipping companies and potential ship owners.

The shipping business is extremely capital intensive and demands large amounts of funds its operation, therefore, requires there to be a well-developed financial sector that can offer such finance and service to the industry. Until the launch the ‘Operation Phakisa’\(^\text{12}\) South African government in 2014, government finance was made available for maritime projects. Despite this programme aiming at developing the South African shipping industry, the private sector especially has not been keen to finance shipping projects. Lack of finance has also contributed to growth limitation of South African participation in the maritime industry. As a result of limited access to ships on the registry it has become quite difficult for training placements to take place for the vast amount of cadets and it seems impossible for employment to employ the many cadets with limited access to ships.

The maritime industry is quite complex and contains extensive data in its day-to-day operations. It is unthinkable that a shipping industry be built without any data infrastructure, as today ‘data’ is known to be the driver of the shipping industry. To a large extent ‘data’ has played a pivotal role in the business world with data being the niche or at the centre of a market, thus in every industry whether it is shipping or telecommunication industry etc., adequate mechanisms need to be in place to support

\(^{12}\text{Operation Phakisa is an adaptation of the Big Fast Results methodology that addresses the national key priority areas such as, poverty, crime and unemployment and in aim of delivery of the economic transformation.}\)
data flow and exchange of information at all time. Shipping requires the right data all the time at the right time, at the right place, to the right people not only for important decision-making but for the day-to-day decisions as well. Therefore, the inadequate technology and infrastructure could be a contributing factor to the lack of a consolidated national maritime database or perhaps the reality could be that the mechanisms are available but personnel’s cannot use the facilities effectively due to lack of training or education. Even if that was the case an up to date consolidated database is of essence in the maritime world as historical records form part of data that drives today’s shipping business.

Power cuts have been an event most South Africans have not become use to, which has had negative effects on the economy. For shipping companies that are located in South Africa, power failures can have serious disruptions to the operations of a company with critical infrastructure (e.g. telecommunication, financial services etc.) completely shutting down. For instance, interrupting the communication aid of an onshore office with the ships, stakeholders and clients around the world, can result in unjustifiable cost implications on the company operations. On the other hand, shipping is a demand derived from commodity trade thus the dilemma of power cuts can have a severe effect on the industrial sector, as power cuts would mean that no production is undertaken therefore no goods would be produced for ships to carry. If South Africa advocates on developing its indigenous ship owning capacity there would have to be cargo sustainability for indigenous shipping to carry. To a larger extent the industrial sector would have to commit to the development of indigenous ship owning with cargo guarantees however the power cut dilemma may hamper such a commitment from the industrial sector and the development towards indigenous ship owning.

Every component in the maritime industry should not be seen in isolation but in cohesion among the components that contribute to the industry’s success and effectiveness in a broader sense. It is inevitable to have an industry that is not susceptible to threats from the external environment. There could be a number of reasons why the identified threats have hindered the development of the South
African maritime industry. Unfortunately the scope of this paper does not probe deeper on each factors identified in the previous chapter. However the efforts made in identifying the factors will bring them to the attention of industry representatives, practitioners and stakeholders, in hope of making them aware of the need for comprehensive strategies that could be required to tackle the factors that may pose as obstacles to the development of the country’s maritime participation.

4.2.3 The opportunity of the South African shipping industry

The opportunities identified present evidence that South Africa has the potential and attributes of participating effectively in the maritime industry. Drawing from the strengths revealed in the previous chapter, South Africa can stimulate quality training facilities and services to strengthen its position as a service hub for the African continent and possible for the international market as well. One of the strengths identified was favourable exchange rate, which could be strategically used to attract shipping companies who want to get their people quality training in a cost efficient from a reputable institution. Maritime governance like any other sector of economic activity governs the shipping industry, which requires maritime lawyers who will understand and manage the complexities surrounding the operation of ships. Perhaps there could be a maritime institution established among its focus to educate and train maritime lawyers who can then help develop proactive maritime policies that are aligned with the country’s policies.

Port investment is viewed as a significant issue in modern port economics and depending on its characteristics, it is a determining factor to whether a port experiences economic growth or weakening productivity. Nowadays, ports that are integrated with other components of the supply chain are more preferred by shipping lines as strategic port investments enable for integration with other modes that may likely lead to reduced freight costs all together. The more connectivity a port offers to shipping lines and other modes, such a port can offer transshipment services assuming it is strategically located to compliment the ease of flow of both inward
and outward traffic. Such a port can also boost the birth of coastal shipping if more cargo traffic is available among the ports in its jurisdiction. Ports with state-of-the-art technology and infrastructure are able to capture carriers who consider certain routes to be more costly but this may not always be the case as some carriers consider the transit time to be important. Such carriers are willing to bear the costs as long as the route will maintain their service efficiency and reliability of delivering on time to their clients. Suppose that the port offers efficiency, competitiveness, integration, quality and reliability, such a port can increase the number of port calls it receives, as not only will shipping lines enjoy cost savings from the service efficiency but their clients may find it economical as well with lower logistical costs all together due to integrated services. Different operational strategies exists from shipping line to shipping line, some ship owners among various reasons may consider the cost structure of a route or a route because of the ports of call en-route or a route to avoid red zone areas affected by piracy or a route because of its weighting and cargo traffic flow. Therefore, South Africa can take advantage of its well-positioned location in the southern route by investing in its infrastructure and maritime professionals to attract larger ships and any diverting ships, which could be potential clients if the service experience is excellent. Service efficiency and state-of-the-art infrastructure can lead to cost reductions (Review of Maritime Transport, 2015).

The oil and gas opportunity has the potential of developing maritime participation by a nation. However this may depend on which direction the government wishes to take with the discoveries of oil and gas. According to Plaizier et al, (2016), the oil and gas discoveries of South Africa was estimated to exceed 400 trillion cubic feet (tcf). Suppose the government made a mandate of developing ship owning around the discoveries of the oil and gas reserves. This has a potential of unlocking the needed ship owning capacity, as the oil and gas exploration means cargo is available and owned by South Africa. With cargo in the authority of South

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13 Inward traffic is cargo traffic that comes by sea transport from the international market, passes through the port destined for the inland area. Outward traffic is cargo traffic that moves from the inland area through the port, transferred to sea transport for the international market.
Africa, oil and gas explorers could commit cargo availability to the indigenous ship owners but the question raised would then be how is indigenous participation developed when there are no ships owned by the indigenous and there is no ship financing or any other means of assisting indigenous participants to acquire ships within the country. It is suggested that the government intervene by establishing a Ship Financing and Ship Building Fund (SFSBF), which would assist in the acquisition of new builds or secondhand ships. Depending on a company’s risk profile, financing could for instance take in the form of 95 percent financing by the SFSBF to a company with an excellent risk profile score, 75 percent financing to a company with a good risk profile score and 50 percent to financing to a company with a moderate risk profile. The remaining percent difference would have to be funded by the ship owners themselves (as applicants) and the company risk profile sets the applicants in their respective financing brackets. The risk profile score would focus on among others the applicant company’s or consortium’s ability to repay and repayment history on loans. This approach could however be restructured to a more practical sense to meet the requirements of the financial sector and at the same time enable the development of indigenous ship acquisition through the assistance of the SFSBF scheme. The maritime industry is of great importance to the South African economy and requires lucrative sustainable projects in order to maintain participation. There is a consensus that the oil and gas exploration presents an opportunity that has the ability to promote and develop indigenous ship owning within the country provided supporting measures are in place.

4.3 Results analysis from literature review

The fundamental findings extracted from the literature review reveal that South Africa has a favourable geographic location between major trade routes but that alone is not enough to assume that shipping lines will have any maritime activity with South Africa. It is important to take its location into consideration and perhaps view it as a competitive advantage that will help in developing South African owned ships. The location is unique and quite strategic and with comprehensive strategies to
make it maritime industry attractive the country may be able to attract traffic flow to it borders while increasing its participation in maritime activity. Investments in such instances play a pivotal role in attempt of developing such a capital-intensive industry. Strategic investment are key not just to develop South African owned ships but to improve and develop all supportive infrastructure and facilities as ship owning cannot be viewed in isolation to other components that contribute to a successful maritime industry. For instance, if South Africa were to strategically invest in one of its eight ports as a suitable transshipment hub for the southern region, and suppose all cargo traffic destined for the African continent is transferred to that port, there would have to be feeder services that would distribute the cargo to destination ports around Africa. This will create proactive maritime activity for South Africa that will support the development of South African owned ships, as more cargo availability would guarantee maritime activity within the region. To extend the discussion on cargo availability, a Ship South Africa Campaign was established to promote a collaborative relationship with cargo owners to increase the cargo carried on South African owned ships to a total of 25 percent within the next five years (Department of Transport, 2015).

4.3.1 South African Ship Registry

The South African ship registry has currently 3 ships recorded under it registry, namely: Cape Orchid, Cape Enterprise and the MT Lefkas. The latter, as named, two are South African owned ships and a Greek owned ship. Prior to the registration of the above-mentioned ships, there were no merchant ships on the registry due to excessive regulations that were seen as unattractive by most ship owners, especially those who deregistered their fleet off the South African registry. The major change that led to most carriers’ removal from the South African registry was when the US promulgated the Comprehensive Anti-Apartheid Act in 1986, which had a dramatic and immediate effect on South African ship owners such as the former national
carrier Safmarine\textsuperscript{14} who re-registered their ships with flag of convenience (FOC) countries such as Liberia, Panama, St Vincent, Grenadines, Sri Lanka and others. Thereafter, South Africa remained with just a few commercial ships on its registry even after the sanctions by the US were lifted in the early 1990s, the few remaining carriers removed their ships off the South African flag as a result of better serving registries to their needs elsewhere, primarily the mentioned flag of convenience. This however has been addressed by recent tax amendments that sought to incentivize South African flagged merchant ships, whereas before, compulsory registration was non negotiable whilst bareboat charter was not permitted on the registry (Shepstone and Wylie Attorneys, 2016). The amendments undertaken seem to be bearing fruit, as the recent registration of a foreign owned; MT Lefkas vessel has shown positive signs towards the right direction. In addition to the registration, the MT Lefkas vessel will provide on-board training for cadets, additionally, creating spinoff job and business opportunities (Herald Live, 2016).

4.3.2 Unlocking the South African Cabotage Market

In light of the underdeveloped coastal shipping, South Africa finds itself in no man’s land as to how to structure the cabotage market in such a way that it will encourage the development of local ship owning capacity. The idea is pragmatic however firstly it may require that the sector be defined comprehensive and coordinately with a focus given to the geographical features of the coastline as not every country that has coastal waters endures a successful cabotage provision. There are views that the provision of cabotage is increasingly important with resource exploitation such as offshore minerals, which has the ability to improve indigenous maritime participation and enable the development of local ship owning of the nation. Couper (1972) affirms this in his book ‘The Geography of Sea Transport’ by stating that only where ships connect raw material base to industries at seaboard locations has seen

\textsuperscript{14} A brief history of Safmarine: South African Marine Corporation (Safmarine, for short) was formed on 21\textsuperscript{st} June 1946. The first Safmarine ship, the South African Merchant was launched in December 1954. In 1959, the South African Development Corporation (IDC) acquired shareholding control in Safmarine. The Maersk Group acquired the liner shipping interests and the trading name Safmarine in 1999.
coastal shipping contend competition of other rival modes. Therefore, the oil and gas discoveries foster opportunities desirable for the development of local ship owning but there would have to be commitment from the oil and gas companies to assure cargo sustainability to local ship owners.

An adoptive view is that South Africa may need to learn how America used the Jones Act to empower and develop the American maritime trade and technology. The Jones Act is believed to ensure that all vessels trading on American coastal waters are American owned, flagged, manned and built. Moreover, the Act is understood to ensure a strong and vibrant maritime industry that helps a nation maintain expertise in shipbuilding and waterborne transportation. However there is an argument that if South Africa were to adopt such an Act it will enjoy control over its coastal shipping where all the ships operating on such waters would be South African flagged, crewed, built and owned. This sounds like what South Africa needs but this kind of approach could add exhaustive pressure to the shipbuilding sector in South Africa as the existing shipbuilding capacity according to the Department of Trade and Industry (2015) lacks transformation primarily due to high production costs. In addition, the base currency of the maritime industry is the US dollar therefore the volatility of the South African Rand could result in difficulties in budget planning and maintaining industry sustainability as well. A different view is that the existing shipbuilders would be protected by the Act and act as a monopoly or duopoly, as there would be no foreign competition. Therefore, this might not encourage the development of the cabotage market and ship owning as a result of highly priced new built ships by local shipbuilders. With a lack of ship financing institutions in South Africa ship owners may not find it rational to acquire a South African built ship when they could acquire the same ship at cheaper price from Asian shipbuilders, see figure 4.1.
Supposedly, the Act does succeed in the South African context, offshore and onshore employment opportunities would be presented and indigenous participation would see growth with a boost to the local ship owning capacity. According to the Cabotage Policy for Coastal, Regional and Continental Waters (2015), approximately 1.2 million tons of liquid fuel is carried around the coast of South Africa yearly and that has created the need for the deployment of coastal tankers. On the other hand, offshore oil and gas exploration further requires about eight ships for the exploration operations. Assuming the Act is adopted, an emerging ship owner is contracted to deploy ships in the offshore oil and gas exploration - the emerging ship owner would have to buy from the existing fleet in the market, which are mostly foreign built. Now the latter raises further questions as to whether will the ship owner with a foreign built ship be allowed to serve the oil and gas contract or would the ship owner be required to place an order and wait for the ship to be built by a South African shipbuilding. The latter is sets a theme for further research. In light of ocean economy activities, perhaps South Africa can adopt the Jones Act with an exemption
to shipbuilding in an attempt of improving indigenous participation and the development of ship owning.

According to the South African Maritime Transport Sector Study (2011), more than 25 percent of all containers carried globally are empty and liner companies normally have established logistical schemes for reducing costs through transshipment and feeder services. For instance, feeder services in response to cargo flow imbalances would transfer empty containers from several ports to a single port for clearance by a large liner ship with lower unit costs. The reason for the latter is to bring forth the notion that for cabotage to be successful there needs to be sustainable cargo available for serving ships to carry. South Africa would have to create sustainable cargo perhaps through investing in a transshipment port where increased volumes of cargo will be assembled for carriage by large liner ships. The irregularity of empty containers is believed to be one of the contributing factors to the success of cabotage in many European countries as well as the Far East. Although South Africa and other African countries do not have inland waterways, which is the rational reason of most European countries to institute cabotage in their maritime industry.
Figure 4.2 South African cabotage services for container carriage. Source: South African Maritime Safety Authority (2015).

Figure 4.3 South African cabotage services for bulk petroleum carriage. Source: South African Maritime Safety Authority (2015).
4.4 The Future of South African Shipping

The analysis presented in this dissertation reveals how the South African maritime industry has been of poor performance and weak as compared to other African maritime nations with smaller economies. The maritime industry is highly cyclical and extremely volatile; South African shipping companies, ship owners and entrepreneurs should be ready to confront un-anticipated economic changes and fluctuating market dynamics throughout time. According to analysis in the previous two chapters, foreign owned ships play a significant role in the maritime industry of South Africa and it seems though these non-South African owned ships shall continue to cement their dominance if drastic measures aren’t implemented. As the maritime industry keeps on changing coupled with industry developments, South Africa’s poor maritime participation may leave the nation at a lag in developing its ship owning position as existing ship owning nations continue to develop with the industry whilst they continue to entrench their dominance where opportunities are identified for growth. The view is that the international economic environment is coming together in a way that will make it hard for developing countries growth rate very difficult to achieve. This is a result of bad domestic policies implemented by these countries; for example, despite South Africa consisting of an enabling governance framework there are numerous challenges that hinder development. For instances, among numerous strategies, road maps, port development plans, research documents that have been produced in the past, very few have been implemented. It is of the view that the absence of a maritime industry policy as well as the coordination to drive the development coupled with the lack of capacity are among the reasons for very few implementation of the strategies etc. An argument is that too many policies can be confusing especially when a country like South Africa has a weak maritime culture that is not consciously fostered as well. It is further suggested that numerous strategies, road maps, port development plans can hide corrupt practices as there is no clear policy to follow but several policies that can create conditions for irregularities when managed by personnel who don’t have a clear understanding or path of what they are doing. It is suggested that South Africa
should use its maritime history to build and support a national maritime culture within the country and the education system should form a component of fostering a maritime culture conscious nation with the use of museums and other maritime engagement activities. On the other hand, if South Africa supposedly wants to develop its industry like traditional shipping companies, it may have to re-evaluate such a strategy as today’s environment is characterized by radical changes – where it seems to be re-shaping and restructuring the way the industry operates (Lorange, 2009).

The existing maritime structure in South Africa is in need of drastic measures implemented in order to help develop and re-direct shipping fortunes to indigenous participation in the future. Ship owning cannot develop in environments that are stagnant thus the following factors are suggested as major issues that could develop and re-shape South African owned shipping future;

- A need for reform of the maritime policy to be proactive, responsive and flexible to future changes of maritime in the 21st century.
- An improvement in the training of manpower in the maritime education and training institutions. For example, SAQA should upgrade the awarding status of maritime education and training institutions in South Africa with required accreditation of both nationally and internationally.
- Improvement in port facilities with port specialization of an adoptive method of the load centre strategy or the hub spoke approach to shipping.
- The need for integration and intermodal transport coordination within the context of the supply chain management and total transportation concept.
- A need for shipping companies to form mergers and cooperate as opposed to competition.
- The use of incoterms improved in such a way that indigenous participation is to a higher degree.
The government could establish a Ship Financing and Ship Building Fund (SFSBF) to assist indigenous participants with loans and funds for ship acquisition.

4.5 Conclusion

This chapter addresses the analysis of data and analysis results. The chapter commences with a brief definition of a ship owner to give the reader a theme of the theoretical concept behind the analysis presented.

The chapter proceeds with a results analysis of the data generated from the SWOT Analysis, with each four essential key factors analysis results discussed comprehensively. Proceeding with the analysis, the results emanating from the literature review process and the data collection section were presented in categories using themes to maintain a comprehensive analysis.

Lastly the chapter sets a base for the following chapter, which contains the conclusions section of this dissertation and utilizes all results generated from the analysis of data projected in the analysis chapters. Furthermore, the following chapter will conclude with a recommendations section that will employ the data presented in the conclusion section of the chapter to generate recommendations to issues presented in the dissertation and for purposes of future use and further research.
Chapter 5

Conclusions

5.1 Introduction

This chapter outlines the gist of this research paper and presents the documented data analysed and generated results in an interpretative process. The conclusions will depict the analysed information originating from the previous chapters to answer the key questions as reviewed in chapter 1.

Secondly, the chapter will present a focus on the limitations encountered during this research study and followed by the answers to key questions. The paper will then present a conclusions analysis an end its study with a presentation of the recommendation for either referencing or further research undertakings.

5.2 Encountered Limitations

The author acknowledges that composing this dissertation was a challenge due to little work published in the area of topic; less literature and contributions have been made available. Thus it was mentioned in chapter 1, under section 1.2, that a gap was identified and this study attempts to contribute partially as well as set a path in which further research can be undertaken in order to derive literature development on indigenous maritime participation and the development of ship owning in South Africa.

The problems that were encountered in the collection of data were primarily the inaccessibility to accurate statistics to evaluate and measure the contribution of maritime services to the South African economy. As a result of lack of a maritime culture by the government and business environment in South Africa, maritime data was neither easily accessible nor broadly available to be used for this dissertation.
This hampered the extent in which the research methodology could be carried out as limited accessibility to data restricted the extent of analysis.

5.3 Question Analysis

- *How is the South African shipping market structured?*
  The South African shipping structure has an enabling governance framework with established maritime institutions and policies.

- *How much of Government involvement does South African shipping need?*
  Government intervention is required to a larger magnitude as many South African are not familiar or know about the maritime sector. Although the country has a maritime history it however does not have a maritime culture or a fostered conscious of a maritime culture. Therefore government involvement is required in the formation of maritime-focused museum, maritime cultural centres and a maritime-focused education system as well.

- *Does the South African government have a detailed understanding to how the shipping segments work and how the dynamics of demand and supply can be crucial in the decision making process?*
  The South Africa government does not seem to understand certain elements of the maritime industry such as the cabotage market and how to implement the numerous strategies, road maps, port development plans etc.

- *How to attract South African entrepreneurs to become ship owner?*
  Establishing a Ship Financing and Ship Building Fund to assist and help indigenous participation with the acquisition of ships. South Africa has a good and enabling governance system and regarded to have one the most transparent budgets in the world.
• Which shipping segment can entrepreneurs look into investing in?

Further research is required to answer this question, as there is no answer emanating from the analysis and results generated from this dissertation. However, the South African maritime industry does present multiple opportunities for investors such as the ship owning, shipbuilding and repairs, port development, oil and gas sector etc.

• What contribution does South African owned ships add to the country?

There is no quantifiable indication of the contribution indigenous ship owning will have on the country. However, socio-economic development and growth will suffice through employment opportunities, business opportunities.

5.4 Prospects of South Africa’s Shipping Industry

Although South African shipping had been nonexistent without substantial presence for several years even in the time when South African joined the economic group known as BRICS\textsuperscript{15} in 2010, it was the only country that had no owned ships. The turning point came in 2014 when the government pledged to accelerate maritime involvement with the introduction of the Operation Phakisa strategy. The next year after its launch, two ships were introduced not only to the South African registry but are locally owned. This has been a remarkable stride taken as shipping is deemed a capital-intensive industry that requires large sums of funds to finance its projects especially the acquisition of fleet, whether secondhand or new built.

According to the data analysis in Chapter 4, a conclusion can be drawn that South Africa is well located geographically to benefit and stimulate trade between BRICS member countries, and for trade destined for the rest of Africa. There is no doubt that South Africa holds a positive prospect as a ship owning nation mainly because it has existing infrastructure and facilities that can support the development of ship owning and other maritime services. South Africa can perhaps commence to proactively invest in its maritime industry in order to prepare for any shift in growth.

\textsuperscript{15} BRICS - Brazil, Russia, India, China and South Africa economic group.
of trade as a result of economic volatility. According to Lorange (2009), we are bound to see further changes in sea transportation patterns.

5.5 Employment

Ship owning is a concept linked to employment – with a range of ancillary industries quite dependent on it and its operations. In the data analysis it was mentioned that there is a lack of access to ships for practical training of cadets, the improving of locally owned ships or through partnerships with foreign ship owners will actualize the ship owning concept link with employment. When cadets are able to receive training on board, normally such cadets are marketable and easily absorbed by shipping lines that require seafarers of their calibre. In support of this, upon the registration of the Greek owned MT Lefkas vessel, Mr. Kosta Argyros expressed the importance towards the employment of the South African seafarers. He further expressed that the registration of MT Lefkas is not only restricted to bunkering operations but many economic benefits such as surveying, offshore services and crew changes will be introduced (South African Maritime Safety Authority, 2016).

Taking into consideration all the statistics and complexities which are available, it seems that shipping will contribute actively to the South African economy in various ways.

5.6 Ship registry

According to the data analysis in Chapter 4, the South African registry has made positive progress in reforming its past unattractive laws, as the registry has recorded 3 ships – two in 2015 and one in 2016. A major accomplishment and indication that the improved version of the registry is heading to a positive direction was evident when a Greek owned ship, MT Lefkas, which previously flagged under Liberia was reflagged to operate under the South African colours. On the same vein, Safmarine announced, which moved to Denmark in 2012, during its 70th anniversary that it would relocate its head office to Cape Town, South Africa (Maritime Review Africa, 2016). It is unclear at this stage as to whether if this means that Safmarine would be reflagging some of its fleet under the South African registry but whatever the
outcome the reformed South African registry is showing positive indications for future growth.

At this point it is important to mention that there might be South African ship owners who exist and have registered their ships elsewhere. Due to lack of accurate statistics and a consolidated database of ship owners, shipping companies and operators, it is thus a reason this dissertation cannot conclude that there are only 2 South African owned ships.

5.7 Recommendations

- A growth-orientated environment is key with clear policies to support the indigenous participation.
- The prospects of South African owned ships might be dependent on the comparative cost advantages, which can allow South Africa to specialize in one of the facets either ship owning, operator, management or chartering.
- South Africa should seek to establish credible ship financing institutions e.g. Ship Financing and Ship Building Fund (SFSBF) or liaise with existing financial institutions in aim of providing funding services. Research could be carried out on how and what kind of structure is required to create a suitable financing institution that will work in line with the South African maritime industry.
- The Broad-Based Black Economic Empowerment (BBBEE) design and implementation should not hamper any foreign investments or business relations in the South African shipping industry but accommodate all walks of life, considering that shipping is international. An area of further research is how BBBEE can have a positive influence on the industry and at the same time fairly and inclusively attracts local and foreign ship owners.
- South Africa should venture into strategic collaboration with other major maritime nation to gain access to wealth of shipping knowledge and expertise.
The South African government needs to invest heavily in maritime education to create a pool of maritime professionals to lead and manage the country’s maritime industry. It could enter into strategic collaborations with proficient maritime nations for knowledge and skills transfer.

Research could be carried out on cabotage services as to distinguish how it can be approached or whether markets that exist have potential for growth.

Extensive professionalism is required for this industry to succeed and South Africa needs to learn that any political influence will distort the industry in one way or for the worst. The maritime industry involves a lot of dynamism and professionalism, which are key drivers in creating competence to succeed within the shipping business.

Local ship owners should have access to contracts supported by sustainable and forward-driven legislations that will develop the competitiveness of local ship owning.

For commodities exported from the country, a change from Free on Board (FOB) to Cost, Insurance and Freight (CIF) is imperative to get South African shippers proactively involved in the transportation process.

The South African ship owning association needs to assertively represent local ship owning interests.

All factors considered no overall conclusion could be drawn in this study. Therefore, the author suggests that there is room for policy makers to remedy the development of ship owning through investments and reforms. It is believed that ports, logistics systems and customs administrations investments especially are key, as well-equipped infrastructure has the potential of accommodating largest ships and increase the number of port calls. This has a potential of improving the cargo volume substantially thus allowing ship owning to develop around sustainable cargo volumes. The essence of ship owning is to understand when to acquire a ship at a reasonable price, acceptable financing cost and chartering it out at a favourable rate etc. Such requires (Lorange, 2009):
Excellent forecasting of the market, interest rates etc., together with an understanding of critical movements in important underlying factors.

- Timing is key – predicting freight rate market fluctuation
- A futuristic view of the shipping cycle
- An opportunistic instinct – to move fast when there’s shift in the markets
- Economies of scale – investing in different market segments or in a series of ships when seeking financing
- World-class financial and management skills
- Low cost of capital
- Good governance – open attitude and action orientation, it is important to experiment and work fast.

Meanwhile the attention is still on the Far East region this may be the time for South Africa to improve its indigenous maritime participation and develop its local ship owning capacity so that when the trade pattern shift to Africa, the shift should find South Africa physically, economically and culturally prepared to compete competitively globally.
6. References


