Germany makes tonnage tax U-turn

Tonnage tax can be linked to flag of any EU state

PATRICK HAGEN — COLOGNE

THE German government will no longer threaten shipowners with scrapping the favourable tonnage tax if they refuse to bring a certain number of ships back under the German flag.

In a motion put forward by the ruling coalition parties, the Christian Democratic Union and the liberal FDP, the tonnage tax will now be linked to the number of vessels under the flag of any European Union member state.

The U-turn comes less than two weeks before the government meets with shipowners and representatives of other maritime industries at the national maritime conference in Wilhelmshaven. The atmosphere was badly affected by the government's decision to cut subsidies for vessels under the German flag at the end of last year.

Shipowners' representatives have welcomed the move. "Things have improved now that the tonnage tax was finally accepted as a necessity," German shipowners' association managing director Ralf Nagel said.

However, owners see no reason to give up their demand for financial relief for those who have ships under the German flag.

"We had an agreement with the government that it would assume a part of the financial burden of flying the German flag and the government has departed from this agreement," said Mr Nagel.

He said the government's decision to cut subsidies for German-flagged vessels was a particular problem for companies that had supported reflagging and were employing more European nationals on their vessels than required.

According to owners, the additional costs arising from the black, red and golden flag amount to €500,000 ($707,882) per vessel.

The government had already said it would evaluate the potential for cutting those additional costs by conducting a survey. However, owners said this was not enough. "You cannot take money away from us now and then say that you are first doing a study and then perhaps something may change," said Mr Nagel.

If the government does not make a move, owners will respond by switching to other European flags, Mr Nagel said. However, he pointed out that there were advantages and disadvantages attached to some flags. "With a vessel flying the Cypriot flag you have problems entering a Turkish port," Mr Nagel said.

The government's change of strategy could have far-reaching consequences for the German flag.

"This could mean that the government is de facto giving up the German flag completely," said Torsten Teichert, chief executive of KG house Lloyd Fonds. "As a result, we may see a run onto the Cypriot flag." ■

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Italy moves towards armed guards on ships

D'Amico's 2008-built tanker *Mare Oriens*: Italian-flagged vessels may be allowed armed guards if the decree is converted into law. *Dietmar Hasenpusch*

THE Italian government is working alongside opposition parties on a decree to allow Italian-flagged merchant ships to have armed guards on board, Lloyd's List has learned, *writes Julian Macqueen*.

Under Italian law a decree comes into effect immediately and lasts for 60 days, during which time it has to be converted into law.

Italian shipowners' association Confitarma first raised the issue with the government a year ago. Since then, however, pirate threats to shipping have escalated.

"The theatre [for the pirates] has completely changed and can no longer be handled by convoys," said Confitarma chairman Paolo d'Amico.

He added that the association has calculated that, on average, there are three Italian-flagged ships a day in the danger zone.

"Practically every Italian shipping company — except ferries — has been affected [by piracy]." he said.

Mr d'Amico could not say when the decree might be issued.

The Italian move follows similar legal wranglings on the issue in the UK, the Netherlands and Germany. ■

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Irish ports prepare for historic reform

THE Irish Republic's state-owned port system is facing the biggest shake-up of its history in the wake of the publication of a report by one of the country's leading economists, Colm McCarthy, *writes Gavin van Marle*.

The report studied the 10 ports in Ireland owned by the Ministry for Transport and also Rosslare, which by a quirk of fate is owned by Irish rail.

The 11 ports handle almost all of the Republic's maritime trade, although the report called for rationalisation of a sector, terming its structure as "sub-optimal".

"The general financial performance of and average return on capital delivered during the years of unprecedented economic growth have been disappointing, particularly for the smaller ports," the report said.

The report further recommended that the republic's new government consider privatisation of its major ports, as well as possibly merging some its smaller ports.

Helen Noble, head of shipping at leading Irish law firm Matheson Ormsby and Prentice, told Lloyd's List that some of the smaller ports could have their boards of directors disbanded and be returned to local authority control.

"All of the state-owned ports have the same number of directors, which is disproportionate if you look at the scale of operations at Dublin and Galway, which is little more than harbour," she said.

"In that sense the smaller ports are ridiculously overweight and I would not be surprised to see control of them returned to the town councils."

However, she also said that valuing the country's largest ports — Dublin, Cork, Rosslare and Shannon Foynes — was extremely difficult given that they possessed extensive land banks with depressed values in the current market.

"There is a large degree of caution about selling off those assets," she said.

The final decision is likely to rest with new transport minister Leo Varadkar, and although no deadline has been set, Ms Noble said she expected "things to move pretty quickly".

She added: "That is my impression of Mr Varadkar and the new government. It is going to be an interesting six to eight months." ■

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BNP Paribas requests $42.5m bid for Korea Line vessel

A MINIMUM bid of $42.5m has been requested as the price threshold as a 2008-built Korea Line aframax tanker arrested in Hawaii is readied for court auction, *writes Rajesh Joshi in New York*.

BNP Paribas, which has arrested the 105,905 dwt *Blue Jasper* to enforce a delinquent mortgage against subsidiary Korea Line Singapore, on Monday moved the US federal court in Hawaii for an interlocutory sale of the vessel.

A formal order signed by the judge had not been entered at press time, but sources said one is expected in due course. The interlocutory sale motion came as the bank appointed National Maritime Services as substitute custodian on the ship, replacing the previous incumbent.

According to shipbroker estimates, a five-year-old aframax has a suggested price of around $39m. This means BNP Paribas' desired starting price for *Blue Jasper* is competitive, sources said.

Shipbroker reports quoted in Lloyd's List had suggested Korea Line sold *Blue Jasper* for $44.5m to South Korean interests. BNP Paribas counsel, Neil Quartaro of Watson Farley & Williams in New York, said the ship had been confused with a sistership understood to be sold in Rotterdam, and that *Blue Jasper* remains in the bank's custody.

Nonetheless, the $44.5m earned by the sistership would be another benchmark for the eventual disposal of *Blue Jasper*. This sale would join the expected auctions in the coming month of the Korea Line product tanker sistership duo *Blue Emerald* and *Blue Jade*, which stand arrested by Nordea Bank in Houston and San Francisco, respectively.

No minimum bid has been set on the product tanker pair. However, a benchmark exists for these sales in the shape of the $35m price paid per ship by Scorpio Tankers for two other sisterships, *Blue Coral* and *Blue Diamond*, in a bankruptcy auction in Singapore last month.

According to court filings, custodial expenses in the US are more than $10,000 a day per ship, and the auctions have been requested on the grounds that these expenses could continue to erode the value of the assets unless prompt steps are taken.

Blue Emerald, *Blue Jade* and *Blue Jasper* are enmeshed in US court auctions after Korea Line creditors attached or arrested them under Rule B and Rule C of US civil procedure in the weeks following the Asian company's bankruptcy filing in Seoul, and before it secured Chapter 15 protection in March.

The court auctions are moving ahead after it was established that the Chapter 15 protection is restricted to Korea Line assets and does not extend to Korea Line Singapore. ■

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Macquarie predicts rates boost for Asian box lines

COLUM MURPHY — HONG KONG

ASIA's container line operators could see a pick-up in earnings later in this year but dry bulk operators may not be so fortunate, according to the latest report on the shipping in the region from Macquarie.

Barring extreme volatility in bunker fuel prices, the investment bank is predicting improved rates for container shipping leading to a better second quarter for the sector and a strong third quarter, although not to the levels seen in 2010.

Macquarie attributed current weak freight rates primarily to carriers keeping too much capacity operational during the winter slack season.

In particular, Asia-Europe trade has suffered with spot rates down 37% from their post crisis peak in March 2010.

However, the report also assigned some blame to the arrival of ultra-large containerships, which Macquarie said was a factor in the 19% year-on-year increase in capacity on Asia-Europe.

"The economies of scale of these vessels are only realised if they are filled, so we believe this has created an incentive to discount to fill," the report said.

Macquarie remains cautious on Asian dry bulk operators as continued new deliveries led it to reiterate its BDI estimate average of 1300 in 2011 and 1400 in 2012.

"Although there are signs of a rise in demand, especially out of China where iron ore inventories are low, capesize rates remain depressed near all-time lows," the report noted.

The only ray of light for the dry bulk sector was the recent pick-up in scrapping activity, helped along by low freight rates.

Macquarie said its forecast for scrapping of 19m dwt, or 3.5% of the global fleet, could be on the low side given that 7.1m dwt has been scrapped in the year to date according to data from Clarksons. ■

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