

2015

UKSR Advisory Panel Report

REVIEW OF THE UK SHIP REGISTER AND
RECOMMENDATIONS FOR FUTURE IMPROVEMENTS

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1. Executive Summary

1.1 **The UK Flag has the potential to be “the flag of choice for quality owners: large, dynamic, international and highly influential”.** This is the conclusion of the UK Ship Register Advisory Panel (UKSR AP) - an independent group of representatives from the shipping industry established to review the current performance of the UK Ship Register (UKSR). The Panel sees it as imperative to address the relative decline of the UK Flag compared to its competitors. **The Government must take decisive action to arrest this decline given the importance of the Flag in supporting the wider UK maritime sector, which accounts for £9.9bn of GDP.**

1.2 Since 2009 the total number of ships in the world fleet has increased by 5%, however during this time, there has been a significant decline of 36% in the number of ships registered in the UK. This report aims to understand the reasons behind this and provides a history of the UKSR, including details of periods of both growth and decline. This analysis demonstrates that the causes of recent decline cannot be solely attributed to higher European legislative standards in the face of stiff global competition, as the most successful EU Registers have continued to grow over the last 5 years whilst the UK and other EU National Registries have declined.

1.3 Recognition is given to successful initiatives that have been delivered over the years which have enhanced growth of the UKSR, including improving efficiency within the registration process, enhanced customer service, and most significantly, the introduction of Tonnage Tax in 2000. However, focus has also been given to understanding reasons for decline, which includes the UK’s inability to compete in a global commercial market and the perception of gold plating international standards. **It is evident that barriers to the attractiveness of the UKSR are not only caused by what the UKSR can offer, but also the delivery of what is offered.** Examples include:

- the efficiency of meeting worldwide customer survey and inspection (S&I) requirements;
- a risk averse culture with resistance to applying flexibility and delegation;
- a culture which does not encourage nurturing of relationships with industry;
- the lack of a visible leader / advocate committed to building relationships to grow the flag;
- a lack of global presence;
- the lack of a strong brand identity for the UKSR; and
- an inability to pay competitive market salaries, impacting the recruitment and retention of Maritime and Coastguard Agency (MCA) surveyors of the requisite quality and experience.

1.4 The Panel’s initial analysis suggests that cost is less of a barrier to growth. **If anything the MCA is currently *undercharging* compared to competitors and so there should be potential, through a review of fee structure and surveyor utilisation rates, to achieve a better rate of return for the UK taxpayer from the UKSR. There should also be a review of ownership registration criteria with a view to widening the UK’s potential market without reducing the quality of the offer.**

1.5 The report proposes a new Vision and a set of guiding principles to arrest the relative decline. In essence these are about creating a more commercial culture, with strong and visible leadership making an impact on a global scale, and with terms and conditions and a performance culture geared around quality, customer service and achieving growth. The Panel recommends that the Government adopts or develops this Vision and also, within the next 3 months, sets out its goal in the form of a medium and long term target for growth in the UK Flag. **The Panel recommends that a target of 2% of world tonnage (circa 30m GT**

based on current world fleet growth forecast) to be under the UK Flag by 2020 and that this percentage of world tonnage should at least be maintained thereafter.

1.6 The Panel has explored options for how this Vision and target could be best delivered, including alternative models such as Trading Funds, Public Corporations and privatisation, outlining the pros and cons of each.

1.7 The Panel has concluded that the UKSR should be established as a separate legal entity, in the form of a public corporation. This provides the best balance between public sector accountability and ability to operate commercially and would also create an opportunity to re-establish a strong brand identity for the UKSR. This could be in the form of a statutory corporation (like a trust port) or a GovCo, sitting as part of or alongside MCA to ensure that connections e.g. with the Coastguard functions, Port State Control and vessel safety policy responsibilities are maintained. Whilst such a body would be small, it would have the potential to generate a healthy operating profit, significantly outweighing any diseconomies of scale.

1.8 The Panel recommends the Department for Transport commissions a detailed independent report as soon as possible to investigate the alternative business models for the provision of UKSR services with a view to implementing changes in 2016. In the meantime (as a staging post to this fundamental reform) the UKSR should operate with more autonomy within the MCA, with a strong visible leader and external advocate not distracted by other responsibilities. The appointment for this post should be made within the next 3 months.

1.9 Finally, the Panel would like to thank the MCA for taking the initiative in commissioning this independent Panel report, and the Panel is happy to continue to provide an industry input to the work going forward. A strong partnership between industry and Government will deliver the best outcome for the UK Flag and the wider UK maritime economy.

2. Introduction

2.1 The UKSR Advisory Panel was commissioned in September 2014 by the MCA Director of Maritime Safety and Standards. The purpose of establishing this group was to create an independent panel to review the current performance of the UK Ship Register and consider the conditions which will enable the UK Ship Register to become more internationally competitive and to be the obvious first choice for owners and managers of high quality ships. The ultimate objective of the UKSR Advisory Panel is to produce a final set of recommendations of actions needed to improve the appeal of the UK Ship Register, without compromising its high international reputation for operational quality and technical authority.

2.2 The UKSR Advisory Panel is chaired by Robin Mortimer, the CEO of the Port of London Authority (PLA), and comprises a number of representatives from the shipping industry, including the Chamber of Shipping, shipping companies and ship management companies, as well as a representative Classification Society. In addition, the Panel is joined by a representative from DfT to ensure collaboration and coherence with the DfT Maritime Growth Study which is being conducted in parallel with the work of the UKSR Advisory Panel. This broad coverage of representatives enables the Panel to exploit knowledge and experience of the wide interests of the shipping industry, ensuring that a holistic view is taken when assessing current performance and determining the desired 'to-be' position for the UK Ship Register. A full list of Panel members can be viewed at Appendix 1.

3. Background

The UK Ship Register from the 1970s to present day

3.1 The UKSR is administered by the Maritime and Coastguard Agency and is one of the best performing flags in the major Port State Control regimes. It has a reputation for maintaining the highest international standards. However, whilst the UK takes pride in the reputation it has earned for high quality standards, in the highly competitive global market within which we operate, it has not proven possible for the MCA to both maintain and grow the UK Ship Register.

3.2 Up to the late 1970s it was almost unknown for UK-owned ships to be registered outside of the UK. However, during the shipping market collapses of the late 1970s and the mid 1980s the traditional ownership model of the UK registered fleet became unsustainable, resulting in ships being sold or flagged out. The decline in terms of the UK Flag fleet between 1974 and the late 1980s was due to a series of economic circumstances including fuel prices (the 1970s oil shocks), freight rates, interest rates and crew costs. Between the late 1980s and late 1990s the UK Flag was not seen as commercially attractive with the UK authorities perceived to 'gold plate' international standards, placing additional demands and costs on owners and operators, with no real upside.

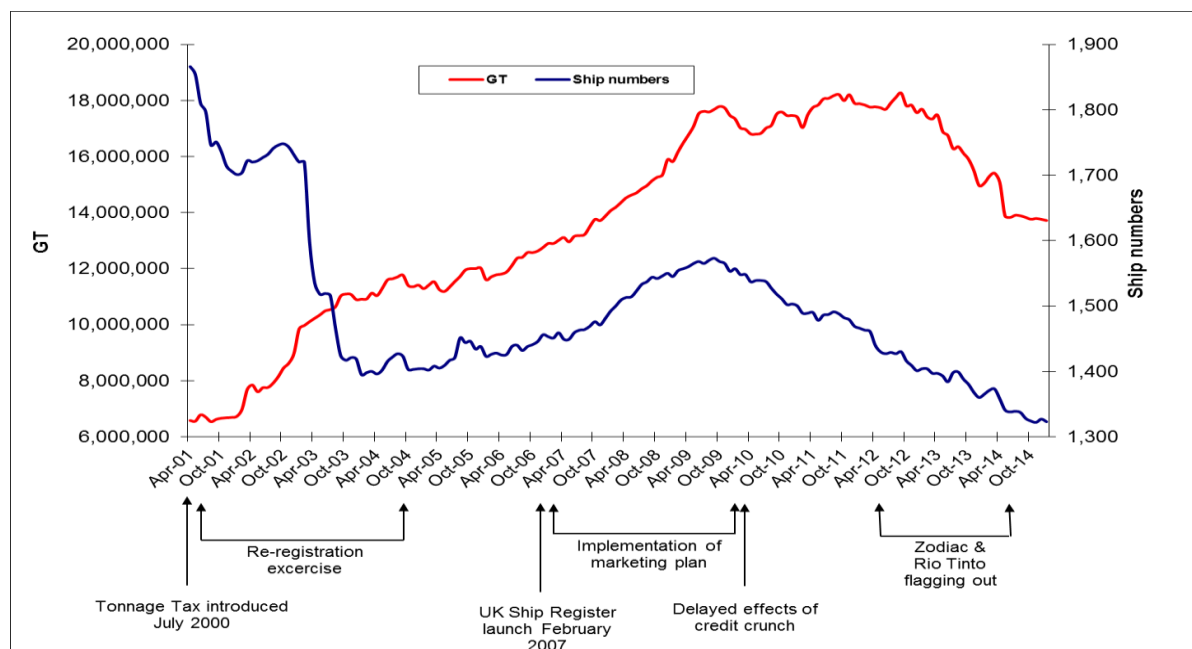
3.3 In autumn 1997 the Deputy Prime Minister established the Shipping Working Group, a partnership with industry, with input from key maritime interests and representation from other Government Departments. The outcome was the White Paper – British Shipping: Charting a New Course. Following this, the MCA made a commitment to the revitalisation of the British shipping industry, supporting quality shipping and eliminating sub-standard shipping. A new unit was established within the MCA to promote the UK Flag and attract more ships to the UK Register. This unit reviewed all aspects of the registration process to make it simpler and more streamlined and undertook initiatives to increase the size of the register - as a result the register started to grow at a steady rate. However, whilst GT continued to increase steadily the ship numbers decreased. This was due to the re-registration exercise whereby ships that didn't reapply for registration automatically fell off the registration statistics. A further reason for this decrease was the prevailing trend for newer and larger ships replacing smaller and older ships.

3.4 In 2000, the UK saw the introduction of a new Tonnage Tax regime for ship owners that was attractive, internationally competitive and sustainable. This enabled shipping companies to elect to pay Corporation Tax on the basis of the size and number of ships they operate, instead of the profits and gains set out in the company's accounts, based on eligibility requirements (companies who operate "qualifying ships" which are "strategically and commercially managed" in the UK). With the support of owners, the regime also introduced a requirement for companies to commit to train new recruits every year, to nurture and protect UK talent. This subsequently began to address the maritime skills shortage using the Tonnage Tax regime alongside the support for Maritime Training (SMarT) scheme to subsidise seafarer training and provide additional targeted funding. Since the introduction of Tonnage Tax, recruitment of professional seagoing officers has doubled, and the UK owned and registered fleets have grown three and six fold respectively.

3.5 After this initial success the growth of the UK fleet began to stagnate. The UKSR was reviewed with a view to identifying possible improvements that could be made to the service in order to rejuvenate the growth. The new UK Ship Register was officially launched in February 2007 by Shipping Minister Dr Stephen Ladyman, with a number of new initiatives designed to improve the level of customer service.

3.6 Since Autumn 2012 as a result of the downturn, whereby owners were looking to streamline their operating costs (with two operators Zodiac and Rio Tinto transferring a total of 83 vessels totalling 4.4m GT alone), combined with the Government's marketing freeze and lack of new policy initiatives to mirror our flag competitors, the UK fleet has decreased on a monthly basis. Whilst there have been efforts to showcase what the UK has to offer (e.g. the London International Shipping Week in 2013), tonnage has continued to decline. In the last calendar year, 19 new vessels joined the UK Flag, however 66 vessels transferred their registration elsewhere. As at the end of December 2014 the UK fleet stood at 13.8m GT and 1,327 ships (taken from MCA UKSR stats).

The graph below shows trends in the growth / decline of the UKSR since 2001.

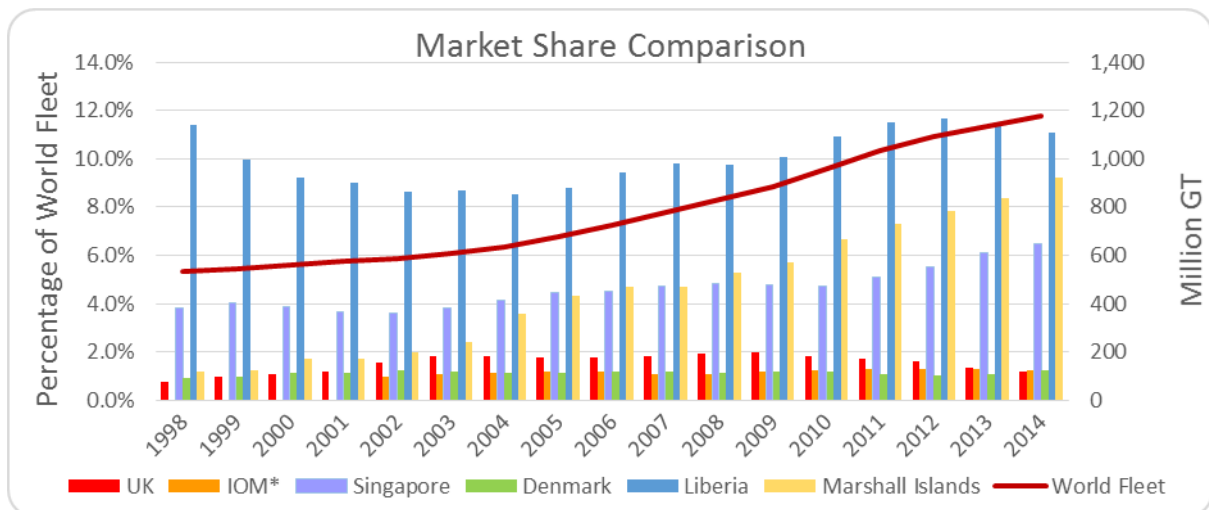


3.7 In order to address this recent decline, a Survey and Inspection Transformation Programme (S&I TP) is currently underway within the MCA. It primarily aims to design an enhanced methodology for survey and inspection activities so that the service provided to customers whether as part of the UKSR or wider statutory responsibility is as efficient, responsive and high quality as it can possibly be. Changes being explored include:

- Anticipated tasking and future workload of the S&I community.
- Numbers, skill sets, location and structure of surveyors/survey teams.
- Terms and Conditions for S&I Staff including remuneration and allowances.
- Supporting Information Communication Technology (ICT) requirements.
- Prioritisation of activity.
- Income, fees and charging regime.
- Cost profiling.
- Identification of dependencies and relationships with the broader stakeholder community.

The Programme will identify options for a future structure, each of which are to demonstrate any associated costs as well as organisational and efficiency advantages.

3.8 The trends above provide evidence that customer needs and requirements are constantly changing, and the evolving and competitive nature of the global market makes it more difficult to sustain business growth without making significant changes to the way we operate. The graph below provides a reflection of the relative market share of the UK compared to other flags analysed for comparison in Appendix 2. This shows that the relative decline in the UK fleet since 2009 has been significant – the UK market share has fallen from almost 2% to 1.2%.



National, Open and International Registers

3.9 A ship's flag state exercises regulatory control over the vessel and is required by international agreements to inspect the vessel regularly, certify the ship's equipment and crew, and issue safety and environmental protection documents. The organisation that actually registers the ship and certifies it for compliance is known as the "Registry." The Registry is usually part of the flag state although, as in the case of Luxemburg, Panama, Liberia and Marshall Islands they are run by a private entity. Some nations only allow vessels that are owned by companies or persons that are residents of that country. These registries are known as "Traditional" or "National" Registries. Other nations, on the other hand, allow companies and persons from many other countries to register their vessels under that nation's flag. These are known as "Open" Registries. A number of countries differentiate further by offering an "International" Register which, whilst still maintaining the ownership obligations, allow for dispensation from some national flag state obligations particularly regarding employment and collective bargaining agreements. Examples include the Norwegian International Register and Danish International Register. Whether a register is National, International or Open does not necessarily give any indication of quality. There are high quality Open Registers as well as poor quality National Registers – and it is not possible to generalise (as for example may have been the case in the past in terms of "flags of convenience"). Further information regarding National and Open Registers can be found in Appendix 3.

EU Context

3.10 Looking specifically at the EU, the largest EU Flags currently are: Malta (Open Registry), Greece (National Registry) Cyprus (Open Registry), UK (National Registry) and Denmark (DIS International Registry). Significant growth has been seen over the last 10 years in the EU Open Registers of Madeira (741%), Luxemburg (572%), Malta (133%) and Gibraltar (128%). In total the EU Open Registries have grown by 42% (vessel numbers) between 2005 and 2015. Over the same 10 year period we can see that those EU countries operating National Registers have generally not grown as fast (9% growth in total) and have fallen back (-4%) over the last 5 years while the Open Registries have continued to grow (+17%). Indeed in the first two months of 2015 Malta has seen a further 9% growth whereas the UK has seen a 0.6% decline.[source: Clarkson Research Services Ltd. World Fleet Register Online]

3.11 Whether an EU Member State Ship Register is classified as an Open or National Register will not enable ships registering to bypass compliance with a number of EU laws, which are seen as barriers by some shipowners (see below). Nonetheless it is clear that there is still a significant demand for a quality EU Flag and that Open Registers are preferred. The UK Flag is a National Flag with a good reputation that has fewer restrictions on Registry than most EU Flags. However some restrictions, particularly on ownership, do remain and it is possible that a more open register could enable additional markets to be exploited.

3.12 Whilst it is important to examine every avenue for the improved operation and commercial attractiveness of the UKSR, the wider legislative and political context must also be understood as creating some inherent constraints for all EU based Registries (whether Open or National). EU and UK employment and social legislation set some of the highest standards in the world and whilst the overall desirability of this legislation is not being questioned by the Panel, in the shipping sector where owners are free to flag their ships with Registries of countries outside the EU, this inevitably affects the commercial attractiveness of EU Member Registries for some owners (whilst being attractive for others). Examples include:

- UK employment laws (generally applicable to UK residents whose ships do not trade wholly outside UK waters; they may also apply to seafarers on foreign-flag ships if they can show that the UK is the base of their employment):
 - National Minimum Wage Act 1998
 - Employment Rights Act 1996
 - Trade Union and Labour Relations (Consolidation) Act 1992
- EU Legislation:
 - Article 45 of the EU Treaty: Freedom of movement for workers shall be secured within the Union. Such freedom of movement shall entail the abolition of any discrimination based on nationality between workers of the Member States as regards employment, remuneration and other conditions of work and employment.
 - Migrant Workers Regulation 1612/68

(The above have been implemented for UK shipping by the Equality Act 2010 (Work on ships and hovercraft) Regulations 2011)

- A range of other EU Employment laws, including in relation to employee consultation, redundancy, transfer of undertakings, treatment of part-time and pregnant workers, parental leave and sex discrimination

3.13 The attractiveness of the UK Flag can also be impacted by other domestic political factors and policies. For example UK-Argentina relations (affecting UK ships that trade to Argentina), political unrest in Libya or trade sanctions in Iran. The impact of marine piracy

spreading from the Red Sea to other parts of the world and the challenges in reconciling existing UK domestic legislation to facilitate the use of armed guards on board ships when transiting high risk areas made a number of owners look to other flags where these challenges were either not there or better and more quickly addressed.

UK regulatory context

3.14 As noted, the UK Ship Register is considerably less restrictive for shipowners than numerous other national or “first” registers. Restrictions as to crew nationality are minimal even in respect of the few categories of ship to which they apply at all. There are none of the nationally-applicable collective bargaining agreements regulating crew terms and conditions of employment that are commonplace throughout Europe, whilst few UK employment rights apply to non-UK residents on board UK ships.

3.15 Moreover, registration of a ship in the UK is open to a wide variety of people. Ownership is divided into 64 shares and the majority must be owned by persons or bodies corporate qualified to own British ships. It is estimated that around 10% of the ships in the world fleet are potentially eligible for UK registration under the current rules. Further consideration is given below to widening the eligibility criteria to expand this potential market.

3.16 There are however some additional legislative constraints which affect the attractiveness of the UK, including restrictions on ‘marriages at sea’ and the ‘use of armed guards’. Removing or amending such restrictions would provide a potential opportunity to open the door to more quality customers.

4. Value of the Flag

4.1 It is difficult to identify a direct and linear relationship between the number of ships (or the amount of tonnage) registered in a country and the financial benefit that those ships bring. However it is clear that there are a number of associated and indirect benefits that an international trading nation with a successful maritime sector may realise:

- A successful UK Flag provides a strong indicator of the strength and vibrancy of the UK Maritime Sector on the international stage. A successful UK Flag also contributes directly and indirectly to the economic vitality of the wider UK maritime sector which accounts for £9.9bn of GDP. This role of the UKSR, in flying the Flag and the MCA as the regulator of UK maritime activity are both integral to the success of any Maritime Growth Strategy. The UKSR within the MCA are the key points of contact between Government, industry and all stakeholders in providing the environment for growth and ensuring that the UK maintains a reputation for quality.
- The protection of the UK marine environment and UK maritime interests at a global political level are also greatly increased by a large, modern and vibrant flag. The UK delegation at IMO and EMSA will speak with more influence at global and regional regulatory forums.
- A large UK Registered fleet should mean an increased percentage of the ships regulated by the MCA. In this way the UK Government will be in a better position to contribute to managing the marine risk of commercial shipping activity around the world’s oceans.
- As we have seen from other Flag Administrations it is possible for a Ship Registry to operate profitably and thus fund high quality services that quality ship owners expect. A successful well managed and appropriately scaled UKSR should be able to operate profitably and provide a net contribution to the operational expenditure of the MCA.

5. Case for change / opportunities

5.1 As detailed in the background, there has been a significant decline of 36% in the number of ships registered in the UK since 2009 whilst the total number of ships in the world fleet has increased by 5%. This decline cannot be explained by the wider legislative and political context within the EU as other EU based flags (Cyprus, Denmark, Malta, Netherlands) have grown over the same period. In 2014 alone some 66 ships left the UK Flag whilst only 19 joined. It is clear that the UK Flag, despite its many qualities, does not appear to be as commercial, competitive or attractive to international shipowners as it should be.

5.2 According to the IMO, world sea trade is expected to double by 2030 as emerging economies develop further. As a maritime nation the UK should be in an excellent position to capitalise on the opportunities this growth will undoubtedly present. European and British ship owning remains buoyant and it is clear technical, operational, commercial and financial expertise is readily available presenting significant advantages over other regions. The UK Government's review and focus on maritime growth provides a once in a generation opportunity to make the fundamental changes needed to stem the decline and reinvigorate the UK Flag. The EU needs a member country to offer a high quality, responsive maritime regulatory regime and there is every opportunity for the UK Flag to be "open for international business" and become the Flag of choice.

5.3 Whilst the value of the flag is covered in more detail elsewhere in the report, it is clear that a strong flag brings not only direct financial benefit to the UK but also strengthens the maritime cluster as a whole helping to increase the attractiveness of the UK as a place to do maritime business. Around 219,400 highly skilled people work in the shipping industry adding £9.9bn to GDP. A weak UK Flag could over time potentially threaten this success story.

5.4 Part of the work of the Advisory Panel has been to research why the UK Flag is in significant decline whilst others are growing. In a diverse international industry such as ship-owning, there will be many reasons why shipowners (Domestic, European or International) may choose one flag over another. In the same way as choosing any other service provider, in registering a ship an owner will, amongst other factors, take into consideration: cost (fiscal and operational), regulatory framework (scope and implementation), quality and service. To explore this further, numerous face to face meetings have been held with a broad selection of ship owners and managers operating cruise ships, ferries, bulk carriers, tankers, car carriers and specialist ships. All these owners are either operating ships under the UK Flag or have operated ships in the past.

5.5 Based on these interviews it is clear that the UK Flag has the capability of competing on quality and cost yet is failing on service levels. The overall message was that the flag could be made significantly more attractive. All the owners agreed that if change was made then consideration would be given to returning vessels to the Red Ensign (unless the reason for 'flagging out' was to move to a Registry beyond EU legislation altogether).

5.6 There are a number of significant barriers that will need to be overcome if there is to be a resurgence in the UK fleet addressing the service issues highlighted, and these are summarised below:

- a. The MCA is seen to suffer from a *'blame culture'* that does not allow for its surveyors to apply their own discretion, albeit in a necessary consistent fashion. Issues tend to be escalated rather than resolved at an early stage which in turn leads to delays and higher indirect costs for owners.
- b. A *'civil service' mentality* which damages the MCA's provision of a high quality commercial offering. Owners need a 24 hour 365 day service from a flag to operate

properly and not have unnecessary delays foisted upon them because of the *unwillingness or unavailability of surveyors to attend a vessel at a time that suits the customer*.

- c. The *diverse range of services* the MCA is responsible for (Coastguard, SAR, Port State Control, Pollution and Ship Register) are perceived as detrimental to the commercial performance as a Flag Administrator. Senior leadership is inevitably pulled in many different directions as exposed recently with the consolidation of Coastguard Stations and changes to helicopter SAR.
- d. *Inadequate compensation packages* on offer to surveyors act as a disincentive for highly skilled professionals to join the MCA
- e. *A culture which does not encourage nurturing of relationships with industry*. A real and perceived lack of resources, combined with cultural constraints on proactively travelling to meet potential and existing customers, with the necessary hospitality involved.
- f. The *lack of a global presence*, most notably in other major maritime clusters such as Singapore, cause additional expenses to owners.
- g. The UK Flag is the only mainstream flag that does not take business constraints into consideration when making decisions. Owners are committed to the highest standards of safety and want to be held to account however other flags work far better with owners to find solutions. This *lack of flexibility* can add considerable direct and indirect costs to owners.
- h. *'Gold Plating'* interpretation of international rules (both real and perceived) whilst commendable on one level nonetheless can add further significant costs to ship owners and deter potential new customers
- i. *No visible leader / advocate* with deep experience of the shipping industry to promote the flag particularly at senior levels in the shipping sector.
- j. Wider *legislative barriers to business*, including an inability to conduct marriages at sea; constraints on the use of armed guards; and over-restrictive eligibility criteria for admitting ships onto the UK Flag.

5.7 For clear commercial and societal reasons owners want to operate under a high quality flag working in partnership with the Flag Administration to ensure they operate safe and efficient ships. The opportunity to develop such a regime is there and by fundamentally improving the approach of the MCA by adopting a customer friendly, risk based approach based on a partnership model the opportunity exists to not only stem the decline but to significantly grow the UK Flag once again. This should include deciding on a basis of risk if survey and inspection work can be delegated to a Recognised Organisation (RO) in the same way as other quality flags. Other quality flags such as Singapore and Isle of Man have realised this and are reaping the rewards.

5.8 Growing the flag can reap other indirect benefits in developing the overall maritime cluster. For example the existence of a strong flag, classification societies and ship management in one location could be a compelling reason for owners to base the operations of their ships in the UK bringing further jobs and investment.

Costs

5.9 Whilst service levels and culture are the main reason why industry views the UK Flag as falling behind competitors, costs seems to be less of a concern. In fact, the MCA may be

undercharging compared to competitors, implying that there is an opportunity to make a better return for the UK taxpayer whilst still remaining competitive.

5.10 The MCA fee structure for surveys and other work undertaken is predominantly based on an hourly fee rate of GBP94 per chargeable hour. Actual fees are based on a long list of standard hours for each survey/review of plans for a particular type of survey. It is not clear when the standard hours were derived and if they have ever been revised since implementation. It appears that the hourly rate is not based on total cost recovery rates to undertake the entire job in hand (total cost is surveyor time, support time to process the job and associated back office work that has been undertaken). Although there is provision for uplifting fees to cover costs, the process is very complex and bureaucratic, and inevitably means that there is a lag in bringing fees up to a realistic level. A simpler mechanism for updating fees would be desirable in order to avoid infrequent but very large increases in costs to ship owners.

5.11 A top level analysis of a small sample of UK Flag vessels over a 5 year survey cycle shows both a level of inconsistency in the fees charged and a fee structure which charges significantly less than the market rate. The average cost per vessel per year for 4 UK Flag ships over a 5 year survey cycle was £2,600. (Based on survey and inspection fees, crew certification, registration and other documents / certificates.) In comparison a review of a similar sample of Liberian flagged vessels showed that the average fees per vessel per year was approximately US \$10,000 (£6,700).

5.12 MCA fee levels therefore appear on the lower side compared to both a Liberian Flag comparison and a classification charging fee scale (Classification and Liberian Flag fee levels are ball park similar levels). Fee levels from a classification aspect are generally charged per survey or certificate not an hours based system, and block fee arrangements are often available to ship owners who welcome the flexibility and certainty that these bring. The MCA does not currently offer block fee arrangements and this should be considered. Furthermore the hourly rate being charged by the MCA does appear to be on the low side. Several other classification society hourly rates are higher than the present MCA rate. However, when foreign travel is involved to carry out survey and Inspection work the costs charged by the MCA rise considerably. Travel time and expenses to remote locations (Far East / Australia / West Coast USA etc.) can add significant time and costs and mean that the overall expense of MCA surveys are uncompetitive or even excessive when compared to survey work carried out by classification societies or other flags.

5.13 In terms of productivity, the utilisation rate of MCA surveyors is reported at 65%¹ which is below the benchmark utilisation used by a classification society of 75% utilisation per chargeable head (equating to approximately 1250 chargeable hours per chargeable head per year). If the UK Flag were to grow and surveyor utilisation increased, greater margins would be achieved with the existing headcount.

UK registration criteria

5.14 Despite the relative openness of the UK Register (see Background), the Panel considers that a review of the rules concerning ownership of British ships and relaxation of some of the requirements is worth undertaking as it could increase the size of the potential market from 10% of global tonnage to a higher figure. It is understood that any UK Government will wish to maintain a genuine link between the flag and the ownership as required by United Nations Convention on the Law of the Sea (UNCLOS). However, this concept is not defined in UNCLOS and is therefore somewhat subjective. This review would also look at the ability to refuse the entry of vessels onto the UKSR if they did not meet a

¹ Based upon an analysis undertaken in 2012/13

predetermined quality threshold or if their registration was not in the interest of the UK. This would assist in maintaining the UK's reputation for quality and not sacrifice this in the pursuit of quantity.

6. Vision

The vision is for a marine administration that has a focus on being the flag of choice for quality owners. The Flag will be large, dynamic, international and highly influential.

6.1 Principles for a successful Register

- a. An administration supported by a high performing appropriately scaled team incentivised to deliver growth.
- b. Operate within a regulatory framework, where the UKSR can actively market quality tonnage from the International market and have the legislative and organisational powers to effectively manage the quality of the ships on the Register.
- c. Led by a dynamic individual with extensive experience in commercial shipping who can command respect of the industry and ensure, delivery of a customer focused culture, and a fast and efficient service.
- d. Self-funding with freedom to make commercial decisions to achieve targets and objectives based on need without having to compete for scarce government resources.
- e. Having the ability to provide an attractive employment package to surveyors, including competitive market salaries.
- f. Implementing proportionate regulation with risk based/cost benefit at the forefront of decision making.
- g. Recognising the constraints of EU legislation the UK Flag will be the most attractive flag within the EU.
- h. A strong partner with key stakeholders including industry trade bodies.
- i. A strong partner with academic institutions and classification societies to inform policy making, the application of compliance requirements and at the forefront of maritime based research.
- j. Able to strongly influence at IMO and other supra governmental organisations to protect the value of the flag to owners and remove legislative barriers which restrict desirability for customer and prohibit growth.
- k. Having the means to manage and control the quality of tonnage on the Registry and so maintain a position in the top 10% of the Paris MoU 'white list'²
- l. A visible, successful and respected Ship Registry that actively promotes UK shipping and uses this influential to be an advocate for UK Maritime Growth.

² The "White, Grey and Black (WGB) List" presents the full spectrum, from quality flags to flags with a poor performance that are considered high or very high risk. The "White List" represents quality flags with a consistently low detention record.

7. Models for change

7.1 This section sets out four broad options for a future UK Ship Register, in terms of the type of organisation and its governance, and analyses the pros and cons of each. These are:

- Status quo: an Executive Agency of the Department of Transport
- Government Trading Fund
- A public corporation – whether a statutory corporation or a Government Company (GovCo); the latter could be wholly or partly owned by the Government; and
- Privatisation

Status quo – DfT Executive Agency

7.2 The Maritime and Coastguard Agency is an Executive Agency of the Department of Transport. Executive Agencies are effectively operating divisions within Central Government. They have no separate legal identity from their parent Department, they are staffed by civil servants and their accounts are incorporated into their parent Department. Whilst Executive Agencies are able to operate on a day to day basis at arm's length from Ministers, with a separate CEO and management team, they are governed by the same operating procedures as for any other part of the civil service. The MCA has a broad remit of responsibility in addition to the UKSR, including a number of areas which require similar expertise to the UKSR surveyors, such as Port State Control, vessel safety policy (equipment, stability etc) and fishing vessel safety etc.

7.3 This model ensures the UK Ship Register is seen as a core part of HM Government, which in turn reinforces its status and credibility as a flag with high standards and reputation. At the same time however, the model creates a number of constraints, including:

- a culture geared towards cost recovery on existing business, not profit and growth; there is no separated profit & loss account for this function within the MCA; nor are there publicly available targets for growth (in tonnage or operating surplus);
- civil service pay and conditions, providing very limited flexibility to pay market rates (a particular problem in attracting and retaining ship surveyors); and
- Civil service rules and culture, limiting the ability to operate successfully a commercial environment (for example reviewing survey and other fees, incentivising Surveyors through salary or bonuses and hospitality expenditure); therefore, arguably creating a more risk averse approach than would be possible outside Central Government.

7.4 Whilst the Panel applauds the current efforts of the MCA team to address some of the weaknesses in the current service through the Survey and Inspection Transformation Programme, the Panel also considers there is a strong case for exploring other possible models for the UKSR, and some of these are outlined below. These are set out broadly in order of increasing arms length from Central Government.

Government Trading Fund

7.5 Government Trading Funds (established under “The Government Trading Funds Act, 1973”) are a particular form of Executive Agency. Like other Agencies, they have no separate legal identity from the parent Department, and they are staffed by civil servants, but they are intended to mirror commercial entities in other respects. The two main criteria in the Act for the establishment of trading funds are:

- (a) more than 50% of the income of the body generated commercially; and
- (b) improved efficiency and effectiveness of the operations.

7.6 HM Treasury are the arbiters of the rules for establishing trading funds and publish detailed guidance on how and when these should be considered, and how these should be dealt with in terms of Government accounts. The Cabinet Office has also produced guidance covering trading funds (*Categories of Public Bodies: A Guide for Departments, December 2012*). In addition to the HMT rules, this specifies that “the number of staff involved [must be] large enough to justify a separate structure”.

Examples of trading funds include:

Name of body	Turnover (13/14)	Staff (13/14)
Ordnance Survey	£144m	1,191
UK Hydrographic Office	£131m	1,114
Land Registry	£382m	4,020
Companies House	£64m	967
QEII Conference Centre	£10m	43

7.7 Within the MCA, the service that covers the UKSR and ship surveying generates around £6.5m pa; in addition around £2.5m is generated through seafarers examinations and certification (MCA Annual Report and Accounts 2013/14). The total number of staff employed in the first two of these functions is around 200.³

Pros and cons of this model for UKSR

7.8 As can be seen, if the UKSR were to be considered for trading fund status, it would be very much at the small end of these bodies in terms of scale, and a business case would need to demonstrate that “the number of staff involved is large enough to justify a separate structure” and meet the efficiency and effectiveness test in the Act. The case would need to be based upon the increased revenue that a more focused body could generate, together with efficiencies, more than outweighing any diseconomies of scale than a separate entity. Given the potential size of the global market, even a very small annual growth in the Ship Register could significantly outweigh any additional costs.

7.9 A trading fund remains demonstrably part of Central Government and therefore carries no risk of losing the reputation associated with HMG. Trading Funds are run for profit, introducing a much more explicit driver for growth and efficiency. Against this, their ability to operate a more fully commercial culture remains constrained by normal rules governing civil service terms and conditions. Whilst it may be possible to achieve some flexibility (eg adjusted pay rates for professional staff to reflect market conditions), other constraints will remain.

Public Corporations

7.10 Public Corporations are Non-Departmental Public Bodies (NDPBs). Unlike Executive Agencies (including Trading Funds) they have a separate legal identity from a Government Department. They are mainly trading, market bodies, obtaining more than 50% of their income from fees charged to customers (though there are exceptions). Unlike Executive Agencies, non-Departmental corporations usually employ their own staff, whom are not therefore civil servants.

7.11 Ministers retain ultimate control over the body’s remit, but have less control than for Executive Agencies. Ministerial powers tend to include: making appointments to the Board (all or in part), taking decisions on appeal, and various requirements on approvals e.g. for borrowing or making sizeable investments. Ultimately, the Government can of course seek to

³ Figures based on MCA’s UKSR Team, Surveyors, Technical Performance Managers / Consultant Surveyors, Ensign, and approximate Admin Support

amend or abolish any statutory body via amending or repealing legislation, or dissolving a company (see below).

7.12 It is also worth noting that Cabinet Office guidance states that “NDPBs have a regional or national remit. Bodies which operate at a local or international level are rarely NDPBs.” However, there are exceptions to this general rule – the most obvious one being the British Council, which is classed as a public corporation and operates internationally.

7.13 Public corporations come in three forms (Cabinet Office):

“(a) a chartered or statutory corporation, undertaking or delivering a public service in given industry where ministers want to retain control over the body’s remit;

(b) a Government-owned company (such as a company limited by shares or by guarantee undertaking a commercial/trading function); and

(c) a Joint Venture or Public Private Partnership. These are partnerships or limited companies run in conjunction with a private sector partner.”

Examples of public corporations in each category include:

Name of body	Type
British Waterways (until 2013)	Statutory corporation
Port of London Authority	Statutory corporation
Channel 4	Statutory corporation
National Physical Laboratory	Government company (wholly owned)
Network Rail	Government company (wholly owned)
National Air Traffic Services (NATS)	Public Private Partnership

Pros and cons of this model for UKSR

7.14 Public corporations come in all shapes and sizes, from very large organisations (like Network Rail) through to tiny trust ports. However, in making the case for the UKSR to be established as a separate public corporation, similar basic tests could be expected to apply as for trading funds – i.e: would the organisation be more efficient and effective, taking account of scale?

7.15 The potential benefit of the public corporation model is that these bodies remain part of the wider public sector, with accountability to Government. At the same time, they are freed up from the rules governing civil service appointments and pay and conditions, and are expected to operate in a commercial manner.

7.16 Of the three basic types of public corporation, arguably the first model (statutory corporation) lends itself best to the UKSR remit

7.17 The most obvious practical challenge in moving to a statutory corporation model, which on the face of it has considerable advantages, is the need for new primary legislation. An alternative worth exploring could be the setting up of a new government company (GovCo) which would be contracted under existing MCA powers to carry out the functions of the UKSR. The advantage of this is that the GovCo could operate in a commercial manner as for other Public Corporations, but within an accountability framework to the DfT.

7.18 A public private partnership model could be considered as a more radical option, for example with the Government seeking an investment partner, or contracting out all or part of the function to a third party operator, whilst retaining a controlling interest. A similar approach was adopted for the National Physical Laboratory, operated as a joint venture company in partnership with Serco from 1995 to 2015 (though the Government has recently decided to take back full ownership from 2015 in that case). Against that, there would be the risk of

reputational damage, if shareholders or a private owner were benefiting from what some see as a core function for national Government.

Privatisation

7.19 Under this model, the UKSR would be sold to a private operator. Given that this would first involve separating out the functions within the MCA, this would inevitably need to be a staged approach, perhaps setting the UKSR up first as a separate operating division within the MCA, or perhaps as a trading fund prior to privatisation.

7.20 Whilst this model provides the cleanest differentiation with the current model, with a private operator able to operate on a fully commercial and profit maximising basis unconstrained by public sector restrictions, the transfer of a national regulatory function to the private sector in this way would be unprecedented in British jurisdiction. There would be a significant question about accountability (what happens if the company fails to perform?) and reputational impact (how would this affect the UK's standing e.g. in IMO etc.). It does not appear to be a realistic option.

8. Conclusions

8.1 The new Government after May 2015 has an opportunity to put the UK Ship Register on a more sustainable and profitable long term footing, generating wider economic benefits to the UK. Based on the evidence collected and analysis set out in this report, the Panel has arrived at a number of conclusions:

- A successful UK Flag provides a strong indicator of the strength and vibrancy of the UK Maritime Sector on the international stage. A successful UK Flag also contributes directly and indirectly to the economic vitality of the wider UK maritime sector which accounts for £ 9.9bn of GDP.
- Within the legislative context of being an EU member state there is a clear demand for a quality flag that is able to deliver international standard levels of service to quality ship owners. The UK Flag should aim to provide ship owners with the best offer of cost, quality and service within the EU and aspire to be *the* quality flag of choice within the EU and globally.
- Retaining the status quo model within the MCA is not an option if we, as a strong maritime nation, wish to arrest the absolute and relative decline of tonnage registered to the UK Flag.
- The culture of the UK Flag operation is currently more of a barrier to growth than cost. In fact the MCA may be undercharging for its services and there could be opportunities to increase income and operating profitability through a charging review and delegation of work on a risk basis to Recognised Organisations where this makes commercial sense.
- Whilst the UK is already a relatively open flag, there is potential to increase the percentage share of the global market that could register to the UK, through a review of ownership criteria, without compromising the quality on offer. In addition, opportunities exist to increase the UKSR customer base by making wider legislative changes, to reduce excessive restrictions which deter ships from registering on the UK Flag.
- Based on its analysis to date, the Panel propose that a new public corporation should be set up to operate the UK Ship Register as soon as is practicable and by the end of 2016 at the latest. This model provides the best balance between public and commercial sector culture and accountability to address the barriers

to growth identified. A Government Company, sitting within or alongside MCA could be the optimal solution, retaining the synergies with other MCA functions (eg Coastguard) whilst freeing up the UKSR to operate more commercially.

9. Recommendations

9.1 The Panel is making a number of recommendations for action to turn around the UK Flag in support of these conclusions. We have grouped these into (a) immediate (next 3 months – by the London International Shipping Week) (b) urgent (3 to 12 months) (c) and medium term (within 2 years). These recommendations will be fed into the wider Maritime Growth Study to contribute to delivering urgent and radical improvements to the UK Maritime Sector, noting the significance of the role which the UKSR plays in this.

Immediate (in next 3 months)

- The Government should set out its Vision for the future of the UK Flag. This Panel report provides an industry view on what that vision should be, including a set of principles to guide future delivery.
- Based on further market analysis of what is achievable, a stretching target should be set for growing the total tonnage registered to the UK Flag. In the view of this Panel, this should be at 2% of world tonnage (circa 30m GT based on current world fleet growth forecast) by 2020 and that this percentage of world tonnage should increase year on year.
- The MCA should continue to implement the Survey and Inspection Transformation Programme, and industry welcomes this initiative. This should go as far as possible within the current operating model to delivering a more commercially orientated service, in line with the Vision and Principles.
- DfT should agree and MCA implement greater autonomy for the UKSR within the MCA, with dedicated leadership (not distracted by other issues), clear targets and separate accounts set out on a profit and loss basis. This should be a transitional step towards more fundamental change in model. This must include a visible leader of the UKSR, with a strong industry background, recruited at sufficiently senior level to make a global impact within the sector.
- DfT should commission work immediately to develop the business case in detail for a different UKSR model – focussing on a new GovCo as the preferred option - and, closely involving HMT and other interested Departments. A decision in principle on this should be taken prior to the London International Shipping Week, so that the direction of travel of this work can be announced. .
- A thorough review of the hourly rate, fee structure and cost base should be undertaken by MCA. This should include detailed analysis of surveyor utilisation and back office efficiency and support. Consideration should be given for charging per survey/certificate issued rather than per chargeable hour with an increased focus on margin growth rather than a fee structure based purely on chargeable hours. Consideration should also be given to introducing block fee arrangements.

Urgent (in next 12 months)

- DfT and MCA should review the regulations on the registration of ships under the UK Flag, consider the extent to which existing restrictions as to ownership of shares in British ships are necessary and remove those that are found to be no

longer relevant. At the same time, powers to remove ships from the UK Register or to refuse to register ships should be increased to take account of not only quality, but also the extent to which the registration of the vessel falls within the interest of the UK. This review should also cover other restrictive areas within legislation. This should be done with a view to increasing the number of ships in the world fleet that the UK could attract, without reducing standards.

- A dedicated team within DfT should be set up to lead on the implementation of the business case for a different UKSR model, and secondments from industry to that team considered.
- A final decision on the detailed future model of the UKSR should be announced by the end of 2015.

Medium term (within next 24 months)

- A functioning, commercially focussed UKSR public corporation should be established and operating, together with a comprehensive strategic plan to ensure the profitable delivery of year on year growth to the UK Flag.

9.2 The UKSR Advisory Panel is happy to remain in place to provide industry support, advice and challenge as this work is taken forward in whatever form the new Government decides.

Appendix 1 – UKSR Advisory Panel Members

Name	Company	Position
Robin Mortimer	Port of London Authority (PLA)	Chief Executive
David Snelson	Maritime & Coastguard Agency (MCA)	MCA Non-Executive Director
Alastair Fischbacher	Independent	
Dave Barrow	Lloyds Register (LR)	Regional Marine Manager
David Dingle	Carnival UK	Chairman
David Peel	Rightship	Manager EMEA
Douglas Lang	Anglo-Eastern	Managing Director
Guy Platten	Chamber of Shipping	Chief Executive
Marcus Bowman	Holman Fenwick Willan (HFW)	Managing Partner
Mark Rawson	Zodiac Maritime Limited	QHSE Manager
Rob Day	BP Shipping	CFO BP Shipping

The Panel meetings have also been attended by the following MCA and DfT Representatives, to ensure coherence with the Survey and Inspection Transformation Programme underway within the MCA and the wider Maritime Growth Study taking place within DfT:

Name	Company	Position
Alan Massey	MCA	Chief Executive
Chris Thomas	MCA	Acting Director of Maritime Safety and Standards
Claire Stretch	MCA	S&I Change Director
Kirsty Wicks	MCA	Strategic Support
Nicola Rock	MCA	Secretary
Tom Borland	MCA	National Director - Business Delivery S&I
Rupesh Mehta	DfT	Deputy Director, UK Maritime Study Secretariat
James Kopka	DfT	Economist
Valerie Richardson	DfT	Policy Manager Maritime Growth Study

The final Panel meeting was attended by Maurice Storey – former Chief Executive of the MCA and current Chairman of Hatsu Marine Ltd - who also contributed to the research of the Panel by participating as an interviewee in the face to face meetings described under 5.4 of the report.

Appendix 2 - Comparative study of the UK Flag strengths and weaknesses against other comparable Flags

Lloyd's Register (LR) has undertaken a study of the UK Flag, from the perspective of a Classification Society. Field surveyors and Head Office staff deal with many Flags daily, and can see the effect that this interaction has on the ability of ship owners and operators to run their vessels efficiently and effectively. A number of people and different locations were used to produce the feedback on the flag states. A workshop was held and facilitated by the External Affairs Manager with representation from the External Affairs department, LR employees who have worked with the MCA, employees who have other regular contact with the flag discussed. The initial findings were reviewed by David Barrow (LR's Manager for Europe) and Sam James (LR's External Affairs Manager). The findings were then reviewed by the local LR office who hold the relationships with each of the Flags. The final report was reviewed by LR's Marine Director and Technical Directors before release

Being the "home Flag" for Lloyd's Register, and employing several ex-MCA staff who have experience in what the MCA delivers and what the client needs, gives an excellent practical insight into the performance of the UK MCA against a selection of comparable flags.

The tabulated results below compare those elements felt to be most important in a Flag and are scored from 1 to 10, with a higher score indicating better performance. In addition, SWOT Analysis have been produced to provide a comparison against other maritime administrations (Isle of Man, Singapore, Denmark and Liberia). These are available at Appendix 3.

In support of this study, the following opinions are offered specifically on the UK MCA - how we think the UK Flag is being held back, what would improve it, and what we consider it is currently doing well and could do more of.

What holds it back?

- Complex and unnecessary interpretations of international regulations make dealing with the UK Flag cumbersome and difficult.
- Inappropriate Ministerial and political influence.
- Inability to make its own legislation.
- The lack of full recognition of Government to the influence of shipping on the UK economy.
- The survey and inspection Administration having been impacted by being combined with HM Coastguard. This has affected staff recognition and reward, which has led to severe problems with staff recruitment and retention. The manning issues have resulted in the ability of the MCA to provide adequate technical support and a greater reliance on their Recognised Organisations.

What would make it better?

If the UK were to fully delegate 'international' surveys and retain the domestic surveys where their political risk is highest, this would allow them to concentrate their limited resources where they can really make a difference, both in terms of risk aversion and visibility for political masters. For example:

- Proper monitoring and auditing of its ROs and Certifying Authorities.

- Being prepared to finance assistance from industry experts, including their Recognised Organisations, when required.
- Having sufficient budget and willingness to conduct research to influence policy at an international level.
- Concentrating on retaining its current fleet initially, before considering how it could grow the fleet.
- More consultation with the industry along the lines of the UKRNES and SEAC groups.
- Leadership with a robust shipping industry background, who have influence and understand the needs of ship owners.

What it does well?

- Has kept a high quality fleet, retaining Paris MOU White List status for a long period
- It is still considered a flag with international influence and a good reputation.
- Military protection for the UK fleet from the Royal Navy.
- Strong legal and financial system (though perhaps over complicated), regarded as being essentially trustworthy.
- Implementation of quality seafarer living and working conditions
- Development of and implementation of robust national requirements, such as LY3, SCV Codes, PYC (via Cayman Island Shipping Register), Domestic Passenger Ship etc.

Comparison of UK Flag strengths and weaknesses against other comparable Flags

	Flag State							
	Germany	Isle of Man	Liberia	Marshal Islands	Panama	Singapore	UK	
Political and regulatory environment								
Politically neutrality	2	7	10	10	5	8	2	The ability of the organisation entrusted with the management of the duties of a Flag Administration to act independently from their political masters - a higher score indicates greater independence
Political consistency	5	8	10	10	5	8	5	The ability of the organisation to remain unaffected by political change (e.g. 5 year election process). Business requires certainty to invest - a higher score indicates greater autonomy
International influence	8	1	4	5	5	4	7	The capability of the organisation to lead and influence the regulatory process at the International level (IMO, ILO, ISO, IEC, EU etc.). Key enablers are tenacity in debate, size of fleet, technical ability, diplomacy in garnering support from other members - a higher score indicates greater influence
Regulatory support and responsiveness	6	8	4	7	3	8	3	A measure of the organisation to provide a clear and consistent response when interpretations are required, and to develop appropriate and proportionate regulations to manage risk - a higher score signifies clear and consistent guidance
Implementation	5	6	6	3	3	7	3	A measure of the organisation in terms of its policy on implementing international conventions without "gold plating" - a higher score indicates application of international standards without additional technical requirements

	Germany	Isle of Man	Liberia	Marshal Islands	Panama	Singapore	UK	
Focus	6	8	4	7	2	8	6	The ability of the organisation entrusted with the management of the duties of a Flag Administration to act solely on those duties (e.g. safety and pollution prevention) - a higher score indicates closer focus on the task of being a Flag State
Political support	6	6	8	8	8	8	4	Recognition of the priority given to the flag at a political level - a higher score indicates greater importance given to Flag State activities
Regulatory development	9	2	0	0	0	9	5	How much does the organisation contribute to regulatory development - a higher score indicates more activity

Commercial focus								
Leadership	5	6	5	7	4	7	2	A measure of maritime industry experience at the highest levels within the organisation - a higher score indicates leadership with experience of the industry
Quality of the Flag	10	10	9	9	9	9	10	A measure of the quality of the flag in terms of PSC record, number of detentions - a higher score indicates high performance in the Paris and Tokyo MOU's (they all appear in the White List)
Receptiveness to innovation	8	7	7	8	5	7	3	Receptiveness to and embracing of industry innovation - a higher score indicates greater open mindedness
Consultative	6	5	2	6	3	7	7	How much does the organisation consult with its stakeholders, i.e. shipowners, shipyards, Recognised Organisations - a higher score indicates more consultation

	Germany	Isle of Man	Liberia	Marshal Islands	Panama	Singapore	UK	
Resources	5	6	7	8	5	9	2	The ability of the organisation to attract and retain staff in terms of the required quantity and technical quality and its ability to reward them - a higher score indicates greater ability to attract quality staff
Responsiveness	6	7	3	9	3	7	4	A measure of the organisation to provide a timely response when interpretations, plan approval or surveyor attendance are required - a higher score indicates greater and faster responsiveness

Delegation								
Level of delegation	9	9	10	10	10	10	5	The level of delegation entrusted by the organisation to its Recognised Organisations and Certifying Authorities - a higher score indicates full delegation to their RO's
Number of non-IACS RO's	10	10	3	8	3	10	10	The importance that the organisation places on quality RO's - a higher score indicates that only IACS members are used as RO's
Monitoring	5	7	4	8	3	7	7	A measure of the proportionate monitoring/oversight of the delegated work conducted by its Recognised Organisations - a higher score indicates that a responsible oversight regime is being employed
Trust	8	9	9	9	8	8	6	A measure of the trust the organisation has of its Recognised Organisations and the willingness of the organisation to work with its RO's - a higher score indicates general trust, evidenced by lack of questioning over staff and procedures employed by the RO

Total Score	119	122	105	132	84	141	91
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Appendix 3 - Different types of Ship Register

General comments on ship registration

International law requires that every merchant ship be registered in a country, which is its flag state. Registration entitles the ship to fly the civil ensign of the flag state. A ship's flag state exercises regulatory control over the ship and is required to inspect it regularly, certify the ship's equipment and crew and issue safety and pollution prevention documents.

National registers

National (or closed) registries typically require a ship be owned by national interests. States that operate national registers typically require that ships be at least partially owned by legal persons who are nationals or based in that state. In some cases states also require that ships be constructed in that state and at least partially crewed by its nationals, whilst particular trades within the state's domestic waters may be reserved for national flag ships. However, this is not universal: several national registers – the UK among them – impose minimal or no restrictions⁴.

Open registers

Open registries are available to all shipping, regardless of the place of business of the owner and, these days, frequently offer on-line registration of ships. The requirement for the owner of a ship to be based in the country will frequently be satisfied by the presence of a “brass plate” representative office. In some cases – most notably Liberia and the Marshall Islands – the register is administered not in the territory of the country concerned, but operated by a private company located elsewhere.

Second registers

Second registers are closed registers that have been established for the benefit of domestically-based owners of internationally-trading ships, allowing owners to benefit from a less stringent regulatory regime than applies to the principal (or first) national register. Second register ships may be prevented from operating in certain trades within the state's domestic waters or on routes exclusively between ports in that state.

Role of UNCLOS

The United Nations Convention on the Law of the Sea, 1982 (UNCLOS) prescribes that every state shall effectively assume and exercise jurisdiction under its internal law over each ship flying its flag and its master,

⁴ The only crew nationality restriction applicable to the UK register is that, on “strategic” ships (any cruise or ro-ro vessel or product tanker over 500GT or fishing vessel over 24m) the Master must be a national of an EEA, Commonwealth or NATO Member State.

officers and crew in respect of administrative, technical and social matters concerning the ship. It also requires a genuine link between the flag state and the ship.

ITF “Flag of convenience” campaign

Since 1948 the International Transport Workers' Federation (ITF) has campaigned against the use of open registers, branding them “flags of convenience”, organising boycotts of ships and imposing its collective bargaining agreements (CBAs). This largely stems a perceived absence of regulation of seafarers’ pay and conditions on such ships and their claim that there is rarely a genuine link between the ship and the flag state. Publicly the campaign aims to force ships back to national flags.

Criteria examples
 Advantages of proposition
 Capabilities
 Competitive advantages
 USP's (unique selling points)
 Resources, Assets, People
 Experience, knowledge, data
 Financial reserves, likely returns
 Marketing - reach, distribution, awareness
 Innovative aspects
 Location and geographical
 Price, value, quality
 Accreditations, qualifications, certifications
 Processes, systems, IT, communications

Strengths
 Politically neutrality
 Political consistency
 Regulatory support and responsiveness
 Focus
 Leadership
 Quality of the flag
 Responsiveness
 Level of delegation
 Number of non-IACS RO's
 Trust

Weaknesses
 International influence
 Regulatory development
 Consultative

Criteria examples
 Disadvantages of proposition
 Gaps in capabilities
 Lack of competitive strength
 Reputation, presence and reach
 Financials
 Own known vulnerabilities
 Timescales, deadlines and pressures
 Cash flow, start-up cash-drain
 Continuity, supply chain robustness
 Effects on core activities, distraction
 Reliability of data, plan predictability
 Morale, commitment, leadership
 Accreditations etc

Criteria examples
 Market developments
 Competitors' vulnerabilities
 Industry or lifestyle trends
 Technology development and innovation
 Global influences
 New markets, vertical, horizontal
 Niche target markets
 Geographical, export, import
 New USP's
 Tactics: eg, surprise, major contracts
 Business and product development
 Information and research
 Partnerships, agencies,

Opportunities
 Implementation
 Political support
 Receptiveness to innovation
 Resources

Threats
 Aggressive competitive reaction of newer flags
 Too much link to UK flag

Criteria examples
 Political effects
 Legislative effects
 Environmental effects
 IT developments
 Competitor intentions - various
 Market demand
 New technologies, services, ideas
 Vital contracts and partners
 Sustaining internal capabilities
 Obstacles faced
 Insurmountable weaknesses
 Loss of key staff
 Sustainable financial backing
 Economy - home, abroad
 Seasonality, weather effects

Singapore Flag

Criteria examples

Advantages of proposition
 Capabilities
 Competitive advantages
 USP's (unique selling points)
 Resources, Assets, People
 Experience, knowledge, data
 Financial reserves, likely returns
 Marketing - reach, distribution, awareness
 Innovative aspects
 Location and geographical
 Price, value, quality
 Accreditations, qualifications, certifications
 Processes, systems, IT, communications

Strengths

Politically neutrality
 Political consistency
 Regulatory support and responsiveness
 Implementation
 Focus
 Political support
 Leadership
 Quality of the flag
 Level of delegation
 Trust

Weaknesses

International influence
 Regulatory development
 Location of central office if owner not in Asia

Criteria examples

Disadvantages of proposition
 Gaps in capabilities
 Lack of competitive strength
 Reputation, presence and reach
 Financials
 Own known vulnerabilities
 Timescales, deadlines and pressures
 Cash flow, start-up cash-drain
 Continuity, supply chain robustness
 Effects on core activities, distraction
 Reliability of data, plan predictability
 Morale, commitment, leadership
 Accreditations etc

Criteria examples

Market developments
 Competitors' vulnerabilities
 Industry or lifestyle trends
 Technology development and innovation
 Global influences
 New markets, vertical, horizontal
 Niche target markets
 Geographical, export, import
 New USP's
 Tactics: eg, surprise, major contracts
 Business and product development
 Information and research
 Partnerships, agencies,

Opportunities

Become more Consultative
 Better Resources
 Improve Responsiveness
 Proactive approach to win business from the traditional flags

Threats

Political unrest in the Region
 Aggressive competition from Marshall Islands

Criteria examples

Political effects
 Legislative effects
 Environmental effects
 IT developments
 Competitor intentions - various
 Market demand
 New technologies, services, ideas
 Vital contracts and partners
 Sustaining internal capabilities
 Obstacles faced
 Insurmountable weaknesses
 Loss of key staff
 Sustainable financial backing
 Economy - home, abroad
 Seasonality, weather effects

The Danish Ship Register

Criteria examples

Advantages of proposition
 Capabilities
 Competitive advantages
 USP's (unique selling points)
 Resources, Assets, People
 Experience, knowledge, data
 Financial reserves, likely returns
 Marketing - reach, distribution, awareness
 Innovative aspects
 Location and geographical
 Price, value, quality
 Accreditations, qualifications, certifications
 Processes, systems, IT, communications

Strengths

Quality EU Flag fleet high on white list
 Stable and supportive Government
 Delegates a lot of survey work and policy making / interpretation
 Recent Consultant report led to a number of changes to make the flag more responsive and commercially minded.
 Key managers for companies / segments – to avoid conflicts between statutory policing and customer service.
 Flexible have improved service by a focus on service and a organizational flexibility

Weaknesses

Difficult to recruit staff.
 Concern about costs of using flag surveyors for work.
 Does not appear to be marketed or attractive to non Danish (or other Nordic) Owners or managers.
 The Danish Flag is used for only a small percentage of Danish owned tonnage (less than the UK)

Criteria examples

Disadvantages of proposition
 Gaps in capabilities
 Lack of competitive strength
 Reputation, presence and reach
 Financials
 Own known vulnerabilities
 Timescales, deadlines and pressures
 Cash flow, start-up cash-drain
 Continuity, supply chain robustness
 Effects on core activities, distraction
 Reliability of data, plan predictability
 Morale, commitment, leadership
 Accreditations etc

Criteria examples

Market developments
 Competitors' vulnerabilities
 Industry or lifestyle trends
 Technology development and innovation
 Global influences
 New markets, vertical, horizontal
 Niche target markets
 Geographical, export, import
 New USP's
 Tactics: eg, surprise, major contracts
 Business and product development
 Information and research
 Partnerships, agencies,

Opportunities

Quality EU Flag – attractive particularly to Nordic owners
 Strong domestic Market of Danish Owners, managers and charterers.
 Maritime Business services – Government attention to maritime opportunities.
 Opportunities for Danish technology and innovation

Threats

Small fleet
 In competition with the Danish International Shipping Register (DIS)

Criteria examples

Political effects
 Legislative effects
 Environmental effects
 IT developments
 Competitor intentions - various
 Market demand
 New technologies, services, ideas
 Vital contracts and partners
 Sustaining internal capabilities
 Obstacles faced
 Insurmountable weaknesses
 Loss of key staff
 Sustainable financial backing
 Economy - home, abroad
 Seasonality, weather effects

The Marshall Islands Ship Register

Criteria examples

Advantages of proposition
 Capabilities
 Competitive advantages
 USP's (unique selling points)
 Resources, Assets, People
 Experience, knowledge, data
 Financial reserves, likely returns
 Marketing - reach, distribution, awareness
 Innovative aspects
 Location and geographical
 Price, value, quality
 Accreditations, qualifications, certifications
 Processes, systems, IT, communications

Strengths

White list Flag
 Young fleet – good performance record
 Commercial focus,
 Stable and predictable fiscal environment
 Level of delegation and control / oversight
 Able to develop and deliver other commercial packages
 Able to operate independently of Government when developing shipping policies

Weaknesses

Considered as an FoC by some stakeholders
 Not as influential as it could be at IMO etc.

Criteria examples

Disadvantages of proposition
 Gaps in capabilities
 Lack of competitive strength
 Reputation, presence and reach
 Financials
 Own known vulnerabilities
 Timescales, deadlines and pressures
 Cash flow, start-up cash-drain
 Continuity, supply chain robustness
 Effects on core activities, distraction
 Reliability of data, plan predictability
 Morale, commitment, leadership
 Accreditations etc

Criteria examples

Market developments
 Competitors' vulnerabilities
 Industry or lifestyle trends
 Technology development and innovation
 Global influences
 New markets, vertical, horizontal
 Niche target markets
 Geographical, export, import
 New USP's
 Tactics: eg, surprise, major contracts
 Business and product development
 Information and research
 Partnerships, agencies,

Opportunities

Very good reputation (well regarded) by Owners
 Strong Client base

Threats

Management of the Flag by a contracted commercial organization

Criteria examples

Political effects
 Legislative effects
 Environmental effects
 IT developments
 Competitor intentions - various
 Market demand
 New technologies, services, ideas
 Vital contracts and partners
 Sustaining internal capabilities
 Obstacles faced
 Insurmountable weaknesses
 Loss of key staff
 Sustainable financial backing
 Economy - home, abroad
 Seasonality, weather effects

The Liberian Ship Register

Criteria examples

Advantages of proposition
 Capabilities
 Competitive advantages
 USP's (unique selling points)
 Resources, Assets, People
 Experience, knowledge, data
 Financial reserves, likely returns
 Marketing - reach, distribution, awareness
 Innovative aspects
 Location and geographical
 Price, value, quality
 Accreditations, qualifications, certifications
 Processes, systems, IT, communications

Strengths

Largest white list Flag
 Young fleet – good performance record
 Global presence, very responsive
 Commercial focus, aggressive marketing
 Stable and predictable fiscal environment
 Level of delegation and control / oversight
 Able to develop and deliver other commercial packages
 Able to operate independently of Government when developing shipping policies

Weaknesses

Considered as an FoC by some stakeholders
 Not as influential as it could be at IMO etc.

Criteria examples

Disadvantages of proposition
 Gaps in capabilities
 Lack of competitive strength
 Reputation, presence and reach
 Financials
 Own known vulnerabilities
 Timescales, deadlines and pressures
 Cash flow, start-up cash-drain
 Continuity, supply chain robustness
 Effects on core activities, distraction
 Reliability of data, plan predictability
 Morale, commitment, leadership
 Accreditations etc

Criteria examples

Market developments
 Competitors' vulnerabilities
 Industry or lifestyle trends
 Technology development and innovation
 Global influences
 New markets, vertical, horizontal
 Niche target markets
 Geographical, export, import
 New USP's
 Tactics: eg, surprise, major contracts
 Business and product development
 Information and research
 Partnerships, agencies,

Opportunities

Able to quickly develop new products and services
 Electronic certificates,
 Able to negotiate on fees.
 Can offer other packages such as reductions for green ships, and finance packages

Threats

Political Stability in Liberia
 Management of the Flag by LISCR (a contracted commercial organization)

Criteria examples

Political effects
 Legislative effects
 Environmental effects
 IT developments
 Competitor intentions - various
 Market demand
 New technologies, services, ideas
 Vital contracts and partners
 Sustaining internal capabilities
 Obstacles faced
 Insurmountable weaknesses
 Loss of key staff
 Sustainable financial backing
 Economy - home, abroad
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Glossary

DfT	Department for Transport
EU	European Union
GBP	Great British Pound
GDP	Gross Domestic Product
GT	Gross Tonnage
HMG	Her Majesty's Government
IMO	International Maritime Organization
MCA	Maritime & Coastguard Agency
MoU	Memorandum of Understanding
NDPB	Non-Departmental Public Body
PLA	Port of London Authority
RO	Recognised Organisation
S&I	Survey and Inspection
SITP	Survey and Inspection Transformation Programme
SMarT	Seafarer Maritime Training
UK	United Kingdom
UKSR	United Kingdom Ship Register
UKSR AP	United Kingdom Ship Register Advisory Panel
UNCLOS	United Nations Convention on the Law of the Sea