A DURABLE BELGIAN MARITIME POLICY

The present document introduces a durable Belgian maritime policy durably reinforcing the position of the shipping cluster and preserving economic activities. The effects of this policy are assessed, which paves the way to an objective comparison with the present policy.

The policy document summarises the main thrust of the results emerging from research done by Policy Research for the Flemish government, the European Commission and the maritime industry..

The present policy document seeks to provide decision-makers with an up-to-date picture of the current social and economic significance of Belgium's shipping cluster. It summarises the main results of the research done by *Policy Research Corporation* following the joint assignment thereto by the Flemish government[1], the European Commission as well as the industry.

The present research contributes significantly to creating an objective discussion on the *necessity* and the *form* of a suitable and *durable* policy for the merchant marine, the tugboat industry and hydraulic engineering in Belgium[2]. It offers detailed analysis and evaluation of current policies, formulates new policy proposals and calculates the effects of such policy changes on the Belgian economy.

The reader will discover that the current policy is in need of re-evaluation to reinforce the foundations of a durable development of the shipping cluster, with special reference to the essential requirement that the cluster should be given a level playing field to operate on.

[1] The government agency concerned is the Environment and Infrastructure Department and the Department of Economic Affairs

[2] Belgium's shipping cluster includes the merchant marine, the tugboat industry as well as the hydraulic engineering industry. The tugboat industry comprises the international (harbour) tugs as well as the domestic rescue services. Hydraulic engineering refers to all activities (domestically and abroad) of Belgian (mother) companies..

The present document has the same structure as the slide report, which enables simultaneous use of both documents. The policy document is subdivided into the following parts: the Belgian shipping cluster, current Belgian shipping policy, developing an integrated policy for Belgium's shipping cluster and policy recommendations.

The structure and the content of the present document match those of the report, which will ease the retrieval, by the interested reader, of more detailed information. This document is subdivided into the following parts: *the Belgian shipping cluster (economic significance and structure), current Belgian shipping policy (analysis and evaluation), developing an integrated policy for Belgium's shipping cluster and policy recommendations.*

THE BELGIAN SHIPPING CLUSTER: ECONOMIC SIGNIFICANCE AND STRUCTURE

The Belgian shipping cluster has a small number of major players.

The Belgian shipping cluster is characterised by a relatively small number of major players occupying good positions internationally as niche players, or even as top players in hydraulic engineering. In the face of strong competition it is important to provide these entrepreneurs with a *level-playing field*. In the absence of equal competitive conditions, there are overall two options: either companies go bust or they move their operations. Both situations mean a much reduced contribution to Belgium's economic prosperity.

The pressure from international competition incites companies to move their financial and operational activities abroad, which usually causes a significant loss of economic activity and employment

The shipping industry is mainly characterised by a geographical shifting of activities, like the flagging out of vessels, which usually allows a dramatic reduction in operational costs. This also applies to the Belgian fleet, a major part of which has flagged out to Luxembourg or open-register nations. Especially the merchant marine has gone through a sustained flagging out trend since the mid-eighties. In 1986, 102 vessels were still registered in Belgium, in 2001 no single merchant vessel still flies the Belgian flag[3]. The most worrying development here is the removal of economic activities from Belgium[4] as well. *Figure 0.1* charts the evolution of the Belgium-Luxembourg fleet in the period 1986-2001.

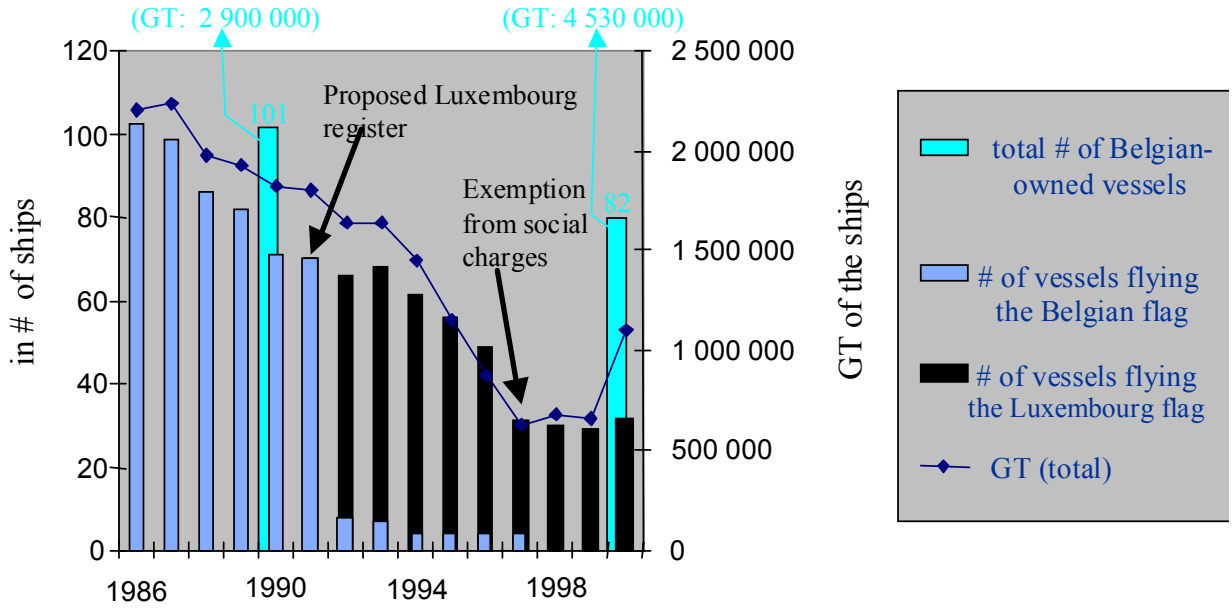
[3] In 2001 27 merchantmen (Belgian-owned) flew the Luxembourg flag, with the remaining 55 operating under an open-register flag.

[4] The departure of Cobelfret to Luxembourg, for instance, caused a shift of economic and management operations.

The economic significance of the shipping cluster not only includes its direct economic impact, but also the indirect effects resulting from purchases from the rest of the economy.

The economic significance of the shipping cluster is twofold: the *direct* impact of the shipping companies as such and its *indirect* significance, through the purchases of such companies in the rest of the Belgian economy[5]. The sum of both impacts constitutes a major variable for the determination of a cluster's social and economic importance.

Figure 0.1 : Evolution of the Belgium-Luxembourg merchant marine (period 1986-2001)



Sourrce : Policy Research on the basis of figures from the Belgian Ship-owners Association (BSA and the Finance Ministry

The shipping cluster creates a direct added value of nearly BEF 17,000 million per annum, thereby providing employment to nearly 4,000 Belgian residents as well as to 2,700 non-residents.

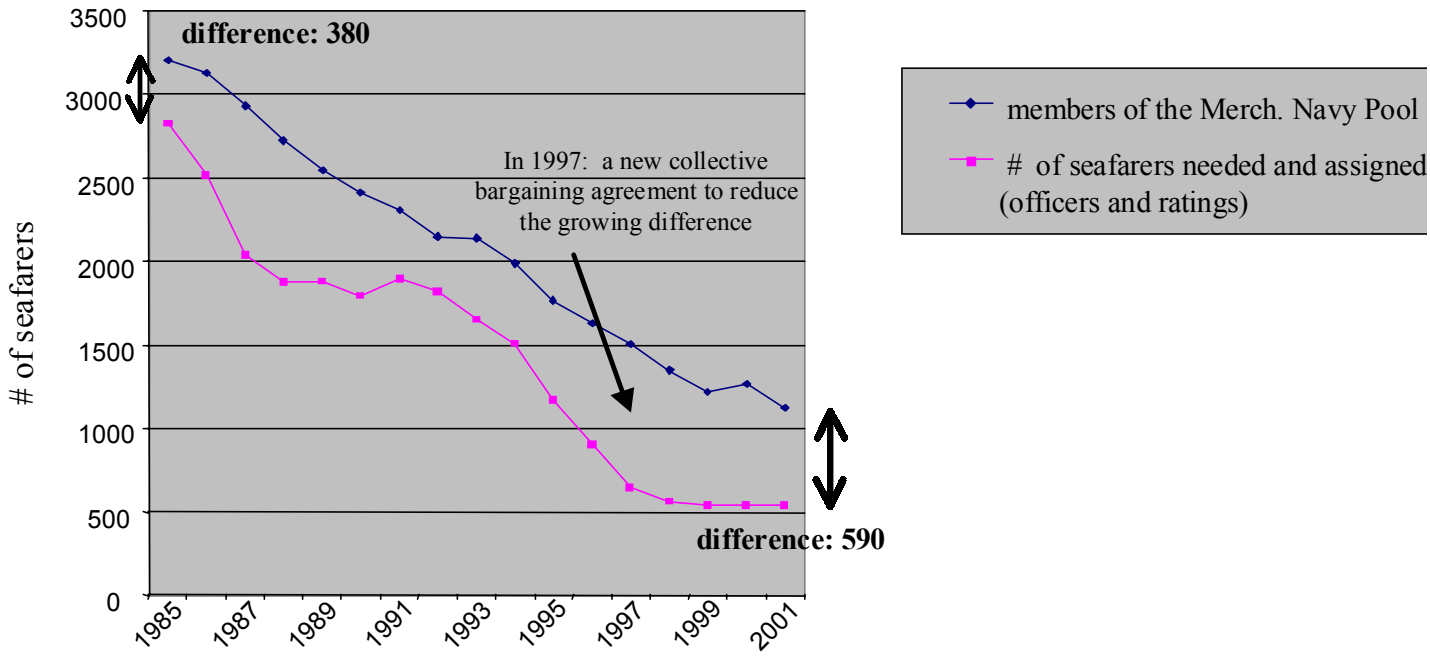
The *direct* economic impact of the shipping cluster in terms of added value amounted to BEF 17,100 million in the year 2000[6], BEF 8,800 million (52%) of which were generated by hydraulic engineering, BEF 1,900 million (11%) by the tugboat industry, BEF 6,400 million

[5] Ascertaining the economic impact of the shipping cluster requires detailed analysis in view of the complex group structures and the highly international nature of the companies. Indeed, the removal of operations to foreign subsidiaries causes a loss of economic activity for Belgium.

[6] The added value is equal to the turnover of a company or industry, with deduction of the purchases made from other companies or industries. This value is used to cover personnel costs, the remaining balance being the cash flow, i.e. the amortisations and the company results. These are therefore constituent parts of the GDP and consequently an important indicator of a country's prosperity..

(37%) by the merchant In terms of employment Belgium's shipping companies provided, in 2000, jobs to 4,500 mariners and to 2,250 personnel on shore. Approximately 43% of the mariners and almost 95% of shore personnel are Belgians and Belgian residents. The hiring of merchant marine personnel by Belgian ship-owners is taken care of, by way of compulsory formal regulations, through the Mariner's Pool. However *Figure 0.2* shows that the number of mariners required has been dropping sharply, a downward trend reflected in the total numbers of personnel available in the Pool.

Figure 0.2 : Evolution of member numbers and of the total number of mariners required to be hired from the Belgian Pool of Mariners (period 1986-2001)



Source : Policy Research Corporation

Indirectly, through purchases from the rest of the economy, the Belgian shipping industry provides employment to 4,720 persons and it also induces an additional added value of BEF 10,700[7]. Especially

[7] The relatively modest share of indirect effects from the merchant marine in relation to the overall economic effects can be explained for a large part by the complexity of the structures adopted by Belgium's shipping groups. Following

hydraulic engineering generates quite a lot of indirect added value, to the tune of BEF 8,300 million, i.e. more than 75% of the cluster's indirect effects.

In total, thus including subcontractor effects, Belgian shipping generates an added value of BEF 27,800 million, providing jobs to 8,800 Belgian residents and 2,700 non-residents..

In total, therefore including subcontractor impact, the Belgian shipping cluster employs about 11,500 people, almost 8,800 of whom are Belgians or Belgian residents. Out of a total of 6,750 directly employed persons, 60%, i.e. 4,045 people, are Belgians. The 4,720 indirectly employed people are almost exclusively Belgian residents. The respective contributions of the merchant marine, the tugboat industry [8] and hydraulic engineering to indirect employment amount to 21%, 3% and 76%. Hydraulic engineering generates about as much direct and indirect employment and added value. The reason for this lies in the relatively large weight of domestic purchasing (half the total intermediary purchases, i.e. almost 75% of turnover).

Hydraulic engineering generates 61% of overall added value, the merchant marine 31% and the tugboat industry 8%.

The *total added value* of the Belgian shipping cluster amounts to BEF 27,800 million (in 2000), BEF 10,700 million (40%) of which are indirectly generated. The contributions of the merchant marine, the tugboat industry and hydraulic engineering to indirect employment are, respectively, 19%, 3% and 78%.

On average 64% of added value are spent in Belgium, the rest abroad.

64% or BEF 17,800 million of the added value generated are spent in Belgium. The return to government amounts to BEF 8,300 million annually, investment abroad represents BEF 5,500 million and consumption adds up to BEF 4,000 million. The *total* expenditure by the merchant marine, the tugboat industry and hydraulic engineering is, respectively, BEF 3,600 , 1,900 and 12,300 million.

The ratios of expenditure on added value, indicating in how far the added value created stays in Belgium, respectively amount to the following, for the merchant marine, the tugboat industry and hydraulic engineering: 43%, 82% and 72%. The limited contribution

---

the creation of foreign subsidiaries, the disappearance of shipbuilding in Belgium and the typical international nature of the industry only a small percentage of the purchases made by Belgian shipping companies and operators are made in Belgium.

[8] In the tugboat industry the indirect effect is relatively limited, because this industry is characterised by high levels of direct added value – through personnel costs – and therefore only a small percentage of purchases from other sectors.

of the merchant marine is explained by the large number of non-residents employed.

CURRENT BELGIAN SHIPPING POLICY: ANALYSIS AND EVALUATION

Current government policy in Belgium is rather fragmentary. The temporary exemptions offer – if continued – a significant basis for a durable development of the cluster, but a comprehensive vision is lacking.

Current Belgian government policy toward the shipping industry is rather fragmentary. Even though it offers solid foundations for a durable development of the cluster, there is no comprehensive vision including necessary measures with regard to taxes, crew rules and ship's mortgages.

The shipping industry is the scene of intensive international competition. A large part of the costs are determined internationally. Consequently competitiveness is determined by only a limited number of cost components, especially wage costs, crew rules and taxes. Such components depend in no small measure on the shipping policy pursued by national governments. Therefore the *ship's flag and the location of the management activities* are determinant factors for the success of shipping companies. The present EU framework facilitates the durable support of the shipping cluster[9].

Current Belgian policy is analysed in the 5 following fields:

Current Belgian policy and its shortcomings are analysed, in a structured way, by *Policy Research*, in five parts: *wage costs (mariners), crew rules, ship's mortgages, tax legislation* and *training.* Below you will find a summary of the findings, always compared to the situation in other countries.

- wage costs;

As regards the (mariner) **wage costs** the current situation in Belgium proves to be comparable to the situation in competing maritime nations. Indeed, in Belgium the shipping companies are exempted from paying employer's contributions and withholding tax on the wages of Belgian mariners serving on ships under the Belgian flag, and they are exempted from paying employer's contributions on the wages of Belgian mariners serving on board of ships under Luxembourg flag. However this measure is merely temporary (until the end of 2002), which causes too much uncertainty in Belgium for (strategic) long-term decisions

[9] Until the mid-nineties a number of countries had been trying in vain to boost the competitiveness of the shipping industry. Many of the measures proposed were too procedural, too rigid and they fitted only in a limited way into integrated policies. The EU policy initiated by *Policy Research* offers a framework (EU State Aid Guidelines) in which entrepreneurship is truly promoted.

- crew rules;

The competitiveness of the Belgian shipping companies is under pressure from the existing Belgian **crew rules.** Especially the out-of-date maritime legislation[10], stipulating, among others, that *all* ship personnel (including the non-residents) must have social security insurance in Belgium, constitutes a serious competitive liability. Compared to the Netherlands the annual wage costs of a Belgian ship-owner operating, e.g. a gas tanker (30,000 DWT) flying the Belgian flag are about BEF 10 million higher than those of his Dutch counterpart in the same situation;

- ship's mortgages;

Higher costs than in competitor countries are also involved in the registration and mortgage recording of merchant ships in Belgium, simply as a result of the obligation, in Belgium, to have 'double recording' of **ship's mortgages**[11]. This cost feature has been instrumental, among others, in reducing to nil[12] the number of merchant vessel registrations in Belgium for years.

- tax legislation;

Tax legislation too makes operating a shipping company in Belgium relatively unattractive in view of the hefty corporate tax levels applied. This stands in sharp contrast to the situation in the Netherlands, for instance, where shipping companies are exempted from conventional corporate taxes, in accordance with the framework set by the European Commission, and where they only pay a relatively limited tax amount (tonnage tax). Moreover ship ownership is much less interesting in Belgium than in Luxembourg and the Netherlands, as the latter countries grant tax reductions and exemptions on the surplus arising from the purchasing/sale of ships.

-training.

As regards **training** all EU countries face the same problem: the numbers of new students at nautical colleges falls short of the requirements of the shipping cluster, especially to fill deck officer and engineer officer positions. The main reasons for this are the relatively

---

[10] Contrary to the situation in Luxembourg or the Netherlands, in Belgium *all* crew members must be insured under the relatively expensive Belgian social security regime. For foreign mariners it is moreover not very sensible to have social cover in Belgium. It would be so much more effective for them to get such cover in their own country. Moreover a Belgian collective bargaining agreement stipulates that Belgian ship-owners have to hire, every year, a minimum of 435 officers and 102 (expensive) ratings from the Belgian Pool of Mariners. However Belgian ship-owners find these imposed crew quota sufficiently flexible.

[11] Over a 15-year period the cost difference, e.g. for a 48,000 NT tanker, may reach BEF 8.5 million, compared to registration in the Dutch register.

[12] A number of smaller hydraulic engineering and tugboats are still registered under the Belgian flag, though.

weak image of the maritime industry as well as reduced interest from youngsters for a maritime career, plus a lack of policy stability and the absence of a strong Belgian flag. Attracting enough students to nautical colleges requires an integrated approach that is currently insufficiently present.

The effectiveness of the present policy needs to be boosted. A quantitative foundation to such an approach is to be found in the EIS® methodology.

By way of conclusion we can characterise current policy as being defensive. A more proactive policy seeking to tackle present unbalances and creating a level-playing field would dramatically boost policy effectiveness. Through the EIS® methodology the present study assesses in detail the effectiveness of the present policy and of the two policy alternatives proposed (in terms of added value, employment and return to thegovernment)[13].

DEVELOPING AN INTEGRATED POLICY FOR THE BELGIAN SHIPPING CLUSTER[14]

The Belgian shipping industry faces stiff competitive pressure, caused, among others, by market distortions.

The (Belgian) shipping cluster has a significant international outlook, as its competitiveness is determined, in no small measure, by the pressure exerted by market *operation* on the one hand and market *distortion* on the other. A healthy market operation incites businesses to adopt a more efficient behaviour, which yields mainly positive effects. Market distortion, e.g. following government intervention, generally has a negative impact.

---

[13] The EIS® methodology as developed by *Policy Research* opens the way to estimating in advance the impact of policy changes, which provides policymakers with an objective decision instrument. This methodology has already been used repeatedly, among others for the development of the new and successful shipping policy for the Dutch and German authorities as well as the European Commission.

[14] The importance of a suitable maritime policy includes:
- keeping and attracting economic activities and employment;
- ensuring maritime safety by tackling 'substandard shipping';
- keeping control on board of Belgian-owned ships and developing a positive image for Belgium;
- preserving the strategically important rescue services.

The government plays an important part in ensuring a level-playing field.

At EU level there are already arrangements for the merchant marine, but not as yet for (harbour) tugboats and hydraulic engineering.

As the shipping industry is subject to many market distortions the government plays an important part in ensuring a level-playing field. For the merchant marine there are European arrangements relating to wage costs and taxes, designed to enable EU merchant marine companies to compete on the global market [15]. At the present time, no such arrangements have been made for the tugboat sector and hydraulic engineering. Presently regional (harbour) tugging is still too often protected as an instrument to promote the use of national harbours. It would seem advisable to make arrangements in this regard on a European level[16]. For hydraulic engineering it would be equally opportune to arrive at clear arrangements Europe-wide with the aim of ensuring a level-playing field.

Two policy alternatives are proposed:
- a durable Belgian flag;
- a synergetic BENE policy.

Both policy alternatives proposed here seek to bolster the international position of Belgian shipping**.** They are compared to what would happen if the Belgian government continues its present policy and ends the temporary wage-related measures after 2002.

Both scenarios have the same aim and result, only their modalities and efficiency differ.

In the first alternative – *a durable Belgian flag* – the Belgian government chooses to ensure a level-playing field independently and unilaterally (obviously within the EU framework). In the second alternative – *a synergetic BENE policy* – allies are sought within the EU to jointly initiate policy changes at EU level and to shape a common maritime cluster. The aim and the result of both alternatives match, the difference resides in the ways pursued to achieve this end as well as in the efficiency achieved.

The synergetic BENE policy seeks to achieve synergetic effects between Belgium and other EU States (especially the Netherlands).

The *Synergetic BENE policy* seeks to achieve win-win situations for Belgium and other EU Member States by generating synergy effects. Regarding education[17] and harmonisation of government policy common efficiency gains can be achieved, which will reduce the policy costs (for both countries). *Policy Research* is still working out the concrete specifics of this policy alternative. Therefore the

[15] Exemption of withholding taxes, corporate taxes and social charges, as allowed by the EU State Aid Guidelines.

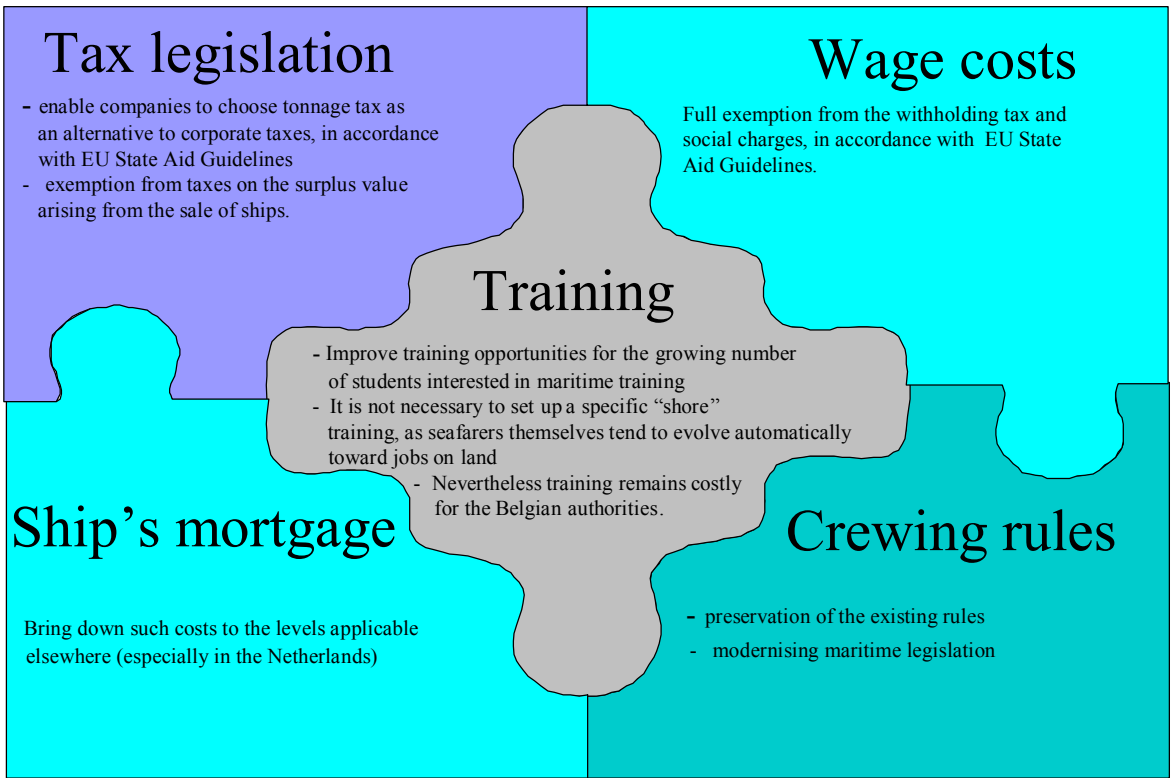
[16] This is also the subject of the EU Green Book and of a number of other European Commission publications.

[17] The extent to which cooperation between both countries regarding training and promotion may lead to efficiency benefits needs to be studied in more detail. Nevertheless, sharing simulators and other training facilities will certainly reduce training costs.

paragraphs below will concentrate on analysing (only) the main alternatives, i.e. the *Continuation of current policies* and a *Durable Belgian flag.*

From the vantage point of the merchant marine, the *Durable Belgian flag* approach presupposes in any case the durable maintenance of the exemptions relating to corporate withholding tax, corporate tax and social charges, as allowed by the EU State Aid Guidelines. However this policy will not necessarily seek to increase the number of mariners, but it will endeavour to guarantee a minimum – strategic - number of mariners. The main measures are summarised in *Figure 0.3*.

Figure 0.3 : Summary of the main policy measures of the policy alternative entitled "*Durable Belgian flag*"

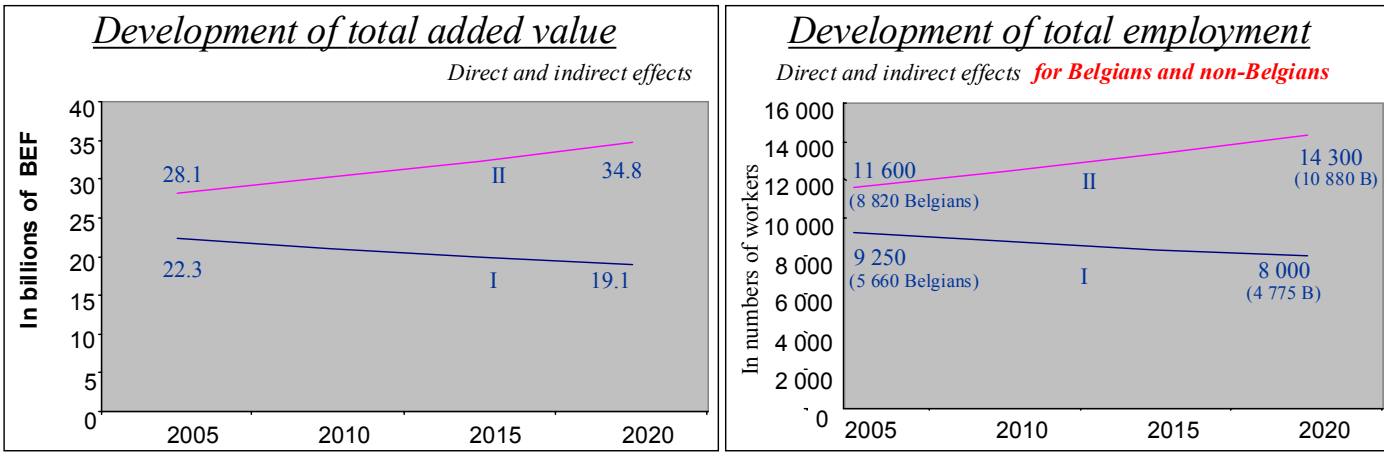


Source : Policy Research Corporation

The total effects of the "Durable Belgian flag" alternative are shown in Figure 0.4.

The effects of this policy variant in terms of added value, employment and return to the government are shown in *Figure 0.4*. Economic activity is not expected to differ much in both durable policy scenarios. The difference between the scenarios resides mainly in the degree of efficiency and government policy costs.

Figure 0.4 : Forecast of the total added value and employment in the scenarios entitled "*Continuation of current policy"(I)* and "*Durable Belgian flag" (II).*



* the respective numbers of Belgian employees are mentioned between brackets in the diagrams

Source : Policy Research Corporation

The introduction of a durable policy for the Belgian shipping industry (scenario II) will generate an extra added value of almost BEF 16,000 million (compared to the figure if the current policy is continued). This means a difference in employment terms of 6,300 (Belgian) jobs as well as the preservation of the strategic minimum levels of maritime knowledge.

Continuation of the current policy (scenario I) will seriously weaken international competitiveness, making it impossible, in the course of time, to preserve the jobs of Belgian mariners. In terms of total added value the significance of the shipping cluster will shrink with BEF 3,200 million. Moreover about 900 Belgian residents will loose their jobs by 2020.

Compared to the continuation hypothesis, by 2020, scenario II will provide nearly BEF 16,000 million more by way of added value per annum. Close to BEF 9,600 million of this will be direct added value. In terms of employment, this scenario generates a difference of 6,300 jobs, 3,500 of which will be created in the shipping cluster as such. What's more, by 2020, the *Durable Belgian flag* scenario will make an additional BEF 10,000 million flow annually into the Belgian economy. The return to the government will be the following: if the current policy is continued, it will amount to slightly over BEF 6,000

million in 2020, compared to more than BEF 9,000 million with the implementation of the new policy[18].

On the one hand there are the extra BEF 16,000 million of annual added value and BEF 10,000 million of expenditure in the Belgian economy (in 2020), on the other the BEF 5,100 million in lost government revenue (compared to the continuation of current policy). However this lost revenue ensures the preservation of the industry and higher government revenue.

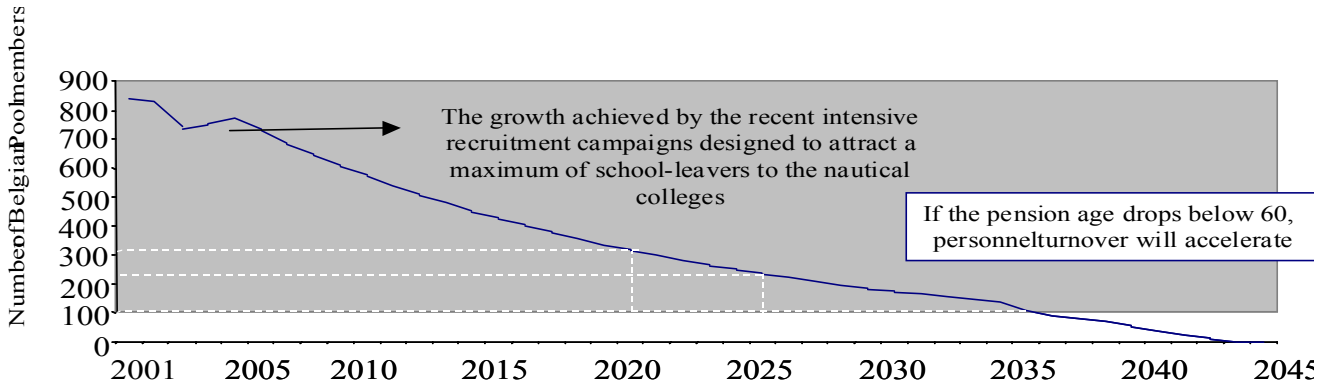
One the one hand there will be (in 2020) an annual extra revenue of BEF 16,000 million by way of added value and BEF 10,000 million by way of expenditure in the Belgian economy (BEF 3,000 million of which will flow back to government), but on the other hand the *Durable Belgian flag* scenario will cost the government BEF 5,100 million more in lost revenue than the continuation of the current policy. However, this lost revenue, arising directly from granting exemptions to the Belgian shipping cluster, implies the preservation of the shipping industry and therefore higher revenue for the government.

Another important requirement is that the new policy mooted should ensure continuity in the preservation of maritime knowledge. In this case a strategic minimum input of new mariners would be guaranteed, in order to match optimally the needs of other parties, especially the harbour industry[19]. Continuation of the current policy risks jeopardising (in the long term) the maintenance of maritime knowledge (refer to *Figure 0.5*) as well as the rescue capabilities, and consequently the competitiveness of the Flemish ports.

[18] The large difference in return between the continuation of current policy and the implementation of a durable policy comes from the exemptions granted.

[19] Indeed, the shipping industry constitutes a worthwhile matrix for related sectors, as highly-trained and experienced officers tend to develop into cornerstones of public and private maritime services.

Figure 0.5 : The natural membership turnover of the Belgian Pool of Mariners if the current policy is continued (without extending the temporary measures)



Source : Policy Research Corporation on the basis of data from the Ministry of Finance

POLICY RECOMMENDATIONS

The preservation of the European shipping cluster is at the heart of the policy framework shaped by the EU.

The shipping industry has been a long-standing major contributor to the economies of countries like Belgium and the Netherlands, characterised by a strong international and transport-oriented outlook. In these countries the maritime sector is solidly embedded, which also means the retention of a strategic minimum knowledge is advisable. The globalisation process has affected the international competitiveness of the European as well as the Belgian shipping industry. The Netherlands have pioneered the shaping of a suitable policy framework that has served as a model for current European policy. In response to these policy developments Belgium has implemented a number of - temporary – measures within the above framework, but temporary measures do not suffice to bolster the cluster durably.

Failure to implement measures within the EU policy framework will result in a significant regression of the Belgian shipping industry, with approximately 4,000 Belgians losing their jobs by 2020.

If the temporary measures are discontinued in 2002 a large part of Belgium's shipping cluster will disappear. In this case decision centres will be removed from Belgium, which will cause a substantial loss of added value, expenditure, economic diversity and critical mass of maritime knowledge. By 2020 the loss of added value in relation to

the current situation will amount to more than BEF 8,000 million annually and approximately 4,000 Belgians will become redundant.

The implementation of the durable policy mooted in the present document will boost the competitiveness of the Belgian shipping industry.

The introduction of a durable policy framework will, on the contrary, neutralise the threats and bring out the assets of the cluster. In the short term this requires, however, carrying on with the current levels of government budget measures by way of loss of public revenue (social charges and the withholding tax). Nevertheless it may be advisable to study in what measure the loss of revenue from harbour tugging and hydraulic engineering could be reduced, which would extend even further the contribution of the shipping cluster to the Belgian economy. This however requires the development of a common European vision in this regard.

The total added value will increase by almost 30% by 2020, i.e. up to BEF 35,000 million, which will provide employment to 11,000 Belgian residents.

The durable policy framework has the potential to increase the total added value of the Belgian shipping cluster to almost BEF 35,000 million by 2020, which will provide jobs to nearly 11,000 Belgian residents.

On the one hand there are the extra BEF 16,000 million of annual added value and BEF 10,000 million of expenditure in the Belgian economy (in 2020), on the other the BEF 5,100 million in lost government revenue (compared to the continuation of current policy). However this lost revenue ensures the preservation of the industry and higher government revenue.

One the one hand there will be (in 2020) an annual extra revenue of BEF 16,000 million by way of added value and BEF 10,000 million by way of expenditure in the Belgian economy (BEF 3,000 million of which will flow back to government), but on the other hand the *Durable Belgian flag* scenario will cost the government BEF 5,100 million more in lost revenue than the continuation of the current policy. However, this lost revenue, arising directly from granting exemptions to the Belgian shipping cluster, implies the preservation of the shipping industry and therefore higher revenue for the government.

This document has been translated by the Belgian Shipowners' Association. In case of dispute the original text by Policy Research (in Dutch) prevails.