

UNIVERSITY OF KWAZULU-NATAL

Title

The South African Shipping Industry: BEE and Seaborne Trade

By

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A dissertation submitted in partial fulfillment of the requirements for the degree of
MASTER OF BUSINESS ADMINISTRATION

In the Graduate School of Business

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31 December 2006

CONFIDENTIALITY CLAUSE

Date 2006-12-22

TO WHOM IT MAY CONCERN

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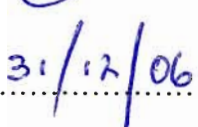
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116058

ACKNOWLEDGEMENTS

“The nature of work involved when working on a dissertation requires that the individual involved receives a lot of support and encouragement from a number of people. The dedication that the research requires calls for an extra-ordinary effort and tenacity. Although it is difficult to enumerate the entire list of names there are, however, those people without whom completion seems a non-reachable destination.

I would like to begin by thanking Professor Trevor Jones who worked tirelessly guiding me throughout this dissertation. This work is a result of his dedicated support, concern and professionalism. All his energies and quality comments lifted me up during the entire course of my Master’s Degree and more specifically during the course of this research work. Included is my late mother who passed on while I was doing my third level examinations. I thank her for her love, support and blessings. In addition, I would like to extend my sincere appreciation to my fiancée to whom I will be getting married within a month of completing this work. I thank her for her never ending patience, love, support and faith. Lastly, the directors and colleagues at Island View Shipping who played a major role during the data collection part of the research and their contribution will always be highly valued.”

THE SOUTH AFRICAN SHIPPING INDUSTRY: BEE AND SEABORNE TRADE

ABSTRACT

The South African Maritime Industry has, as well as other industry sectors, recently been exposed to the dynamics that have been brought about by the Broad Based Black Economic Empowerment Policy which has become law in South Africa. The nature of the policy has created a situation where it (the policy itself) needs to have attention apportioned to it. The attention has been directed towards the implementation of the policy by the shipping companies. In addition, there has been attention directed towards compliance with the legislation that polices Broad Based Black Economic Empowerment. The government's requirement that the South African maritime industry generates a strategy document led to the adoption, by the industry's major role players, of the Maritime Transport & Service Industry Black Economic Empowerment Charter. The purpose of this research work is to investigate and create an understanding whether the aspirations of the above mentioned charter are realistic and feasible to achieve when, the nature of the shipping industry and other maritime related businesses, is considered. Does the way in which the shipping business operates make it easy for Broad Based Black Economic Empowerment to be implemented in the way proposed by the charter? The qualitative theory generating approach is adopted on the research. In the design of this research work a case study is done where a major shipping company, Island View Shipping was studied. The aim is to consider issues that affect the maritime industry as viewed from inside the business environment. Semi-structured interviews are also conducted with the individuals at Island View Shipping who have, for many years, played (working in different levels/positions and working for different companies almost all over the world) major roles in the company itself and in the industry in general. Data analysis is based on the inductive reasoning approach where themes are created and analyzed. The conclusions and recommendations are divided according to themes that are identified in Chapter Five.

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DISSERTATION TOPIC

Penetration of markets associated with the carriage of goods by sea can take several forms. In its fullest sense, such penetration may take the form of beneficial ship ownership and fully-fledged vessel management, with owned vessels registered either under the national flag or under foreign flags. A second route centres on full charter control of vessels fixed for various periods of time and under various terms. A third and more diffuse route involves the control of the transport process by cargo owners, through appropriate commercial terms of shipment. In the case of South Africa, all these routes involve a greater degree of participation by domestic capital in the full logistics chain associated with the procurement of imports or the sale of exports. At present, however, South African enterprises are seriously under-represented in all three of these areas. This dissertation will explore the broad question of greater South African involvement in this transport logistics chain, in particular with a view to identifying opportunities for black empowerment ventures in this sector. The focus of analysis will fall principally on the range of bulk and neo-bulk transport opportunities, which will be explored through a detailed examination of the extended logistics chain in respect of certain selected commodities.

EXECUTIVE SUMMARY

Background

The South African maritime industry has been a major role player in global seaborne trade. Companies like Island View Shipping have played a major role putting South Africa as a shipping nation on the world map. Challenges have come and gone and currently the industry is facing challenges presented by Black Economic Empowerment. In addition, the structure of the terms of shipments has an impact on the activities surrounding the participation of South Africans along cargo value chains. Issues of ships registry have also surfaced through the aspirations built into the sector's black economic empowerment strategy document. It is important that we understand the problems, challenges and potential achievements that underlie these issues.

Objectives

The desired end results of the research will be an evaluation of the current standing of our maritime sector in the light of the economics, costs and benefits and in the light of the BEE strategy, to determine the best possible framework to assert our industry for maximum benefits and exploitation of BEE opportunities and lastly to establish whether our BEE strategy should look more at promoting larger participation along cargo logistics chains and balances between direct owners and charter control of vessels in order for South African maritime companies to have balanced business bases (i.e. between cargo markets and ship/vessel markets).

Methods

Data was collected by means of an interview guide and interviews were held at the Island View Shipping offices. The sampling frame was within Island View Shipping and a representative sample was selected from the sampling frame. Unstructured questions made up the interview guide. It must be mentioned that some of the representative sample units could not get time to sit down for interviews hence the questionnaires on the interview guide were sent to them.

Results

The results show that black economic empowerment is not going to reach the anticipated levels of economic gains if it is not driven by training and skills development mini strategies. Also, the results show that South African exporters are justified in choosing FOB as opposed to CIF in the trading transactions. The results show that the exporters are more concerned about their commercial relationships with their buyers. The results also show that exporters do their trading on FOB terms to avoid huge financial risks associated with CIF trading. Another important aspect of the result is that a much more balanced approach between fully fledged ship ownership and beneficial ownership is a much more economically viable option.

CHAPTER 1 : STATEMENT OF PROBLEMS AND RESEARCH DESIGN

1.1 MOTIVATION

The motivation to undertake this particular research stemmed from the critical questions that the author asked when the position of South Africa in global trade was considered. At the time the research was conceived, the maritime industry's Broad Based Black Economic Empowerment strategy document was at its final stages. On the commercial side of shipping, South Africa was in a stage of growth when it comes to global seaborne trade. The issue of commercial practices and the way South Africa does its business with the world became a matter of open discussion and it was under scrutiny. Resultantly the issue of the only two INCOTERMS (which are Free on Board – FOB and Cost, Insurance & Freight – CIF) became very interesting in its nature and more importantly so because it was one of the vital elements of the above mentioned BBEE strategy document where it has a potential of ensuring the value adding participation of South Africans along cargo value chains. INCOTERMS may be defined as “the standardized terms, generally presented as an acronym e.g. “FOB” or “CIF”, that are a short hand way of expressing contractual obligations of parties to an international sale.” (Maritime terms; Available at:

http://www.vpa.org.vn/English/maritime_term/glossary2/a.htm).

However a much more detailed explanation of INCOTERMS says that “Incoterms are a uniform set of International rules, promulgated by the International Chamber of Commerce in Paris, for the interpretation of the terms most commonly used in international contracts for the sale of goods transaction. The INCOTERMS were first issued in 1953; they were last revised effective January 1, 2000” (Foreign/International Trade Terms, Available at: <http://www.giagroup.com/terms-of-treade-i-cfm>). Under FOB (free on board) contracts a buyer's costs and obligations start from the point of production up to the point when the goods cross the ships rail or are delivered on board at the country of loading. On the other hand, under CIF (cost, insurance and freight) the seller's responsibilities, costs and obligations only cease when the goods are delivered at

the buyer's warehouse or backyard. These include costs for freight, warehousing, transportation, sea freight, road haulage and insurance.

In addition to the above, the South African maritime industry is at a very interesting stage where it must undergo substantial changes, as all sectors of the South African economy have done. The author's interest focused on the possible transformation of the industry. Further to the above, the issue of change or transformation and how the industry can contribute to the upliftment of the previously disadvantaged were also part of the focus.

This research relates to the fundamentals of a coordinated research because a case study using a very influential shipping company is going to be utilized. Also, the company is used as a medium on which issues that affect the South African maritime industry at large are reflected. The company itself will be analyzed using an appropriate analysis model. Following that, conclusions will be drawn about how the company's position has changed in the light of the changes taking place within the South African maritime industry. Detailed discussions of the industry at large will also be undertaken from which data analyses, results and conclusions are going to be established.

1.2 STATEMENT OF PROBLEMS

This research work explores the problems presented by the challenges of change, the nature of the terms of shipment and how the South African maritime industry is going to present opportunities for black economic empowerment. The issues of ship ownership and ship registry also present a problem. The question will be posed as to whether South Africans should become fully fledged ship-owners or strike a balance between full ship ownership, whether by flag or beneficial ownership, and full charter control.

Is the South African maritime industry and the black economic empowerment such that maximum benefits are reaped from our participation in the global sea-trade? Are we going to create an economic empowerment standing that will ensure that maximum opportunities for the previously disadvantaged are created? Are we going to fully exploit the opportunities represented along the cargo logistic chains within our

country? Are we aware that a fine balance between direct ownership of vessels and controlled chartering can lead to extra benefits if we consider that the cargo markets can sometimes be on the downside of the economy and the shipping markets on the upside? Is the maritime industry's black economic empowerment strategy document going as far as recognizing the significance of more participation (through appropriate INCOTERMS) on cargo logistics and ship-chartering than just pure direct ship-ownership?

1.3 OBJECTIVES

The desired end results of the research will be an evaluation of the current standing of our maritime sector in the light of the economics, costs and benefits and in the light of the BEE strategy, to determine the best possible framework to position our industry for maximum benefits and exploitation of BEE opportunities and lastly to establish whether our BEE strategy should look more closely at promoting greater participation along cargo logistics chains and balances between direct owners and charter control of vessels in order for South African maritime companies to operate under a balance (i.e. between cargo markets and ship/vessel markets) business environment.

At the core of the objectives is the creation of a solution to answer the questions raised under the previous section and to recommend the best possible approach for the maritime industry to ensure maximum gains for the South African industry at large whether for BEE, terms of shipment, ship registry and vessel ownership.

1.4 RESEARCH DESIGN

The research is qualitative and the strategic approach that is going to be utilized will be centred on a company within the maritime industry. In that way, one can say the research will be based on a case study of the said company Island View Shipping. The questions that will be answered by the research will produce outcomes that are not presently known and the research is therefore dealing with an unstructured problem. The questions and the issues that underlie the possible answers are far less understood. Therefore this work is exploratory research.

Adding to the above, Island View Shipping, a company where the author works, will be used as a point of departure or a medium from which issues affecting the maritime industry in general will be reflected. This being the case, this work will to a certain degree take the form of a case study. Island View Shipping will be analyzed using a business analysis model to present its structure and its business position. A detailed study on the maritime industry will also be undertaken. Resultantly an overview of the industry will be discussed in addition to the issues as viewed from inside a company that operates in the South African maritime industry. This is the main reason why the author's data collection was done within Island View Shipping. Ghauri and Gronhaug support the above point by saying a "research design should be effective in producing the wanted information" (Ghauri and Gronhaug, 2002: 47). The issues that affect IVS (Island View Shipping) are also pertinent to the industry at large.

In conclusion, the case study approach will only be used as a medium of reflection or a platform from which the discussions will grow from. In addition to the above, "nature of a research design can be viewed as an overall strategy to get the information wanted. This choice influences subsequent research activities, e.g. what data to collect and how data should be collected." (Ghauri and Gronhaug, 2002: 47)

1.4.1 LITERATURE REVIEW

The literature review will be used as a support framework to represent issues that form the basis of the maritime industry in general. The literature review will be divided into tertiary literature review, secondary literature review and primary literature review. The library resources, reports and magazines on the maritime industry, Google search engine and a variety of websites that are related to the maritime industry will be utilized.

1.4.2 DATA COLLECTION METHODS

The review of the maritime industry (both globally and in South Africa) and semi-structured interviews will be utilized. The nature of semi-structured interviews will make them a more suitable technique with which to collect data. The interviews will be in a discussion format where questions which will be set up using an interview guide document will be used to conduct the interview.

The reason behind the selection of semi-structured interviews also has a lot to do with the environment within which the interviews are to be conducted. Island View Shipping's business requires people to travel a lot and it involves very busy office schedules. People are therefore more at ease being interviewed in a less formal manner. Shipping is also a very delicate business when it comes to information. Therefore, although it is the author's colleagues that will be the interviewees, an easy environment must be created in order to obtain as much information or input as possible from the interviewees.

Secondly, the fundamentals of a qualitative study case research work suggest that it is best to employ semi-structured interviews to collect data (Ghauri and Gronhaug, 2002: 88). A set of questions will be employed and these will form the interview guide. It must also be mentioned that the interviews are aimed at understanding the perspective of the interviewees and the personal meanings that each would attach to each of the issues that would be discussed during the interviews.

Lastly an observational technique will be utilized since the author is involved at Island View Shipping and is in daily liaison with the set of interviewees. The author envisages being as objective as possible during the process. The observational research will be covert and in the form of participant observation since the units of the sample (the author's colleagues) would only get to know about the research when the interviews commence and only after the observations have been completed.

The aim is to try and eliminate as much room for error as possible. The flaws attached to different/individual methods will be decreased by using these methods in a complementary manner.

1.4.3 SAMPLE AND SAMPLING TECHNIQUE

My colleagues at Island View Shipping will form the sample frame. The minimum number of years of employment (of the sample) will be five years. The reason why a minimum number of years of employment with the respondent company was put into place as a condition, is that, five years will represent a period long enough for the company to have encountered a number of different market conditions. Also the people who have been employed for that long would have been employed for long enough to

have had substantial exposure to the old nature of the maritime industry at large and the changes that are being introduced due to the new dispensation and black economic empowerment.

The sampling technique will be a Non-random or Non-probability sampling class called Purposive Sampling. The sample that has been chosen at Island View Shipping is regarded as having the ability, through their expertise and experience in the maritime industry in general and Island View Shipping in particular, to satisfy the objectives of the research work under question. Also the case study status of this research work requires the employment of purposive sampling.

1.5 ENVISAGED CONTRIBUTION OF THE RESEARCH WORK

The South African maritime industry is at a very crucial stage. The government is becoming aware that the industry has a fundamental role to play in the economy. Within the industry itself, there are a number of interesting dynamics that are taking place, issues such as transformation that have a potential to change the face of the industry. It is important to note the term “change the face” because the framework and the customary practices used to run the businesses are going to remain the same but the role players stand to change. For example the way chartering (hire of ships) is done will remain the same but there will be black shipbrokers taking part in the future. On the commercial side, terms of shipment are being discussed more towards the point where the employment of a certain choice (between CIF and FOB) is being assessed (whether it has the potential or not) in regards to the commercial gains that it creates for South African entities involved in the exports processes.

The envisaged contribution of this research work is therefore to generate facts that will set the foundation for further research work in trying to create long-term solutions.

The most important contribution will be to identify whether the South African government’s aspirations and the aims of the maritime sector’s strategy document on Black Economic Empowerment are being correctly focused. The question of whether we should be promoting the participation of South Africans along cargo value chains and training them to produce more skills will be answered. So will be the question of which

one of the CIF (cost, insurance and freight) and FOB (free on board) INCOTERMS would help South Africa to increase economic gains and increase participation and value addition during cargo transactions.

1.6 PREVIEW OF THE DISSERTATION

1.6.1 CHAPTER TWO

This chapter focuses on the key concepts or the theoretical framework of the research work. These key elements will be defined. The concepts will set out information that will be vital for the reader to understand and have an overview of the main issues that this research work will be dealing with. An example can be made of the South African maritime industry where the author will present its framework in order to present the reader with a theoretical framework of the same industry. This chapter will also carry the analysis of the case study – Island View Shipping. Island View Shipping is being used as a case study in order to use it a medium on which to reflect general industry issues. An analysis model will be utilized to give an in-depth look at Island View Shipping. What the author seeks to achieve is the production of information onto which to reflect arguments in the chapters that will follow. It is also very important to note that this chapter will prepare the reader for the literature review in Chapter Three. The chapter also includes the definition of the concepts and the motivation of their relevance to the topic will be discussed.

1.6.2 CHAPTER THREE

This is a literature review chapter. The literature review section itself will be sub-divided into Tertiary Literature Review, Secondary Literature Review and Primary Literature Review. The purpose of the literature review will be utilized to present a general view of the fundamentals that form the core of the global shipping industry. That approach will assist in creating a background (for the reader) which will give meaning to the parameters within which the shipping industry operates. The same parameters are applicable to the South African maritime industry and the reader will therefore become familiar with the bases from which the industry grows. The literature review will also help the author to

focus the research work and produce concepts (e.g. supply and demand functions of the shipping industry) in order to focus his arguments.

1.6.2 CHAPTER FOUR

Chapter Four will discuss the research methodology. Critical questions will be set out following the issues raised during the literature review in Chapter Three. The design and the structure of the survey/interview instruments which were created will also be discussed in the required detail. The problems encountered during the data collection period will be divulged and the number of interviews conducted will be mentioned. The author will show how the research data was collected and how the survey instrument/s (non-structured interviews/questionnaire and observation research) were constructed in order to produce data that will assist the author in fulfilling the objectives of the research.

1.6.3 CHAPTER FIVE

This is the data analysis and presentation of results part of research work. Data will be analyzed and discussed. From that, the results will be drawn. The aim will be to show data analysis which will produce results and answers that will assist in communicating responses to the questions set under the Problem Statement section in Chapter 1.

1.6.4 CHAPTER SIX

Following Chapter Five, the final part of the research work will be made up of a chapter with conclusions and recommendations. Under this chapter the author will take a position, based on the results and analysis in Chapter Five, and produce points and issues that will form the conclusions and recommendations to showcase answers to the problem statements and critical questions that this research work seeks to address. In addition, through using the conclusions drawn, the author will set out points or issues that must be subject to further research.

This research work will therefore incorporate a discussion on concepts that form the basis of the arguments and discussion involved in it. It will also have a literature review section which will look at other works on the global maritime industry. These works will be used to discuss issues that form the core of the maritime industry and seaborne trade. Island View Shipping will also be analyzed and the research methodology used to collect data will be discussed in order to inform the reader how the data (which will be presented in Chapter Five) was collected. The author will then represent the data collected and use themes and concepts (generated during the literature review) to analyze the data. Results will then be extracted from the data analysis and conclusions will be drawn from the results. The final parts of this paper will incorporate be the recommendations which will emanate from the conclusions drawn.

1.7 CONCLUSION

Chapter 1 sets a tone of what is expected on this dissertation work. The statement of problems and research design will serve to channel the reader's line of thought and the details on literature review approaches underline the importance of creating a flow between chapters.

The following Chapter Two puts issues into perspective by giving out the theoretical basis of the dissertation by defining the major concepts that form the core of this work's topic and the backbone of this work. Chapter Two will also include the introduction and the analysis of Island View Shipping our case study company.

CHAPTER 2: KEY CONCEPTS

2.1 INTRODUCTION

Following the overview section towards the end of Chapter 1, this chapter presents the theoretical framework of key concepts that underlie the dissertation. Each concept will be defined and discussed concisely and motivation will be given on how relevant the particular concept is to the research topic. Towards the end of this chapter an analysis model is presented (in terms of explaining the way it works and the procedure of its application) first and then applied in the analysis of Island View Shipping, our case study. The concepts are as follows:

2.2 THE SOUTH AFRICAN MARITIME INDUSTRY

The theoretical presentation of the South African industry will create a background from which the discussions and arguments of this paper will be reflected. Also issues that will be raised during the literature review will be refocused into the South African context using the information that will be produced by the following discussion on the South African maritime industry.

“Before 1940, the South African shipping industry was of tiny proportions. Limited coastal services were provided and the old South African Railways & Harbours administration operated a deep-sea shipping service whose real purpose was the importation of timber for railway sleepers. Immediately after World War Two, considerable growth of tonnage on the South African register was recorded, in part as a result of the flotation of several short-lived local ventures, and in part through the in-migration of foreign ship owners, who used South Africa as an effective if rather surprising flag of convenience for a temporary period.” (Ingpen, 1979; Jones, 1980, The South African Maritime Industry Overview Paper: Pg 2).

“Over the next 50 years, Safmarine entrenched its position as a significant operator of liner services to North America, the United Kingdom, northern Europe and the Mediterranean basin, the Far East and (in conjunction with a foreign partner) to Australasia. In the European and Far Eastern trades, in particular, the company’s involvement deepened after South African liner sea trade moved firmly into the container era after 1977, when Safmarine became a significant operator of cellular container vessels. It also established itself as a world-class operator of refrigerated or “reefer” vessels, that were engaged in South Africa’s export fruit trade and in international cross trades. In the bulk trades, Safmarine’s market penetration was more limited, with its centre of gravity located in iron-ore transport from the port of Saldanha, but with some involvement in the minor bulks, notably sugar. The company also dabbled briefly in the oil trades in the 1970’s, before disposing of its tanker interests. Over the same period, following the withdrawal of foreign equity partners, full ownership and control of the Corporation lay in South African hands. As part of this foreign divestment, Safmarine also gained an equity stake in the only other South African carrier of any significance – the Durban-based Unicorn Lines operation associated with the Grindrod family. Unicorn Lines had emerged in the mid-1960’s following the merger of three small coastwise operators, but rapidly extended and improved these services through the provision of new (locally-built) tonnage, and later expanded further into foreign liner operations, largely connecting the South African economy to other middle-income trading partners in South America, Africa, the Middle East and the Indian Ocean rim, as well as into the regional and international carriage of refined petroleum products. The foreign liner operations have now fallen away, but Unicorn Shipping (as it is now styled) retains its coastwise nexus, it has deepened its role as a tanker operator and it has moved in a decisive fashion into the bulk arena, as an owner and operator of handy-sized bulk carriers in its own right, and as a

participant in the world's largest handy-sized bulk pool" (Jones, 2004: Pg 3).

"This penetration of the bulk trades, both as a national and as a cross trader, has come about largely as a result of the acquisition of Island View Shipping (IVS). This locally-based operation grew from the in-house carriage of bulk food grains by a prominent cargo principal (Tiger Oats) into one of the largest global parcel-bulk operators of chartered handy-sized tonnage and finally graduated as a fully-fledged ship owner" (Jones, 2004: Pg 3)

"Between 1999 and 2004, the size and configuration of the South African shipping industry has changed significantly, following the effective "unbundling" of Safmarine in the wake of Old Mutual's divestment of its shareholding in the Safmarine-Rennies group. This led to the sale of Safmarine's liner/container division to the world's top container operator, A P Møller of Denmark; to the acquisition of its reefer and bulk division by the Restis family of Greece; and to the incorporation of its specialist salvage operation – Pentow – to Smit International of Holland, although a black empowerment group retains a significant role in the latter. Although vessel nomenclature, senior management and even in some cases the South African flag have been retained, by the early 21st century, Safmarine could no longer claim, as it did forty years earlier, to be "the only truly South African company plying world trades" (Safmarine Annual Report, 1959), since final ownership of vessels and ultimate claims on of profits are now vested in foreign hands" (Jones, 2004: Pg 3).

"This leaves the centre of gravity of the genuine South African shipping industry in the hands of the Grindrod/Unicorn organisation. Measured in terms of market valuation, fleet expansion and expert navigation of unstable if spectacularly buoyant recent bulk freight markets, these new

hands at the helm of the industry are highly competent ones” (Jones 2004 : Pg 4).

The above discussion summarizes the nature and framework of the South African maritime industry and the role players that are influential. It also highlights the importance of Island View Shipping in the South African maritime industry. With the Grindrod group being a major South African role player, the significance of Island View Shipping, its subsidiary bulk operator, follows. Today Grindrod is one of South Africa’s largest companies with an equity of over R6 billion, turnover of over R10 billion and very little debt. It and was listed as a top company for the last two years. (Grindrod Limited’s Making Waves News Update Magazine, 2005: Pg 1)

The author will, in regards to the above information, utilize Island View Shipping as a case study to construct a background from which issues and data to be discussed will be reflected. Island View Shipping also forms a source of the sampling frame from which a sampling representative unit (for interviews) will be taken. Island View Shipping, due to its importance and influence in the South African shipping industry is regarded as fertile ground for the information and data required to meet the objectives of this research paper.

The discussion of the maritime industry’s framework is therefore of significant relevance to this research work’s topic. It creates a bed-rock for discussions in the following chapters.

2.3 ISLAND VIEW SHIPPING

Island View Shipping was founded in 1976. It was operating under the Tiger Oats brand and it was created to ship bulk grain and other related products to Europe. Island View Shipping then grew in other bulk and break-bulk trades. Because of frustrations created by IVS’s (Island View Shipping) aspirations, the relationship with Tiger Brand was severed towards 1999. A new relationship with Grindrod was put into place in the same year. Island View Shipping was then able to grow and is now regarded as South Africa’s largest bulk shipping organization. The tonnages shipped per year range between 15 and 18 million tonnes and these cargoes go to various ports of the world. The cargoes vary from ores, minerals and coal to agricultural products.

Island View Shipping has a Handysize Parcel Service that focuses on bulk parcel shipments mainly from Richards Bay to the Mediterranean, North West Continent, The United Kingdom and some ports in US including the US Gulf. IVS has a joint venture with Lauritzen bulkers and these two companies have joint ownership of more than 60 vessels which in turn creates one of the largest modern Handysize (a vessel that carries general cargo and has a size range between 28 000 metric tonnes deadweight and 45 000 metric tonnes) fleets in the world.

IVS also has the Island Trading and Shipping (ITAS) department where IVS is a shareholder in Island Trading and Shipping. ITAS is a company based in Singapore which concentrates on the shipments of grains and proteins. The Cape and Panamax division is run by an experienced chartering team based in Cape Town. The division is named after the type/s of vessels that fall under its responsibility.

The discussion on Island View Shipping is included in order to enlighten the reader on the company in the case study and also to complete the picture painted by the section above on IVS and Grindrod. It is also relevant to the topic because Island View Shipping is the case study company and a lot of data will emanate from IVS.

2.4 BLACK ECONOMIC EMPOWERMENT

Broad Based Black Economic Empowerment is government created policy that is aimed at addressing the inequalities (in terms of business opportunities, employment opportunities and skills development) of the past between racial groups.

The government defines BBEE as:

“An integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa and brings about significant increases in the numbers of black people that manage, own and control the country’s economy as well as significant decreases in income inequalities” (Defining Black Empowerment. Available at: www.info.gov.za/speeches/2005.htm).

The issue of Black Economic Empowerment and the South African maritime industry sector’s strategy document (please see Addendum 4 attached) on Broad Based Black Economic Empowerment forms the backbone of this research work. The main

elements of the above mentioned strategy document are highlighted below. This is done in order to bring to the fore the parts of the charter that are of relevance to this discussion and that will keep the reader's mind and understanding on track in as far as discussions on different degrees of vessel ownership and those on the increased participation of South African entities along cargo value chains are engaged upon.

The main principles that form the core of the charter are as follows:

- (a) Our overarching long-term vision is to develop South Africa to become one of the world's top 35 maritime nations by the year 2014. In 1996, 35 countries controlled 93, 5% of the world's merchant fleet. Sad to say, not a single African country featured on this list. South Africa's sea-borne trade during this period amounted to approximately 135 million tonnes. This level of trade closely matches some of the countries featuring on the top 35 merchant fleet owners.
- (b) The South African Maritime Transport Industry is, therefore, well positioned to make this vision become a reality and make a broader contribution towards sub-regional integration in line with the New Partnership for Africa's Development (NEPAD) and the African Maritime Partnership whilst at the same time promoting the participation of previously disadvantaged communities in this historic continental initiative.
- (c) Our vision is to substantially increase the number of SA-flagged vessels and develop new South African shipping companies that are globally competitive - not only in trade between South Africa and the rest of the world, but also as international "cross" traders. These companies must eventually be able to compete with other merchant

navies operating on other lucrative international trade routes, e.g. Far East and Europe and Far East and America.

(The South African Maritime Transport & Service Industry Black Economic Empowerment Charter, 2005: Pg 4)

The charter also covers economic activities in South Africa which share a relationship with the sea that include the following:

- * Enterprises concerned with the marine transport of cargo and services ancillary to such transport;
- * Enterprises concerned with the manufacture, provision, maintenance and repair of marine equipment, including marine craft;
- * The commercial ports system and authorities responsible for the provision and operation of navigational aids, including lighthouses;
- * Institutions concerned with rescue, salvage and anti-pollution operations;
- * Government departments and agencies concerned with international maritime relations, administration of maritime safety, the protection and conservation of the marine environment and law enforcement within South Africa's offshore jurisdiction; and
- * Institutions concerned with marine and maritime education, training and resources. (The South African Maritime Transport & Service Industry Black Economic Empowerment Charter, 2005: Pg 3)

The charter also includes undertakings by all (of those that participated on the discussions on the charter) industry stakeholders. Briefly the undertakings are as follows:

The black economic empowerment concept is relevant to the topic because the topic states that will be an investigation of whether the facets of the maritime sector's strategy document on Black Economic Empowerment will be achievable and whether these would create more opportunities for previously disadvantaged individuals.

2.5 TERMS OF SHIPMENT – INCOTERMS

INCOTERMS are terms that are used in trade contracts between a buyer and a seller. The focus of this research work is on two terms namely FOB (Free on Board) and CIF (Cost, Insurance, Freight).

Under FOB (free on board) the responsibilities, costs and obligations of an exporter end when the goods cross the ship's rail. Under the CIF (Cost, Insurance and Freight) the exporter's costs, responsibilities and obligations only cease when the goods are delivered to the buyer at his own premises or warehouse. Under CIF a South African exporter therefore has more control and presence along the cargo value chain as opposed to cargoes sold under FOB terms.

INCOTERMS can therefore be defined as “a uniform set of international rules, promulgated by the International Chamber of Commerce in Paris, for the interpretation of the terms most commonly used in international contracts for the sale of goods. INCOTERMS define the obligations of buyer and seller at every stage of an international sale of goods transaction. The INCOTERMS were first issued in 1953; they were last revised effective January 1, 2000” (Foreign/International Trade Terms, Available at: <http://www.giagroup.com/terms-of-treade-i-cfm>).

INCOTERMS are of fundamental relevance to the topic of this research work as understanding them would assist in addressing questions around the type of contractual obligation that South African exporters enter into when trading their cargoes with foreign buyers. The questions are based on whether the agreements entered into between exporters and foreign buyers create a feasible environment for the increased participation by South African entities.

2.6 SHIP REGISTRATION

This is a process that takes place when a ship is given a certain country's nationality e.g. if a ship is registered on the South African ships registry, it will be given a South African nationality and will be governed by the laws of South Africa. It will fall

under the country's laws in terms of tax, labour laws and so on. The subsequent chapters will give more details on the process and types of registries.

The relevance of this concept to our topic is substantial because within the topic is a question of whether South Africa should increase its ship registry or should the country be concentrating on promoting increased value addition on the cargo chain. Also it touches on fully-fledged ownership as opposed to beneficial ownership

2.7 SHIP OWNERSHIP

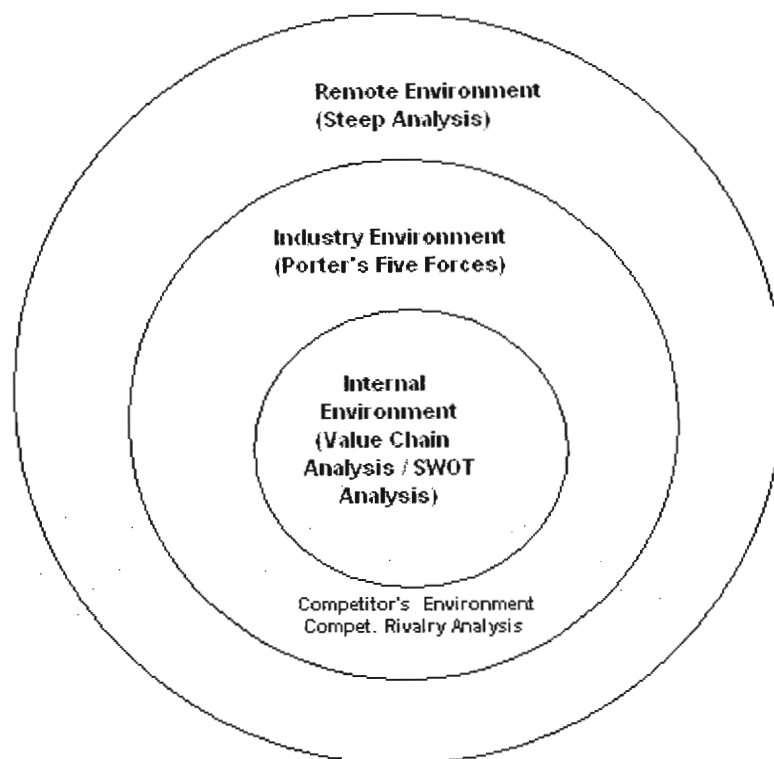
Ship ownership can either be on a fully-fledged basis or a company can hire (charter) a ship from its head owners. In that case the hiring company then becomes the vessel's disponent owners. The different types of charter depend on time or duration of the charter.

The relevance of this concept is that part of research investigates whether full or beneficial ship ownership has the potential for creating opportunities for previously disadvantaged people in South Africa.

2.8 AN ANALYSIS MODEL

A business analysis model with which the Island View Shipping, as a case study, is going to be analyzed will be developed in this chapter. The model analyzes the environments within which Island View Shipping operates its business. More details will follow in the subsequent chapters. The aim is to present the structure and nature of the analysis model before applying it to the case study, Island View Shipping.

Figure: 2.1
Title: Business Analysis Model – Self Created



Source: Author Created

Using the above model the author will analyze IVS's internal environment using the Value Chain Analysis. The industry environment will be analyzed using the Porter's Five Forces analysis instrument and the remote environment will be analyzed using the Steep Analysis instrument.

The issues that are going to be raised by the analysis of the case study are of fundamental importance to this research work as they will portray the issues that affect Island View Shipping in particular. These can then be applied to the entire South African maritime industry. Therefore the analysis model above is very relevant to the topic as it encapsulates information that will help in making the reader's understanding of the case study and the industry better.

2.9 CASE STUDY: ISLAND VIEW SHIPPING

Island View Shipping (IVS) was founded in 1976 to ship bulk grain by-products to Europe. It subsequently expanded into other bulk and break-bulk trades. Cargoes carried include a wide range of minerals, ores and agricultural products ranging in shipment sizes from Handy size to Capes. A handy sized vessel is a vessel that ranges from 28 000 to 34 000 mt deadweight in size and is a user friendly, shallow drafted, geared multi-purpose bulk carrier. A Cape Size from has 150 000 to 200 000 mt in deadweight and is a large bulk carrier which carries homogenous full ship loads like iron ore and coal. Island View Shipping ships between 15-18 million tons per annum globally.

With its head office located in Durban, South Africa, IVS operates a regular bulk parcel service scheduling 8 – 12 vessels per month out of East Africa/Mozambique/South African and Namibian ports to the North West Continent, UK, USA and the Mediterranean. The latest strategy at Island View Shipping has been to introduce international bulk trading which is carried out via a joint venture (briefly discussed below) with Lauritzen Bulkiers of Copenhagen, Denmark.

Handy size Parcel Service

IVS's handy size parcel service carries a wide variety of bulk cargoes including chrome ore, ferrochrome and ferromanganese alloys, manganese ore, zircon sand, rutile sand titanium slag, ilmenite, pig iron, vermiculite, andalusite, lead and copper concentrates, fluorspar, coal/anthracite, phosphates, grains and break-bulk cargoes such as steel, stainless steel, aluminium and granite.

ITAS-Island Trading and Shipping

The Singapore based company, is a joint venture between Raoul Noel and Island View Shipping. ITAS offers regular sailings to and from Europe, South America and Australasia into Southern Africa and the Indian Ocean Islands.

Island View Shipping and Lauritzen Bulkers

Island View Shipping and Lauritzen Bulkers (LB/IVS Pool) formed a Handy size bulk pool on 15th September 2001. The LB/IVS Pool involves the merging of all resources in the 25 000 – 40 000 deadweight segment. The fleet exceeds 50 vessels, thus creating one of the largest modern Handy size fleets in the world. This is jointly operated out of Lauritzen Bulker's head office in Copenhagen supported by offices in Melbourne, Durban and New York giving the LB/IVS Pool a global coverage of the world markets.

Cape and Panamax

IVS entered the Cape and Panamax sectors of the dry bulk market during the latter part of 2000. An experienced 3-man chartering team is located in Cape Town with the operation of the ships carried out (at the head office) in Durban.

The fleet is mainly employed on Time Charter to major operators with plans to expand the cargo base in the future. The modern fleet will be maintained and expanded with long-term charters which will include the chartering of new buildings. The Cape operation currently represents a carrying capacity of 7/8 million tones per annum.

2.10 THE DETAILED ANALYSIS OF THE CASE STUDY – ISLAND VIEW SHIPPING

2.10.1 Introduction

This section of the research work presents an analysis of the case study, Island View Shipping. The analysis model developed (through the incorporation of different analysis instruments like Steep Analysis, Porter's Five Forces, Value Chain Analysis and Competitor environment analysis techniques) above and will be utilized to analyse Island View Shipping. The main building blocks of the analysis model are the remote environment (an environment, which encompasses political, social, environment and technological factors, that exist outside the company), the industry environment (the business environment within which the company operates its own business) and the internal environment (the environment that exists within the borders of the company e.g. the office environment).

The analysis instruments that are going to be used for each will be Steep Analysis (which looks at the social, technological, ecological, economic and political factors that affect the company) for the Remote Environment, Porter's Five Forces (which is made of the Threat of new entrants, Threat of bargaining power of buyers, Threat of substitute product, Threat of bargaining power of suppliers and the Rivalry amongst existing competitors) for the Industry Environment and the Value Chain Analysis (covering the Firm Infrastructure, Human Resource Management, Technology and Product Development, Inbound Logistics, Operations, Outbound Logistics, Marketing and Sales and Post Fixture services (Fleisher & Bensoussan, 2003). The last part of the section will involve an analysis of Island View Shipping's Corporate Strategy.

The above concepts will be explored to present a picture of how Island View Shipping operates its business in the light of specific challenges and opportunities presented by the different layers of the environment within which it operates.

2.10.2 REMOTE ENVIRONMENT – STEEP ANALYSIS

2.10.2.1 The Social Factors

Island View Shipping existed during the period of social and political segregation in South Africa and has crossed over to the period of the new dispensation. In addition to that, the South African maritime industry has always been populated with white males. Under the new dispensation, and with the emergence of the new social class trends which is bringing about the new black middle class, IVS now finds itself liaising with new black professionals who are entering into the industry in larger numbers than before.

South Africa is a very culturally rich and diverse country. However, the country also has social challenges like drug abuse, high numbers of illegal immigrants, high birth rate, and new crimes like internet banking fraud. The South African demographics reflect Africans as the majority followed by Whites, then Indians and Coloureds. The South African education system under which the African community was educated has been in a very poor state for the African communities for years. The white communities on the other hand have enjoyed a better quality education system. The literacy balance is, as a result, grossly skewed against the black communities. The result was that black people had almost no access to the economy and business: part of the larger plan of the previous regime.

In that regard Island View Shipping finds itself in a business environment that needs a great amount of correction in terms of a balanced demographic representation, skills and participation is concerned. Fortunately the present government's general policy on Broad Based Black Economic Empowerment and the transport industry sector's strategy (on Broad Based Black Economic Empowerment) seek to address the situation.

2.10.2.2 Technological Factors

Business today is characterized by fast-paced changing technology. Not only was the introduction of a personal computer a milestone, but the use of the personal computer is evolving at a very high pace, from just being a typing tool replacing old type writers, to a communication tool using email and to a transaction machine able to do internet banking and be part of the E-commerce economy. All the above were made possible by the innovation of powerful software packages for databases, virus protection, and security against hacking and so on. Shipping companies like Island View Shipping, have customized computer operating systems which are merged with other computer functions that the company has. One example is the AS400 vessel operating system which also has a link to the accounts department's accounting systems and also the company's website.

Another dimension of technology that had a significant impact on how Island View Shipping operates its business is the convergence of functions where the technological tools no longer perform only one function e.g. cellular phones are not used only for tele-communication, but also to surf the internet and take pictures of situations at the harbour.

2.10.2.3 Ecological Factors

Island View Shipping operates under the auspices of the International Maritime Organization and all its conventions. As a ship-owning entity, the employment of IVS ships is also undertaken in full compliance with such conventions and related policies.

The actual office operation at IVS is not affected to any degree by any ecological factors. However there is compliance with all municipal environmental regulations that apply in the area in which Island View Shipping operates.

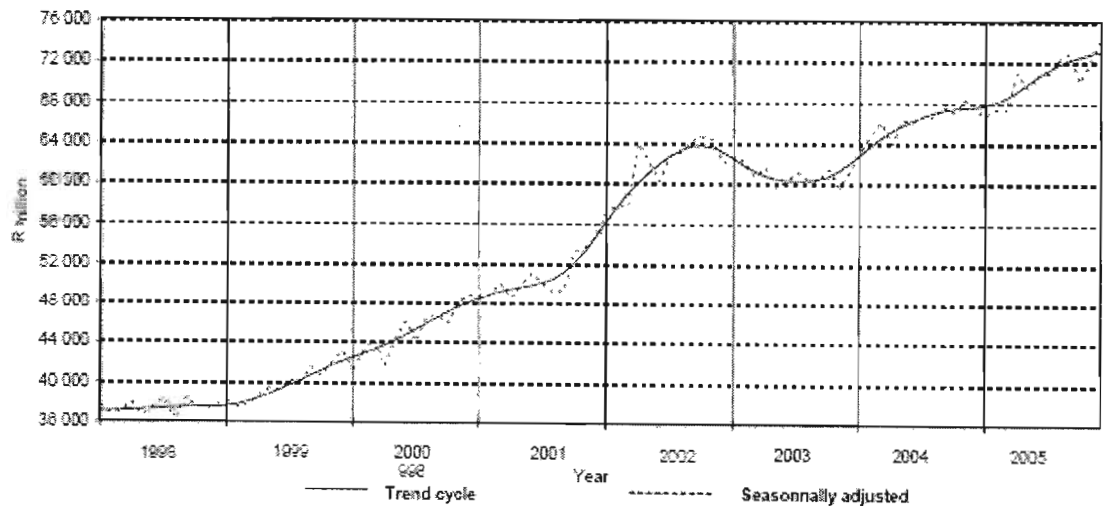
The most important IMO convention that IVS vessels must comply with is the International Maritime Organisation's Convention on Pollution 1978. The Marpol convention covers pollution at sea, the protection of the marine environment and all other related ecological areas.

2.10.2.4 The Economic Factors

The South African economy has gone through significant changes. Services now account for most of South Africa's economy, surpassing the abundant mineral and energy resources that formed the core of the country's economic activity. Much of manufacturing is based on mining and platinum has now overtaken gold and diamond exports. Economic growth remains slow and employment is stagnant. The Minister of Finance (Trevor Manuel) has alluded to the fact that although the country produces approximately 500 000 jobs a year, however the problem of unemployment in South Africa still needs a lot of attention.

Figure: 2.2

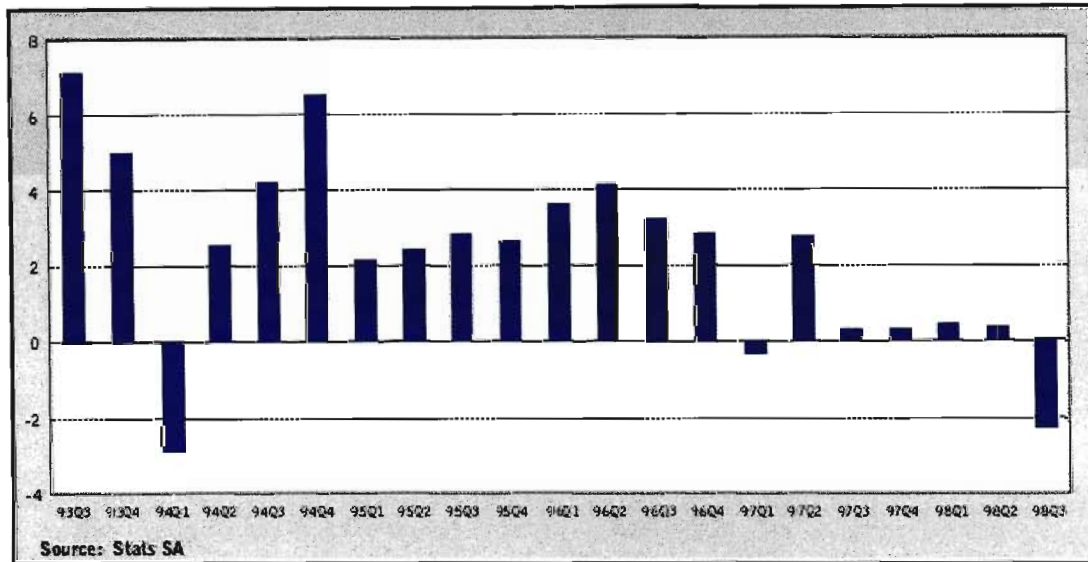
Title: Total Value of Sales of Manufactured Products



Source: www.statssa.gov.za

Figure: 2.3

**Title: Growth in real gross domestic product at market prices
(quarter on quarter, seasonally adjusted, annualised rates)**



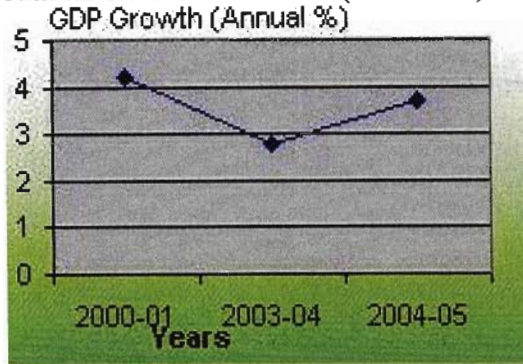
Source: www.statssa.gov.za

The above figures depict the different trends that are the signs that economic growth started showing as early as 1998 (see Figure 2.2). Although the total value of sales of manufactured products cannot alone be regarded as a major contributor to economic growth, it is one of the elements that, in conjunction with others like the balance of payments play a role in producing growth in the economy. Figure 2.3 depicts the negative GDP growth that existed during 1998.

Figure: 2.4 below, shows GDP growth from about 4.3% to about 2.7% between 2000/1 and 2003/4. It then grew towards 4.8% around 2004/5

Figure: 2.4

Title: South Africa's GDP Growth (Annual %)



Source: Economy of South Africa, 2005,

Available at: http://www.economywatch.com/world_economy/southafrica/index.html

The World Economic Watch Forum sums it up below:

“The Gross National Income atlas method of the country as of the year 2005 has reached at 165.3 billion in current US \$ with a per capita of 3,630.0 in current US \$.

The Gross Domestic Product in the country in 2004 was 212.8 billion in current US \$ with an annual percentage growth rate of 3.7” (Economy of South Africa, 2005,

Available at: http://www.economywatch.com/world_economy/southafrica/index.html).

However, it must be mentioned that the economic growth showed an upturn towards the end of 2005 and the beginning of 2006. In the post-apartheid era the government has focused on controlling the trade deficit while striving to step up spending on social programmes to combat inequality.

A historical timeline on the South African economy and its growth and other dynamics is set out below:

“1973-1980: Foreign investment becomes concentrated in short-term loans as political instability rises following Soweto. Joint ventures between public and private firms and the governmental purchase of controlling interests in private

businesses increase to combat dwindling foreign participation. Gold prices peak in 1980, but the economy of the country producing 60 percent of world's gold supply stagnates.

1981-1993: Many international banks follow the lead of Chase Manhattan in 1985 by refusing to roll over short-term loans, and the economic impact is devastating. Inflation takes off, standards of living plummet, and the country enters a recession. Foreign companies withdraw. Agricultural deregulation fails to spark growth in the face of severe drought and loss of trading partners.

1994-1998: Foreign funds flow back into the economy amid tensions within the ANC between state intervention and free-market policies. The RDP calls for nationalization, but is replaced by a market-oriented Growth, Employment, and Redistribution (GEAR) strategy. The ANC commits to fiscal discipline and anti-inflationary monetary policy as well as privatization and lowering tariffs.

1999-2000: President Mbeki reaffirms a privatization policy with complete or partial sales of parastatals in the media, telecommunications, and aviation and airports. South Africa enters the 21st century heavily reliant on the services sector, which accounts for 65 percent of GDP, followed by the industrial (30 percent) and agricultural (5 percent) sectors.

2001-2003: South Africa's economy wavers in 2001 with unrest in neighbouring Zimbabwe and a dramatic collapse of the rand. But steady economic management, a growing trade surplus, and a strengthened anti-HIV/AIDS policy result in increased confidence in 2002, and the year sees a resurgence of the rand and greatly improved growth prospects. Phone company Telkom is listed on the stock market with great success." (www.pbs.org.com)

2003-2006: According to 2004 data, South Africa's GDP was more than \$104.2bn, with approximately 20% of this going towards funding state expenditure. Traditionally, the South African economy has been based on the mining industries that made the country famous, and agriculture, especially cattle, viticulture and grain cultivation. Yet the services sector is now the largest in the South African economy, representing more than 62%. In particular, there

has been strong growth in recent years in the financial sector, tourism and retailing, as well as a burgeoning community services sector. Exports brought approximately \$42bn into the South African economy in 2004, while \$39.4bn was spent on imports – mainly machinery, chemicals, petroleum products and food. The country's main export markets are the US, representing 10.2% of overseas sales; the UK (9.2%); and Japan (9.0%). South Africa also conducts extensive trade with neighbouring African countries. Its most significant export earners are minerals and metals, most particularly gold, diamonds and platinum, followed by machinery and equipment. Apart from the services sector, agriculture remains one of South Africa's largest sources of employment, with 11% of the active workforce working on the land. This has been surpassed by the manufacturing sector, which now accounts for 14.8% of those in employment. The main focus of South Africa's manufacturing sector is mining, metalworking, machinery and textiles. Accounting for approximately one-fifth of GDP, the sector is however facing stiff competition from other international producers. South Africa is an exporter of electricity to neighbouring countries, though it also imports a similar amount of electrical power. Though it has only limited proven reserves of oil and natural gas, due to international sanctions imposed during the apartheid regime, the country adapted to economising on energy usage. However, it is a net importer of oil, though is currently self sufficient in terms of natural gas consumption

(South Africa, Economics, 2006. Available at: <http://www.oxfordbusinessgroup.com/publications.asp?country=38>)

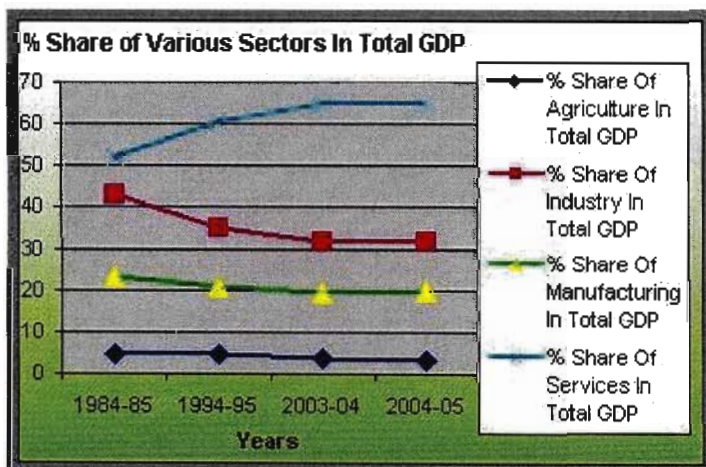
The industrial sector in the country plays a very significant role in the economy. The major industries of the country are:

- 1/. Mining (including platinum, gold, chromium, diamonds,
- 2/. Automobile assembly,
- 3/. Metalworking,
- 4/. Machinery,
- 5/. Textile,
- 6/. Iron, steel,

- 7/. Chemicals,
- 8/. Fertilizer and
- 9/. Foodstuffs.

The manufacturing industry in the country covers various specialized sectors including railway rolling stock, synthetic fuels and machinery. The following figure shows the percentage share of various sectors of the economy in the total GDP.

Figure: 2.5
Title: Share of Various Sectors in Total GDP



Source: Economy of South Africa, 2005,

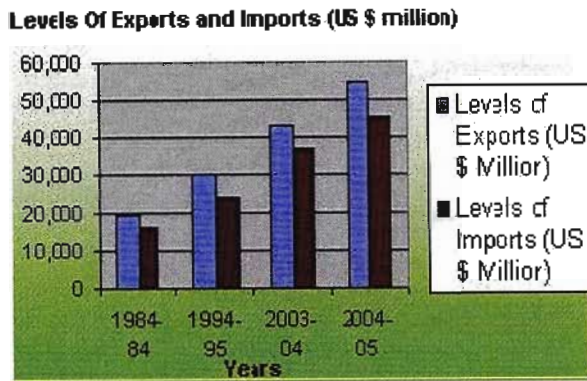
Available at: http://www.economywatch.com/world_economy/southafrica/index.html

The items most often imported into South Africa are food, fuel and energy, and capital goods. The imports partners in the country are Germany, UK, US, Japan, Saudi Arabia and France.

“The following figure shows the levels of exports and imports of the country over the years. In the year 2004 total export levels in the country was US\$ 54 911 millions with an imports level of US\$45 287.” (Economy of South Africa, 2005,

Available at: http://www.economywatch.com/world_economy/southafrica/index.html

Figure: 2.6
Title: Levels of Exports and Imports (US\$ million)



Source: Economy of South Africa, 2005,

Available at: http://www.economywatch.com/world_economy/southafrica/index.html

The above diagram is evidence of the fact that the “new” South African government had put its energy into decreasing the country’s deficit (in respect to imports and exports). In the 1983- 84 period the country’s exports and imports were about US\$ 20million and US\$ 10 million respectively. However in 2004 – 05 these had grown up to US\$55 million and US\$43 millions respectively. The major contributor to that change was South Africa’s increased participation in global trade and also the alignment of South Africa’s trading patterns due to trade agreements and exposure. It is very important to note though that the structure and level of the economy in South Africa, where the country exports raw material and imports finished goods will always result to a higher number of imports. The driving force behind that situation is that as the economy grew in the years (around 2004 – 2005/06) demand for finished goods increased. This meant that the numbers of imported good increases, but the country’s exports did not grow enough to counter the growth of imports. Therefore the current situation is such that although exports could be higher than imports (see Figure 2.6 above) the margin will not be high enough. So the risk of a trade deficit is always there.

Economically, South Africa also has the worst disparities within its population. “With per capita GNP \$4 490.00 (as estimated in 2004), South Africa is among the countries with the highest income disparities in the world. Thirteen percent of the population lives in “First World” conditions. At the other extreme, about 22 million people live in “Third World” conditions. In this group only one quarter of households have access to electricity and running water; only half have a primary school education; and over a third of the children suffer from chronic malnutrition. Reducing inequality and poverty, and tackling unemployment, among the highest in the world, are some of the key challenges faced by the post-apartheid government.”(Economy of South Africa, 2005, Available at: http://www.economywatch.com/world_economy/southafrica/index.html).

Table: 2.1
Title: South Africa’s Economic Indicators

	1999	2002	2003
Economy			
GNI, Atlas method (current US\$)	134.0 billion	114.7 billion	126.0 billion
GNI per capita, Atlas method (current US\$)	3,120.0	2,530.0	2,750.0
GDP (current \$)	131.1 billion	106.3 billion	159.9 billion
GDP growth (annual %)	2.0	3.6	1.9
GDP implicit price deflator (annual % growth)	6.2	10.1	5.9
Value added in agriculture (% of GDP)	3.4	4.1	3.8
Value added in industry (% of GDP)	31.0	32.2	31.0
Value added in services (% of GDP)	65.5	63.7	65.2
Exports of goods and services (% of GDP)	25.7	33.8	28.2
Imports of goods and services (% of GDP)	23.1	30.0	26.4
Gross capital formation (% of GDP)	15.9	15.9	16.8
Revenue, excluding grants (% of GDP)	27.8	27.5	27.0
Cash surplus/deficit (% of GDP)	-1.8	-1.0	-2.5

Source: Economy of South Africa, 2005,

Available at: http://www.economywatch.com/world_economy/southafrica/index.html

The economic environment under which Island View Shipping has operated has undergone fundamental changes and phases. It is currently an open

economy and for companies that rely on world markets to operate and grow their businesses, opportunities are endless. The growing of South African companies due to the country become a stronger player in the global trade village is one of the ways that are going to address most of the problems associated with internal economic disparities between racial groups. Another vital factor is the increased openness (in terms of tariff reductions) of the global markets that have been implemented over the past 3-5 years. These reductions are very critical to trade.

2.10.2.5 Political Factors

South Africa has one of the youngest democracies in the world. The political scene is dominated by the country's majority party the African National Congress. In the opposition there is the Democratic Alliance and other small parties. The country is divided into provinces which have their own governments led by provincial premiers. The provincial governments are voted upon at the same time as the national governments. The winning parties then elect parliamentarians.

As for the policies, South Africa has speedily shown world class political practice. The political violence that existed before the 1994 general elections has disappeared. There has been a very stern and strict approach (by the government) against corruption.

In the province of Kwa-Zulu Natal (KZN) where Island View Shipping is situated, the province was led by the more traditional Inkatha Freedom Party (IFP) for two terms after the first democratic elections. However the IFP lost dismally to the African National Congress in KZN during the 2004 general elections.

It must be mentioned that the political/business and economic policies envisaged by the ANC led government do offer an open business environment for all sectors of business to engage in their business practices without any interferences (in the way in which they conduct their business) from the

government. It does however mean that business must conduct their business affairs and practices in ways that are legal and acceptable to government and legislation (e.g. labour law, codes of conducts and other laws that govern business). There is also a very strong labour legislation in South Africa which gives substantial power to the labour movements and unions. The reason is that with South Africa's previous government having been abusive towards the labour force (which is largely black), the current government has implemented labour policies that seek to correct all the malpractices and injustices of the past.

Another set of government policies that are of major concern for business comprises of Broad Based Black Economic Empowerment (BBBEE) and Affirmative Action (AA). BEE has more of an economic nature into it. It seeks to correct the imbalances of the past in areas like company ownership, management, control and procurement. The core of BEE says that business must engage more people from the previously disadvantaged communities in terms of equity ownership, management, control and preferred procurement.

On the other hand AA looks at the nature and composition of the people that companies hire or employ. AA also looks at addressing the imbalances of the past in terms of the number of people employed into certain levels and positions within companies. It professes that the majority of people employed and hired by companies should come from previously disadvantaged community groups and the employment practices of companies must not be discriminate against women, disabled and gay people.

Against the backdrop of the political factors, legislations and all other political dynamics mentioned above, our study takes the direction of exploring BBBEE policies and how Island View Shipping and the entire shipping industry are immersed into the environment.

2.10.3 THE INDUSTRY ENVIRONMENT

Our analysis takes form along five dimensions. Those are the threat of new entrants, threat of bargaining power of buyers, threat of substitute products, threat of bargaining power of suppliers and the rivalry among existing competitors. These forces have a weighting range of 1 – 5 (with 1 representing least serious threat and 5 the most serious).

2.10.3.1 Threat of New Entrants – Weighting Factor 2

As previously mentioned Island View Shipping owns charters and operates ships. IVS also has contracts with local producers of goods (minerals, bulk cargoes etc) that are exported to foreign countries.

The costs of acquiring ships and creating a shipping entity that will have a capacity of operating and chartering such ships to fulfil lucrative contracts is very high and need very strong and highly skilled or experienced teams and human resources. In addition to that, South Africa has a very scarce source of professional and highly trained people to fulfil the demand for the human resource in shipping. Island View Shipping has been operating with the same (i.e. with no further employment or addition) chartering team for the past 10 – 15 years. The profession has a very limited pool of skills. Therefore the barriers of entry for new entities are very high. However, it must be mentioned foreign professionals can filter through and enter the industry because of skills that they bring in. The main challenges there are the principles of broad based black economic empowerment because if they are thoroughly followed, companies should recruit local people and train them.

Apart from massive start-up costs, companies like IVS have also been in the shipping business for long enough to have amassed the amount of experience that equips them with enough power to deal with any possible challenges that might arise due to the emergence of new entrants that might pose as competition.

2.10.3.2 Threat of bargaining power of buyers – Weighting Factor 4

The buyers of Island View Shipping's services or in general, the buyers of services in the shipping industry in as far as Island View Shipping's operation is concerned are mines, mineral products producers and all other shippers that use IVS's ships to move their products.

Most contracts that exist between Island View Shipping and the shippers run for certain agreed periods ranging from 3 – 5 years. Towards the end of the contracts, negotiations start and shippers open their book to the best offer (among those that get tabled by different shipping companies). In that way shippers wield their bargaining power because they can choose any shipping company that offers them a favourable freight rate (a monetary rate at which goods are carried on board a ship from country of source to country of destination). They also pay for quality of service.

This threat is therefore high because a shipping company can lose its contract to a competing entity due to the power that the shippers (the buyers of the service) have. If a shipping company fails to protect its interests (either commercially or legally), it normally negotiates from a very weak position for the elongation of a contract or it loses it completely.

IVS therefore operates in an environment where the service recipients have strong power when it comes to the reasons why they buy or why they should continue to buy such services.

2.10.3.3 Threat of substitute products – Weighting Factor 3

In the shipping business, the substitute products come in a form of the type of ships and the freight rates that the competition can offer to the customers. It means that if IVS is competing with other companies for a certain contract or trade and the competitors can offer a better ship/freight rate package to the shippers, the competitors would then have offered a substitute product.

This threat is weighted at 3 because what normally happens is that different shipping companies will use the same type of ships to move certain cargoes. On the other hand companies do not want to get into a practice of pricing themselves out of the market. Therefore you end up with freight rates that do not show huge differences. However this threat remains at 3 because if a certain company offers a much differentiated service (due to experience amassed over the years of doing a particular trade or moving a certain cargo) shippers would not mind paying a little bit more as long as they get a much better service. In view of that, the threat of substitute products in IVS's business arena is very serious phenomenon when negotiating contracts.

2.10.3.4 Threat of Bargaining Power of Suppliers – Weighting Factor 1

Island View Shipping does not face a major threat from its suppliers. To remain focused in our discussion, the suppliers in IVS's business are mainly shipbuilding companies. Those are singled out because they provide the main hardware that enables IVS to perform its business. The other important suppliers are ship-owners or owners of chartered tonnage from which IVS charters ships. The type of relationships built over years and the fact that the above mentioned suppliers do not really get involved in the day to day running of IVS's business renders this threat as of a very low degree.

The threat does however exist. For example if for some reason a ship-owner offers IVS an available ship to charter and he only does that after having contacted other possible charterers. You then end up with a situation where IVS's rate offer gets pitted against the rates that the other possible charterers have given out. In that instance IVS departs from a very disadvantageous position because you might end losing that ship to other people if you offer an owner a less attractive rate than others. This threat is weighted 1 because although its existence is acknowledged, it is not that serious because the relationships that exist between IVS and shipbrokers are good enough to protect the interests of IVS.

2.10.3.5 Rivalry amongst existing competitors – Weighting Factor 4

The nature of the shipping business/industry caters for fierce competition and rivalry among role players in as far as base cargoes and trades are concerned. The perfect

execution of a trade by a company is one of the key elements in defending territories. That is of course coupled with the type of freight rates concerned. Quality of service is also a vital factor.

It must also be mentioned that although it naturally happens that certain different companies will service different trade routes, you still find companies fiercely competing for the same contracts and trades. Again, it is only service differentiation that sets competitor offerings apart from each other.

Companies therefore spend a lot of time and money in creating values that will differentiate them from the rest. That is exactly at the core of the fierceness of competition because no one wants to be beaten. So for IVS to operate under such conditions, the spears must always be sharpened. The force is sitting on a scale of 4 and the emphasis is on the fact that fierce competition poses danger to the bloodline of your business.

2.10.4 INTERNAL ENVIRONMENT

Below we employ the Value Chain Analysis approach to assess Island View Shipping's internal environment.

2.10.4.1 Firm Infrastructure

Island View Shipping operates on a very versatile and well integrated computer system called the AS 400. It is a system with which all IVS's ships are run and it is integrated to the accounts system, an informative website and it automatically compiles statistics (which show information like the type and tonnages of cargoes shipped per financial year, the freight rates received per shipper for the whole year, the amount of stevedoring charges paid per shipments and other information related to the business) for future reference and good records. The flexibility of the system is of such a high degree that a single entry affects changes down the line to update the current stand of that particular record to the new. For example if an operator enters a new or a changed departure date for ship expected to sail from Richards Bay to Rotterdam, the ETA (expected time of arrival) in Rotterdam gets updated automatically. Another example is when an estimated tonnage is entered as cargo to be loaded, the calculator applies a freight rate to that particular cargo and when the final/confirmed tonnage is entered, and it is less or more than the estimated tonnage, the calculator will alter the financials page accordingly by applying a freight rate to the altered tonnage and then produce a final tonnage.

There is also a very good communications system which links up all offices and different departments. The communications system also provides for the liaison (both on confidential and general modes) between ship-owners, shippers, ships agents, port authorities, lawyers, cargo brokers, ship brokers, marketers and all other stakeholders that are important to the operation at large. The freight rates are also communicated via the communications system with particular customers and brokers.

As Island View Shipping is also part of the Grindrod Group, there is a link to the main Grindrod system to ensure seamless and consistent operations.

2.10.4.2 Human Resource Management

Island View Shipping places a lot of emphasis in acquiring the right people working in its different sections. IVS adds value to its customers by the way in which employees are recruited. Employees are acquired to specialise in their particular fields but with a strong sense of looking at issues “in a bigger picture” approach. That helps in ensuring that people employed in different sections do understand the connections and effects that their own sections have on others. It also helps ensuring that people within the organisation do understand the impact of their actions on the interface that the company has with its service recipients and its service providers.

In the shipping industry at large staff poaching is a major problem. However, Island View Shipping has not suffered from this particular problem mainly because of the satisfaction levels (by the staff) and future prospects that exist. IVS also monitors staff performance and people get rewarded by further training opportunities and promotions to more senior levels.

2.10.4.3 Technology and Product Development

Island View Shipping technological innovation is exhibited by the ship’s operating system that was created in-house. The system was custom made to fit all the pillars of operation at Island View Shipping including the accounts department, chartering, vessel, operations, statistics etc. In essence the end result is a refined service product that gets served to the customers. The idea though, is that the end product of Island View shipping is not necessarily technological as such in nature, but technology however enhances the final product (i.e. the service) that Island View Shipping offers to its customers. Therefore that is product development through technology.

2.10.4.4 In terms of primary activities;

2.10.4.4 (i) Inbound Logistics

Island View Shipping is able to continuously receive information, customer requests, vessel details and specifications. The same pieces of information are received by the vessel operations department, the chartering department, marketing and the accounts department simultaneously. The information will then add value to the relevant department or section by providing access (to the information) to the department in real-time and have it processed.

2.10.4.4(ii) Operations

Through leveraging of all the information that is received through IVS's system it is possible for all sections of the operation to make decisions as to what needs to be done, what is possible and what the customers expect from the company as a service.

2.10.4.4(iii) Outbound Logistics

Carrying on from operations, the company (especially the chartering department) is able to ensure the speedy execution (for example fixing ships in order to satisfy requests for cargo space) at operations level and delivery, at the outbound level, of customer's fixed cargoes. Also because of the linked systems, it is possible to generate contractual issues like freight rates (per cargo, per vessel size, per port of loading and discharge) which speeds up responses to ship space requests and enhances the service that IVS offers.

2.10.4.4 (iv) Marketing and Sales

Shipping is a type of business that is based or practised upon very strong relationships. People know each other very well and this covers the entire world. However, due to competition issues you end up with certain companies serving certain types of customers over certain shipping routes for certain cargoes. Now, in order to survive the competition and have a firm grip on your own customers and routes, you must partner your operational capabilities with robust marketing and sales operations. This serves to enhance your service offering. It also gives you mileage in as far as service

differentiation is concerned. Island View Shipping's marketing and sales are undertaken by the chartering department. That is because it is the chartering department that forms an interface between Island View Shipping, the cargo owners and ship owners. Again information technology plays a very big part. Close communication and liaison with customers makes Island View Shipping to be more responsive to customer needs and expectations.

2.10.4.4 (v) Post-fixture services

Post-fixture is what is called after-sales in the "normal" business world. In shipping its called post-fixture because it concerns everything that takes place after a ship or a parcel of cargo has been fixed, employed and redelivered back to the owners. In case of a ship it's when remaining contractual details to finalise charter parties (contracts of hire) and the remaining shipbroker commissions are considered. It is a period during which the relationship between Island View Shipping and the ship-owners or a cargo owner is tied up and an agreement is completed (for the particular fixture) in anticipation of more future dealings.

Through the post fixture liaisons Island View Shipping is able to find out whether it has provided a service that is of high quality to cargo interests. Also on the side of a ship-owner IVS ensures that the relationship created is in such a state that future business relations will commence on fertile ground.

Post fixture also helps in highlighting those areas on which value can be added in order for IVS to differentiate themselves from the rest.

2.10.5 Corporate level strategy

Island View Shipping, as mentioned above, is part of the Grindrod group. Grindrod has undertaken to follow a massive diversification route by maximising land-based logistics business by entering into partnerships, buy outs and joint ventures e.g. the acquisition of a stake in Cockett Marine a bunker derivatives company port terminal

space in Maputo, terminals in Durban and acquisition of Atlas trading a grain trading company. Grindrod's diversifications strategy filters down into its member companies.

2.11 CONCLUSION

Chapter two is an exhibition of concepts that form the core of this research work and it explains them by definition and also spells out their relevance to our topic. In addition to that, the chapter helps phasing the reader's attention and mind as to what to expect in chapter three where literature will be reviewed.

A theoretical presentation of the South African maritime industry gave the reader an insight to the formations and bare bones of it and how major role players were placed or positioned.

The introductory discussion on Island View Shipping was aimed and forming continuity from the theoretical presentation and give the reader a picture of how Island View Shipping was formed and what it does.

The Black Economic Empowerment charter on the maritime industry was also introduced in order to present a brief view of the document and more especially those elements that are pertinent to the objectives and aims of this research paper. The reader will therefore be able to recall the said later as this research paper progresses.

The INCOTERMS were also introduced in a way of describing them and their meaning and importance to the seaborne trade. This will facilitate the reader with knowledge as the terms are discussed on the subsequent chapters.

There were also discussions on ship registration and ship ownership. The brief discussions were engaged upon because these two elements form part of our research topic and therefore have to be defined in order to ensure a clear understanding of them as the author seeks to answer the questions that are being investigated.

A business analysis model generated was also implemented to give a detailed analysis of Island View Shipping as a company. The aim was to give a much deeper view of an organization that is in the maritime business in South Africa and how it operates in its given environment. The over-arching aim of course was to channel information towards a stage where we will deal with answering questions/issues as raised in our topic.

The use of Island View Shipping as a case study is set to be used as a vehicle to highlight opportunities for value adding by South African factors of production. Island View Shipping is a South African owned company which is in a very strategic position in the maritime industry and which is highly involved in ship ownership, ship-chartering, global shipping and bulk cargo movements. Therefore the use of IVS as a case study will serve all purposes of our study.

The following chapter concentrates on literature review. The chapter will explore literature in a way that will give a picture of how the maritime industry is structured and how it operates. The information that will emanate from the literature review, in conjunction with the information generated in chapter 2 will shape and refocus the subsequent chapters.

CHAPTER 3: LITERATURE SURVEY

3.1 INTRODUCTION

The literature review section will be utilized to form a structure on which the arguments and discussions towards answering the critical questions are based. The first part of the literature review looks at the economic and political framework under which issues like the role of shipping and seaborne trade, seaborne trade and economic development, and the different sectors of shipping will be discussed. Seaborne trade has a fundamental importance to the world economy. In South Africa in particular seaborne trade has also formed a very important element of the country's economy.

Continuing from the elements mentioned above, the discussion is also going to span onto the assertion of seaborne trade into global economies, the structure and organization of the shipping operation, the chartering function in shipping and the economic dynamics that are involved in shipping and seaborne trade. There will be a comparative approach applied to matters raised under the above mentioned elements towards forming a foundation for the following chapter.

The secondary literature review will also enforce the positions created by the above issues and the primary literature review section will show case the South African government's position in the local shipping industry. The aim there will be to represent the government's case in as far as the shipping industry is concerned.

The prime aim and purpose of the literature review is to draw in global issues that form the framework of shipping (in terms of operation and related economic inclinations) towards the point where the reader will have a clear overview of the subject in its global sense. In addition to the above, and with the base formed, our arguments and discussions on the later chapter will focus on South Africa, Island View Shipping and the local shipping industry.

3.2 THE ECONOMIC AND POLITICAL FRAMEWORK

It is of paramount importance that at the onset of theoretical framework of our paper, the importance of shipping in the global trade and to South Africa in particular is discussed. Economics forms a backbone of any country's well-being and shipping forms part of that backbone. Therefore the importance of shipping is of a fundamental nature.

The political importance of shipping in South Africa has not reached obscene levels as in other countries (where the economy in general and the costs of doing business, which very much involves transport costs and logistics costs, take centre stage in political battles). However, the South African president has already given an ultimatum to Transnet. The president's position is that the port's landlord and operator must find ways of reducing the costs of doing business with South Africa through more harmonized and business viable pricing measures at the ports.

3.2.1 The economic role of shipping and seaborne trade

Martin Stopford mentions that "shipping is undoubtedly one of the world's most international industries and in the study of maritime economics we are drawn into a discussion of the world economy as a whole. Seaborne trade is, in a sense, at the apex of world economic activity and the first reaction of ship-owners on hearing of global events such as a nuclear disaster in Russia or a change in the price of oil is to consider what effect this will have on the shipping market" (Stopford, 1997: 2).

There exists a link between shipping and global economical developments. The world economy has become a global market in which different countries of the world participate. Countries like South Africa, have taken their claim in the global markets and that has led to more activity in seaborne trade. "If we are to understand the economic and political forces that mould developments in the shipping market, we must appreciate the two-way interaction between developments in shipping and developments in the world economy. The progression from a world of isolated communities to today's

integrated global community was made possible by shipping and sea trade, but this has been a two-way exchange and has, in turn, forced major adjustment on the maritime industry itself. It is no coincidence that shipping matters have played such a large part in the dealing of the United Nations Conference on Trade and Development, the global organization that has been in the front line of this development”(Stopford, 1997: 2).

Apart from facilitating inter-connectivity among individual trading nations and cementing the sustainability of global trade markets, shipping also plays a fundamental role in a country’s economy through its role in the balance of payments.

Alan E. Branch through his work, *Economics of Shipping and Management Practice*, below, adds to the discussion through his view on shipping and the balance of payments:

“The balance of payments is composed of three components: the balance of trade, the balance of invisibles and the balance of capital items. The balance of trade is the difference between the total of visible items exported and those imported, that is goods which can actually be seen passing through the docks and airports. The invisible items are services rendered to foreigners or services received from foreigners. The chief invisibles are banking, shipping, insurance, air transport, tourism and income from foreign investment. The balance of trade and the balance of invisibles make up the “current account” of the balance of payments as distinct from the capital account. The problems arising from the balance of payments are a matter for the government and the Treasury, which dictates policy; the exporter and an importer, can merely operate within the framework laid down. Basically, the only way for a country to eliminate a balance of payments deficit is to increase its income and reduce its expenditure, that is increase its exports of goods and services and curtail imports”(Branch, 1982: 2).

Shipping has a significant influence on the balance of payments as it is one of the elements of the chief invisibles that in conjunction with the balance of trade make up the current account of the balance of payments. In addition to that the balance of trade relies

significantly on shipping since the goods that are exported from South Africa and those that imported into South Africa are conveyed via sea transport.

The statement above brings to the fore the evidence of how central shipping is when it comes to a country's positions and ability to doing business with other countries. In the case of South Africa, as already mentioned above on the current section's opening note, the cost of transport has been mentioned by the country's president as the major issue in ensuring the country's competitive edge in global trade. It is very critical in making "doing business with South Africa" a far more attractive phenomenon. The issue of the balance of payments and the import/export balance and the current account are governmental issues and there comes a political dynamic into the importance of shipping.

Without wanting to delve too much on the issue, the reality and importance of shipping can be gauged from the fact that:

“

- it is the prime method of carrying commodities, especially bulk commodities, over huge distances where all or some element of sea passage is necessary.
- it is the most environmentally friendly means of transport.
- it is essentially safe: losses, groundings and collisions are the exception.
- it is the cheapest and most cost-effective means of transport for other than high-value, low-density cargoes.” (Farthing & Brownrigg, 1997 : 13)

Shipping creates a fundamental (in terms of costs and distances covered) means of transport for goods that are to be moved from point to point by sea. In the process of moving cargoes, shipping generates a lot of economic implications as advocated mentioned above where the issue of the balance of payments was discussed.

Another important factor is that when cargoes are moved efficiently, the productivity stakes of the countries that are involved in that particular cargo movement improve. Productivity rates or levels are also as central to the economy as the issue of the balance of payments. In that regard, shipping again cements its importance in the global economy. An example can be made of a parcel of ferrochrome (a raw product) is

exported through Richards Bay to Rotterdam. If Island View Shipping fixes a ship, loads it and sails in time, goods reach the final destination in time and beneficiation processes commenced with planned times. A final product then gets manufactured sold and delivered in time. Productivity becomes high and so are the positions and images of South Africa and the Netherlands who were the trading nations in that particular cargo's transaction.

3.2.2 Seaborne trade and economic development

In the sections above, the importance of seaborne trade and shipping was discussed and it was demonstrated how central shipping is for a country to participate in global trade. Seaborne trade is very vital also in the generation and development of the economy. South African history gives evidence of how the Dutch East India Company set up a supply station in Cape Town during its stoppages on journeys from Europe to the East. Cape Town then established its logistical position between the east and Europe and currently that also includes the Americas from that early.

Stopford notes that "The idea of shipping as the catalyst of economic development is not new. Adam Smith, often regarded as the father of modern economics, saw shipping as one of the principal stepping stones to economic development. He argues that the central economic force in a capitalist society is the division of labour and the extent to which this can be practised depends crucially upon the size of the market. A business working in a country town without links to the outside world can never, he argued, achieve high levels of efficiency because its very small market will limit the degree of specialization. He saw shipping as the source of cheap transport: it can open up wider markets to specialization, offering shipment of even the most everyday products at prices far below those that can be achieved by any other means. Economic development has in the past generally gone hand in hand with sea trade for sound economic reasons, which Adam Smith explains in the following way:

As by means of water carriage a more extensive market is opened to every sort of industry than what land carriage alone can afford it, so it is upon the sea-coast, and along the banks of navigable rivers, that industry of every kind naturally begins to subdivide and improve itself, and it is frequently not until not a long time after that those improvements extend themselves to the inland parts of the countrysince such, therefore, are the advantages of water carriage, it is where this conveniency opens the whole world to a market for produce of every sort of labour.” (Stopford, 1997: 3)

Seaborne trade therefore facilitates the falling away of borders between different countries and trade gets conducted along the conduit that is water. Seaborne trade has itself gone through technological advances and changes in order to improve ways with which trade is done. Branch confirms that “The recent introduction of containers and specialized bulk carriers, shipping has facilitated a development of world resources in terms of both raw materials and manufactured goods. The exchange of goods has brought countries with a high level of industrial advancement, such as those in Europe, into contact with nations at lower levels of industrialization such as India and other countries in the East. In so doing, it has helped nurture community life through the development of local industry producing goods for overseas markets. Shipping therefore allows economic resources to be developed to the full. It permits specialization in economic activity. Without cheap, reliable and well managed shipping services, the exchange of goods and services would be far smaller, to the detriment of global living standards worldwide.” (Branch, 1982: 2)

Seaborne trade in its nature facilitates development of economies within countries that trade with each other. For example, the town of Richards Bay, South Africa, is now on its path towards being a sprawling metropolitan area because of the growth brought to it by its proximity to the port of Richards Bay. The economic activity that is a result of “port attracted” companies like BHP Billiton (Bayside and Hillside), Richards Bay Minerals, Bell Equipment, The Richards Bay Coal Terminal and Foskor now forms a lifeline for the city of Richards Bay. The area is now a very vital economic hub for the

country as a whole. The example shows how economic development can be attributed to seaborne trade.

3.2.3 The different sectors of shipping markets

The structure of shipping is such that it is made up of very different sectors. The different sectors of shipping that are being referred to are bulk shipping (an operation that involves the chartering or hire of space on a ship by the shipper or the shipper acquiring his own tonnage to move his own cargoes) and liner shipping (this is bus service type of operation where “less than full ship-loads” cargoes are loaded on board ships that operation advertised time schedules between known ports). There is detail discussion on these different shipping under section 3.4.

The fact that the said different sectors form or comprise shipping as an industry, does not mean that issues, environments, rules and fundamentals between them are necessarily the same. An illustration can be made through the following example: that although Island View Shipping is shipping company and owns a number of ships, its Cape and Panamax division operates totally differently in comparison to its bulk parcel services.

For clear understanding, a Cape vessel is a type of vessel that ranges from about 150 000 – 200 000 tons of deadweight in size, bulk carrier, gearless and carries homogeneous full ship-load cargoes like coal and iron ore. These vessels are commodity related in their nature and operation.

Whereas a Panamax vessel is vessel that carries all type of cargoes, is usually gearless (does not have its own cranes or derricks), and has a maximum size fitting the Panama Canal. Panamax vessels have range between 60 000 – 75 000 tons in deadweight.

Lastly, a Handymax vessel is also a bulk carrier with deadweight ranging between 40 000 to 50 000 tons. They load all type of cargoes and they are usually self-gearless (i.e. they have their own cranes on board).

For the mere fact that a company can own tankers and Handymax bulkers, the challenges from these two very different ship types and the way they operate will be very different. Therefore shipping is complex.



What is being presented by the example above is that there are differences between different sectors in shipping. These differences can be along commercial and economic lines. However, shipping operates as a single unit e.g. no matter how many operational sectors (i.e. liner or bulk) exist under Island View Shipping's wing; the company still operates as a single shipping entity. It also follows that with its different sectors the shipping industry still has common principles that bind it as a single entity or unit. Therefore matters that affect certain sectors of the shipping industry can or have the potential to affect other sectors. For example when shipping markets (meaning the rates that are paid for ships per day) go up, cargo rates increase because what pushed the shipping markets up were supply and demand issues. Therefore with less tonnage to carry cargo, freight rates increase and cargo freight rates increase as well. This phenomenon is referred to as "The principle of Lateral Mobility" (Stopford, 1997: 76).

Lastly, it must be noted that the very international nature the shipping industry and its economic significance attracts global pressures like political intervention onto it. Global agreements and policies between trading nations can be used as an example to support the above point.

3.3 THE CENTRALITY OF SEABORNE TRADE INTO GLOBAL ECONOMICS

3.3.1 What Commodities are traded by sea?

Seaborne trade is the heart of global shipping. All economic fundamentals that make shipping what it is are due to the international trading that drives seaborne trade.

To open this section we refer to Stopford note that “The starting point for an economic analysis of the shipping market is seaborne trade. Shipowners are in the business of providing transport service involving the physical movement of cargo from origin to destination with the speed, safety and reliability demanded by the customer and at the price he is willing to pay. Naturally the type of service required depends upon the cargo to be shipped. The structure of seaborne trade therefore underpins the commercial structure of the shipping market.” (Stopford, 1997: 6)

The types of cargoes that get transported by sea are different and they require special and specific approaches when transported. The cargoes being referred to are oil iron ore, coal and grain and these are the cargoes that form the bulk of seaborne trade. Stopford confirms that “In the early 1980s, four commodities – oil, iron ore, coal and grain accounted for two-thirds of all seaborne trade and, consequently, dominated the shipping scene. The other third consisted of a mass of different commodities, of which the most important were agricultural products such as sugar and refrigerated food; minor ores such as bauxite; industrial material such as rubber, forest products, cement, textile fibres and chemicals; and manufactures such as heavy plant, motor cars, machinery and consumer goods.” (Stopford, 1997: 6)

3.3.1. (i) Bulk Cargo

The nature of global trade suggests that cargoes that are traded between two particular ports or countries say a lot about the stage of the economy that those two countries are in. For example a country that is going through an industrialization stage would trade with a country that specializes in exporting raw materials like steels. On the other hand, a country that is exporting cargoes like iron ore and coal to a country that exports steel will then specialize in raw material. These are mostly Third

World countries like South Africa. Such trading practices promote more bulk cargoes for seaborne trades. Cargoes like coal are also part and parcel of that nature of trading. Resultantly, trade is galvanized along that particular cargo type and vessel types that are appropriate to transport such cargoes get designed.

The view above is supported by Stopford: “Bulk transport first emerged as the major sector of the shipping industry in the decades following the Second World War. A fleet of specialist crude oil tankers was built to service the rapidly expanding economies of Western Europe and Japan, with smaller vessels for the carriage of products and liquid chemicals. In the dry bulk trades several important industries, notably steel, aluminium and fertilizer manufacture, turned to foreign suppliers for their raw materials and a fleet of large bulk carriers was built to service the trade. As a result, bulk shipping became a rapidly expanding sector of the shipping industry and bulk tonnage now accounts for about three quarters of the world merchant fleet.” (Stopford, 1997: 12)

There are four classes or types of bulk cargo:

1. **Liquid Bulk** – these are cargoes that form the backbone of the tanker trade. Examples are crude oil, acids etc.
2. **The ‘five major bulk’** – these are made up of cargoes like coal, iron ore, alumina, sulphur and petcoke. They get transported via large bulk carriers.
3. **Minor Bulks** – These are specialized parcel loads like ferro chrome, zircon, ferro manganese etc. These cargoes are loaded on ships in parcel loads.
4. **Specialist bulk cargoes** – the word specialist follows the nature of handling that forms part of the transportation of these bulks. Examples are reefer (refrigerated), motor vehicles, aluminium ingots etc. These cargoes require special and cargo specific handling facilities.

3.3.1 (ii) General cargo

General cargo is comprised of cargoes that are mostly dealt with in bulk parcel trades. These cargoes are mostly less than full ship loads and are of high value. They can be made up of cargoes like steel billets, zircon, fertilizer bags and ferro chrome parcels and so on.

3.4 THE STRUCTURE AND ORGANIZATION OF SHIPPING MARKETS

The consideration of the structure of shipping markets is with the aim of exploring issues related to the way the market sets itself out to achieve the prime aim of moving cargoes from countries of origin to those of destination. In as far as the discussion on the above section the two principal sectors of shipping are bulk and liner. The liner operation (explained below) is associated with the less than full ship load cargoes whereas the bulk trade is associated with full ship load cargoes.

Stopford expands on the issue by alluding to the fact that “Liner companies have to organize the transport of many different parcels and need a large shore-based staff capable of dealing with shippers, handling documentation and planning the ship loading and through transport operations. The bulk shipping industry, in contrast, handles fewer but much larger cargoes. A large shore-based administrative staff is not required, but the few decisions that have to be made by a bulk shipping business are of crucial importance, with the result that the owner or vice-president is generally intimately involved with the key decisions about buying, selling and chartering ships” (Stopford, 1997 : 15).

3.4.1 The bulk shipping sector

Taking departure from the above mentioned description of bulk shipping, these cargoes are shipped in full ship loads. The bulk shipping operations involves the chartering of space on a ship by the shipper or the shipper acquiring his own tonnage to move his own cargoes. On the other hand, the shipper can enter into a period agreement with a certain ship-owner to dedicate part of his fleet of vessels to ship his cargo. An example in that note can be made of Sumitomo, Australia who was working with

Western Bulk Carriers in moving MOP and MAP fertilizers from Richards Bay to Australia. Sumitomo was buying fertilizer from what is now known as Foskor (previously known as Indian Ocean Fertilizers). Western Bulk Carriers had some of their bulk carriers dedicated to that particular cargo movement. It is very important to note that bulk operations involve long-term or period relationships between cargo owners and ship-owners.

Confirming the above:

“Large companies shipping substantial quantities of bulk materials often run their own shipping fleets to handle a proportion of their transport requirements. For example, in 1984 the major oil companies collectively owned approximately 105 million deadweight of oil tankers, representing 40 percent of the tanker fleet. Steel companies in Japan and Europe also run fleets of large bulk carriers for the transport of iron ore and coal. This type of bulk shipping operation suits shippers running a stable and predictable through transport operation. If the shipper has a long-term requirement for bulk transport but does not wish to become actively involved as a ship-owner, he may charter tonnage (ships) on a long-term basis from a ship-owner. Some companies place charters for ten or fifteen years to provide a base load of shipping capacity to cover long-term material supply contacts – particularly in the iron ore trade. For example, the Japanese shipping company Mitsui OSK ships iron ore for Sumitomo, Nippon Kokan and Nippon Steel on the basis of long-term cargo guarantees and operates a fleet of ore carriers and companied carriers to provide this service.” (Stopford, 1979: 16, 17)

Other shippers engage in what is termed “voyage charters”. The definition of a voyage charter borders on the note made on the opening part of this section. It is when a shipper has a once off cargo and only needs a space on board a vessel for that particular time of shipment. It must also be mentioned though that although the term “once off cargo” is used in the explanation, the same shipper does have an instance in the future where he again wants to ship but the period between such shipments is of a very irregular nature. So, the shipper under discussion would then enter into voyage charter with a bulk

carrier operator. For example, Metmar has irregular shipments that they do on voyage charter with Island View Shipping. The cargoes are Ferro Alloys from Richards Bay to Rotterdam and sometimes various ports in the Mediterranean. Metmar would then enter into an agreement and charter space on the Island View Shipping's vessel only for that particular Richards Bay to Rotterdam or Mediterranean voyage. Other examples of cargoes shipped on voyage charters are cargoes of agricultural origin that are affected by factors like harvest periods etc.

However, many shippers have only a single cargo to transport. This is often the case in agricultural trades such as grain and sugar where seasonal factors and the volatility of the market make it difficult to plan shipping requirements in advance, or the cargo should be a consignment of prefabricated buildings for the Middle east or some 'one off' heavy plant. In such cases, bulk or multideck tonnage is chartered for a single voyage via some market such as the Baltic Exchange, where the shipper can hire a ship for a single voyage at a negotiated freight rate per ton of cargo carried. Farthing and Brownrigg (1997: 18, 19) affirm as follows: "This sector of the industry is concerned with the carriage of the world's bulk and/or primary commodities, whether wet or dry, essentially in full shiploads. There is an open trading life, offering their ships to cargo interests (charterers) on a hire basis whether for a voyage, a period, or on some other terms. The art of ship-owning in this sector is to match the ship to trade with a full ship whenever possible, cutting voyages with no cargo (ballast voyages) to a minimum."

The nature of bulk trading is such that if a cargo owner establishes an arrangement with a shipping company that concentrates on bulk trades, relationships and close working environments which involve "working together" get created over time. Another element is that bulk shipping follows set time schedules between ports and following such schedules precisely leads to cost reduction, high productivity and efficiency.

3.4.2 The liner shipping sector

This particular sector of shipping involves the movement of those cargoes that are categorized as the “less than ship-load” cargoes. A classic example to illustrate the nature of liner shipping is the bus service. A bus service will have a known or advertised time table which it follows from point to point. The different passengers will then represent the range of small parcel cargoes that are carried at known or set rates.

3.4.3 The different classes of shipping companies

There are different classes of shipping companies and these are structured differently. They are also established to satisfy or achieve quite different objectives from each other.

3.4.3.1. A tramp company

A tramp shipping company is made up of a chartering department (which charters ships in and out and fixes cargoes) and an operations department (which operates and looks after the company’s ships). These departments are supported by other vital departments like the accounts and the human resources departments. It must, however, be mentioned that in terms of manning, these companies can be run by one single chartering person in a very small office. Even the human resource and accounts department could be run by one person each. The major characteristic is that more attention is given to monitoring of shipping markets with the aim of seizing opportunities to acquire and sell off vessels.

3.4.3.2 A liner company

This type of company is run in a much more organized way in terms of staff and land-based support. These companies operate from big offices and elected members or owners of the company including share holders form a board of directors who make, take and implement major company

decisions. In terms of operation these companies operate like Mediterranean Shipping Company (MSC) which operates container vessels with a sizeable fleet (maybe about 25-30 ships). A liner company would also have support offices in areas where it plies its trade. For example a container operator who calls Durban, Seychelles, Mauritius and Dar Es Salaam will have small offices in those ports.

3.4.3.3 A group type company

In this instance we can consider shipping companies like Grindrod who label themselves as a “complete solutions logistics group” type of company. Grindrod, used as an example, has a fleet of more than 50 ships and operates from a large office block on Durban’s Victoria Embankment. Grindrod is also owned by shareholders who constantly require good financial results from management. The company would also have different divisions that look after bulk, liner and other sea transport related divisions. Companies of this nature are heavily involve in buying out other companies who are relevant to their businesses and are themselves open to companies wanting to acquire ownership stakes in them.

3.4.3.4 A Specialized shipping company

This is a type of a company that specializes on a certain shipping operation. The company’s operation involves specialized fleets that are designed to handle certain cargoes. An example of a car carrier vessel or an acid tanker is made. Most of these companies operate under the control of a family or a close group of owners. At the core of growth in these companies is an approach where efficiency, reliability and quality of service are of paramount importance. In addition to that, markets for new cargoes are being constantly explored for new business opportunities. Hence, the type of ships owned by this type of a company are very innovative, technologically advanced and sophisticated e.g. Stolt Tankers

and Odjfell Tankers which are companies that run specialized tanker businesses that move liquid bulk cargoes.

3.5 THE CHARTERING FUNCTION OF THE SHIPPING INDUSTRY

One of the main elements in the shipping industry or any shipping company's structure is chartering. Chartering is a department or is an operation that involves looking out for ships that are available for hire (to use a normal term) or for charter (to use correct shipping terminology), fix them at a daily freight rate with a ship-owner and then employ them on the company's business. In addition to that, chartering also involves selling the company's tonnage or shipping space to cargo owners, to shippers or to other ship owners.

The chartering function also involves selling and purchasing of ships for a company. Again, the decision of whether to buy or charter ships depends very much on the market conditions. Even the selling and purchasing of ships is an act that is very much affected by the state of the market. For example if the market condition dictates that "it's the owners market", i.e. when ships are being chartered (hired) at very high freight rates (due to high demand for tonnage) purchasing decisions are made and those vessels then get chartered out at favourable rates. As it will be explained on the later sections, if the shipping markets are down, vessels are sold and some of them are laid up. In such instances it then is more favourable to enter into voyage charter agreements and move cargoes via vessels that have been chartered from other ship owners.

3.5.1 The chartering operation and its dynamics

In continuation from the above note, ship-broking and chartering (mostly fall under the same section of the company) and are very essential parts of a shipping company. They are the department that buys/charters in and sells/charters out ships that the company owns or has on charter. The broking department either looks for cargoes to load into the company's ships or looks for ships into which to load cargoes that the company has brokered. In that order it's either called Ship broking or cargo broking

depending on what a company concentrates most of its efforts and business resources (to meet certain objectives) on. Chartering is concerned with negotiations for fixing ships into charter (hire) when there are cargoes to load. Chartering departments also create contracts (termed charter parties in shipping) and deal extensively with legal obligations and relationships with either ship-owners (from which ships are chartered or hired) or with cargo interests (the companies that would use the ship-owners ships to move their cargoes).

(Stopford, 1997: 21) stipulates that: “The practical details of chartering a ship are not so very different than any other major hiring or sub-contracting operation except that the business is very international. We have a ship-owner with a vessel for hire, a charterer with cargo to transport, an agent/broker ‘who puts the deal together’ and possibly an institution such as the Baltic Exchange that acts as a clearing house where brokers can meet and ships and cargoes can be ‘matched up’”.

3.5.2 The different classes of charter agreements

3.5.2.1 Voyage Charter – this is a type of an agreement that is based on one voyage. To illustrate the definition let us take for example Magadi Soda who has a cargo of about 10 000 metric tones of Soda Ash to move from Durban to Porto Marghera. Magadi Soda then appoints Penmarine to act as its broker in the transaction. Penmarine in turn looks for a space on a ship and contacts Island View Shipping. Island View Shipping finds a ship or a space on a ship and advises Penmarine of a rate. Penmarine then confirms all terms with the shipper (Magadi) and the freight rate get agreed upon between Island View Shipping and Penmarine (who is of course representing the interests of Magadi). In turn Penmarine fixes the ship with Island View Shipping. A charter party or a charter agreement is then drawn to cover that transaction. The cargo then gets loaded on board the vessel for delivery in Porto Marghera. Lastly it must be mentioned that the characteristic of a shipper is that shipping or running ships is not his forte or core function. His core function is to produce Soda Ash and sell it.

3.5.2.2 Contract of Affreightment – this is a contract that arises or gets entered into in a case of shipper that establishes a good commercial relationship with a ship operator. In this instance between the cargo owner and the ship owner there exist an agreement to ship the cargo owners or the shipper's cargo at an agreed constant rate. The agreement covering the tonnage estimate and that particular constant rate may involve a one or two year long agreement. What this agreement brings to the shipper is a sense of flexibility when it comes to placing different parcels into the ship operator's different vessels. The shipper has freedom to choose between a number of vessels to suit his operation.

3.5.2.3 Period Charter – is an agreement (please see addendum 2 attached) that exists between a ship-owner and a charterer. It is based on a period of time where the ship-owner lets out his vessel to the charterer over an agreed period. During that hire the charterer is responsible for all incurred during that particular vessel's execution of voyages. Those costs are things like port costs, pilotage fees, bunkers etc. On the other side, the ship-owner continues his responsibility of paying for the ship's operating costs like crew, repairs, stores etc. The charterer pays the ship-owner a daily freight rate that has been agreed upon and set for that particular period of hire.

3.6 THE ECONOMIC DYNAMICS INVOLVED IN THE SHIPPING INDUSTRY

3.6.1 The nature of freight rates and their determination

A freight rate is an amount paid to the ship-owner by the shipper for a cargo transported on his ship. On the other hand, a freight rate is an amount paid by the charterer to the ship-owner for having hired / chartered his ship.

Stopford takes the discussion into perspective and says that: "The charter market is highly competitive and the rates at which a vessel can be 'fixed' can change dramatically in a period of a few weeks or even days. To understand this type of market mechanism we need to answer questions like "What happens if there are too many ships for the required cargo volume?" or "What happens if there is a sudden shortage of sea transport capacity?" Because the charter market is freely competitive, the answer to both these questions is that competition brings about an adjustment of supply and demand through the operation of the price mechanism." (Stopford, 1997: 36)

Based on the competitive nature of the freight markets Stopford takes a position that such competitive elements of the freight markets draw in the economic elements of supply and demand. According to his note above freight rates change dramatically and he contributes that phenomenon to the competitive nature of the freight markets.

Gorton, Ihre and Sandevam agree to some extent with Stopford but take the argument a step further:

"The freight market is not a uniform market where the trend is entirely up or down. It consists rather of a number of different part markets that are not necessarily dependent on each other but often can develop very differently. The freight market does not have a homogenous connection with a specific geographical area but rather with ships that can carry similar types of cargoes. The current trend or state of the market is determined by the balance between the supply and demand of shipping services of various kinds. A measure of the state of the market is the freight level which a certain type of vessel can obtain in various standard trades. The freight market is, of course, dependent on the state of

the world trade market but is sometimes strongly influenced by circumstances like war, widespread strikes, bad harvest, icebound waters, etc.

The surface of contact between the different freight markets may be more or less extensive. This depends on the type and size of ships, the commodity and to a certain extent with the distance of transportation. Each freight market has, however, different interested parties and has thus often separate networks of information and information channels. The most important freight markets are the dry cargo market, the tanker market, the reefer market and the passenger market.”(Gorton,Ihre Sandevam, 1995, 1)

The above discussion brings into the fore that many factors influence and affect the freight markets. The questions of supply and demand are central to the dynamics involved in the changes that take place in the freight markets. Below is a detailed illustration of how the demand and supply demand factors work in shipping.

3.6.1(i) The Sea Transport Supply Function

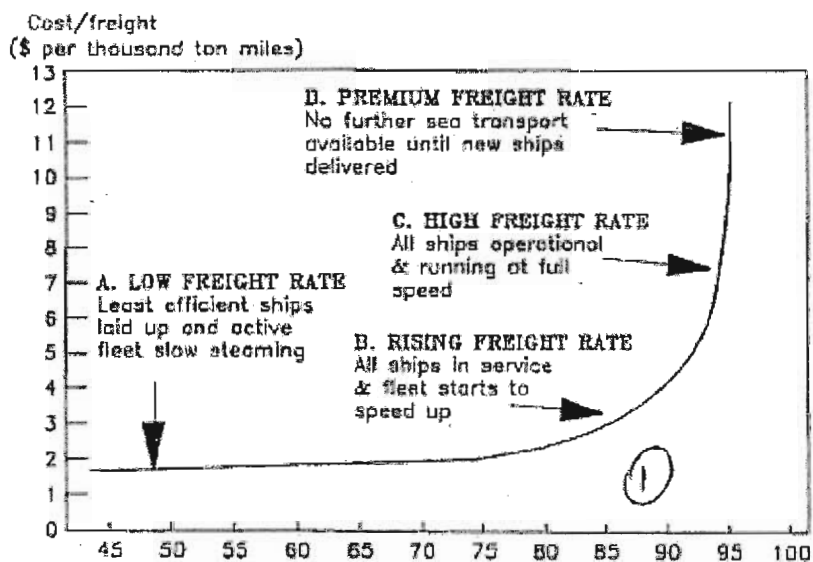
In any business environment, prices of goods are highly affected by the elements that are brought about by questions of how much in demand those goods are and how many of them are available for consumers to purchase. An example can be made using cement in South Africa during the latter parts of 2006 where, because of the booming construction industry, the demand of cement was high. Due to availability exacerbated by breakdown problems at the Natal Portland Cement factory, the cement supply was low. The resultant effect was an increase on the price of cement per bag. The said shortage of supply against demand led to more companies importing cement from abroad and in that way creating increased activity on the ship space demand arena. Therefore the supply and demand functions have more far reaching complications in the markets.

Stopford channels the above discussion more specifically onto shipping and contends that:

“A change in the balance of supply and demand affects the level of freight rates. When there is a shortage of transport capacity, freight rates rise has two effects. First, the older and less efficient ships become profitable to operate and are progressively brought back into service until the whole of the physically operational fleet is at sea. For example, during the 1956 boom ‘A number of vessels half a century old and barely seaworthy obtained freights of up to five times the rate obtained a year earlier. Secondly, to earn the maximum possible revenue, ship-owners operate their ships at full speed and minimize avoidable time out of service for routine maintenance. Since cargoes are readily available there is little waiting time. As a result the transport performance of the fleet is very high. For example, in the 1973 boom the average oil tanker delivered 44 000 ton miles of cargo. When there is an oversupply of ships, freight rates fall. The least efficient ships in the fleet or those that cannot find employment are unable to cover their operating costs and move into lay-up, so that gradually the operational fleet falls towards the level of demand and laid-up tonnage grows. The performance of the fleet also falls as ship-owners reduce their operating speed to conserve fuel. As an illustration of the potential scale of this reduction, the average performance of the oil tanker fleet fell to 24 000 ton miles of cargo delivered per annum in 1984, a reduction of 45 percent on the performance achieved a decade earlier in peak market conditions. A large part of this can be attributed to a reduction of speed to around 10.5 knots compared with a design speed of about 15 knots and a substantial reduction in the efficiency of scheduling oil cargoes.” (Stopford, 1988: Pgs 36, 37)

To illustrate this process and following Stopford’s approach, in graphic form, the figure below shows a typical shipping supply function, which plots, for a given size of fleet, the ton miles of transport that ship-owners will supply at each level of freight rates.

Figure 3.1
Title: Sea Transport Supply (thousand btm per annum)



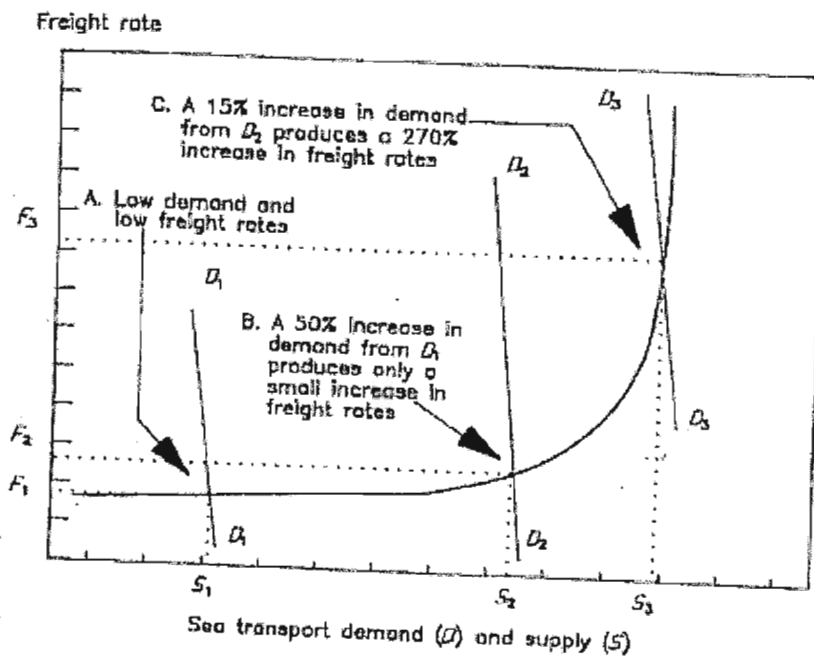
Source: Stopford, 1988; 38.

The transport supply is measured in billion ton miles (btm) per annum and the freight rate in dollars per thousand ton miles of cargo transported. At point A, the freight rate is very low and the supply offered is only 5 000 billion ton miles per annum – at this level of freight many of the least efficient ships are laid up because they cannot cover their operating costs and those in operation are slow steaming to conserve fuel. At point B, freight rates have risen to a level at which all ships are back in operation and the quantity supplied has risen to about 8 500 billion ton miles per annum. At point C, the supply has been further increased by running the fleet at its maximum speed. Finally, at point D, no further increase in supply is obtained by increasing freight rates. The shape of the function will depend on the efficiency profile of the fleet and the ration of fuel prices to ship operating costs.

3.6.1 (i) The Sea Transport Demand Function

The sea transport demand function is a very practical instrument that can be utilized in explaining why a situation exists in the freight markets where you find that the freight rates are low for a longer time than periods when freight rates are high. Central to the principle is that when demand starts to increase, the related increase in the freight rates is not substantial. That is because vessels that had been laid up are starting to enter the market. The stage that follows is when the old vessels are beginning to be in full operation to satisfy the increasing level of demand. However, a steeper increase takes place when vessels that have been in lay up are in full operation speed and they require higher freight rates to attract them back to the market. The phenomenon is explained via the graphical picture below.

Figure 3.2
Title: World bulk fleet demand function



Source: Stopford, 1988: 39

“The market will settle at the freight rate at which supply equals demand. At point A demand is low and the freight rate settles at point F. A major increase in demand to point B only pushes the freight rate up slightly because ships immediately come out of lay-up to meet the increasing demand. However a comparatively small additional increase in demand to point C is sufficient to treble the level of freight rates because the market rate is now being set by the oldest and least efficient ships which need very high freight rates to tempt them into service. This shows how sensitive the market is to the relative balance of supply and demand and explains why freight rates tend to follow a characteristic pattern of long periods of low rates interspersed by brief periods of high rates. Finally when no further supply is available, shippers bid against each other for limited available capacity. Depending on how badly they need transport, rates can go to any level.” (Stopford, 1988: 39)

3.6.1 (iii) The Shipping Market Balance

The very nature of economics also brings about an element that creates a balance on the shipping markets. The after effects of changes in supply and demand lead to phenomenon called a shipping market balance.

“The longer-term adjustment mechanism operates to bring supply and demand into balance through ship prices and the capital structure of the market. As freight rates fall during a recession, the profitability of ships, and consequently, their second-hand value can be expected to fall in line with freight rates. In terms of the shipping market this has two main effects. First, prices of less economic tonnage will eventually fall below scrap price, making it profitable to scrap and remove it permanently from the market. By this means the surplus is reduced. Secondly, ships sold in the second-hand market at much reduced prices have a lower capital costs to finance, with the result that the new owners can afford to use the ships less intensively. This restructuring of capital values through the second hand market makes new application of the surplus tonnage financially viable; the use of supertankers for oil storage or bulk carriers as trans-shipment facilities are examples. Thus, in the longer term, the price mechanism brings about a downward adjustment of supply of ships to the market. Conversely, an increase in

freight rates will make it viable to order new ships at higher prices, thus increasing the supply.” (Stopford, 1988: 39)

3.6.1 (iv) Ship Sales and Purchasing

Apart from the areas touched on above (under freight markets), a company’s chartering department is also concerned with the sale and purchase markets. Ihre, Gorton and Sandevam expatiate below:

“An important part of shipping concerns the sale and purchase of ships. The general freight market and the so-called second-hand market for ships have a considerable mutual influence. It is important to follow the day-to-day level of the second-hand market as well as the state of the freight market for a specific type of vessel. The owners watch the offers from the shipyards of new-buildings but also the supply of vessels on the second-hand market, as well as the development of scrap prices for old ships. Such details give useful information about the supply of tonnage for a few years ahead and may have a decisive influence on the long range development of the freight market. During a period of low market activity it is especially interesting to observe if the existing tonnage is laid up, is sold for trading under low-cost flags or is scrapped.

The second-hand market varies largely in conjunction with the freight market for each specific type of ship. Theoretically, an owner would buy ships during a low market period and sell vessels when the freight market rose. Owners, however, tend to do the reverse and there are several reasons for this. Among other things, this has to do with the need during a period of recession to sell in order to strengthen the liquidity position.” (Gorton, Ihre Sandevam, 1995 :1)

The above argument presents a very interesting dynamic that is brought into shipping by the demand and supply elements but it looks at an issue using the owners sell or purchase decision making processes. It is very interesting though as Gorton, Ihre and Sandervam note that owners do have a tendency to hold back on selling, during a period

in which they are expected to sell and they do that to preserve their liquidity positions during periods of recession. That is a very important fundamental to explore since this particular discussion centres on the second hand market. The importance of this factor also stems from the fact that it gives us evidence that even the second hand market does have a major influence on the shipping / freight markets.

3.7 THE INTERNATIONAL SYSTEM OF MARITIME LAW

Shipping is governed by laws as all economic sectors are. However laws that govern the global maritime industry are of a very specific, sensitive and high obligatory nature. What also make maritime law an interesting phenomenon is the nature of its interfaces with countries that accede to it and the legislations of those particular countries. In addition to that, the issues of jurisdiction between a country in which a ship is registered and the country within whose waters a ship plies its trade make up the cornerstones of maritime legislation/s.

Below is a brief discussion on the ship registry drawn in because one of the elements of our topic revolves around and “increased ship’s registry in South Africa” and the opportunities that it might bring into being.

3.7.1. Who makes the maritime laws

A logical question to start with is “Who makes international shipping law?” Although one might expect there to be some international legislative body that passes laws and an international court that tries cases against these laws, no such arrangement exists. There is an International Court of Justice, but its rulings on shipping matters are purely advisory. Maritime law is based upon ship registration, national law and territorial law.

What does ship registration mean?

This is a process whereby a ship gets a national identity given to her. In the process of registrations, a ship comes under the jurisdiction of a country whose nationality she has been taken under. The ship therefore becomes subject to that nation’s laws like labour law, tax laws, safety laws etc. It must be mentioned though that during that particular

ship's sea passages, she becomes subject to the laws of the land in whose water (or jurisdiction) she is going about her sea trade business.

3.8.1 Classes of ship Registry

There are different classes of ship registry and these are briefly discussed below. It must be noted that each and every type or class of registry comes with its pros and cons and it is up to the ship-owner to assess which choice is best for him, his objectives and his business.

3.8.1.1 National registers – under this particular class a registering nation would position a shipping company (which is registering its ship) on that particular country's list of businesses. Therefore, that shipping company will be subject to the country's laws like tax and revenue laws, financial and labour regulations.

3.8.1.2 International registers – as for this class of registry, the prime aim is to gain revenue by registering ships that belong to foreign nationals. The process is mainly incentive based and a foreign ship-owner would be offered benefits that would be favourable for him and his business. Because these countries seek to make revenue from attracting foreign ship-owners there are some cases where there are lapses in terms of regulations that the foreign nationals must adhere to affording ship-owners and opportunity to cut corners. It follows the question of incentives and that of "not so strict" regulations that flags obtained by foreign owners from countries who offer international registries are termed "flags of convenience".

Stopford concludes that:

"In effect, international open registers are a form of business and the service offered depends on the policy of the government. This is reflected in the maritime laws that it introduces and the way in which it enforces those laws. Some international open registries such as Liberia offer ship-owners freedom in the areas of taxation and company law but enforce legislation regarding the open operational safety of ships registered under the Liberian flag. Others are less conscientious about safety legislation and devote few resources to enforcing it.

Such flags are attractive to ship-owners whose vessels would not be acceptable on safety grounds under other flags.” (Stopford, 1988: 161)

The discussions that were explored above were drawn in for the purpose of creating a theoretical framework of how the maritime industry functions. The view portrayed above and by the authors whose works were reviewed is very global in nature. However, the same principles apply to the South African maritime industry in general and to Island View Shipping in particular. The above arguments create an umbrella or an overall picture and the following chapters will set a scene for the zeroing in into the South African maritime industry by drawing in the discussions and issues raised above. The discussions continue via the secondary and the primary literature review sections below.

3.9 A GLOBAL DRIVER OF SEABORNE TRADE – THE CASE OF CHINA

This part of the literature review is aimed at showcasing how a single economy can influence the global trends associated with global seaborne trade and shipping markets.

Our research work is on the maritime industry and international seaborne trade including issues that relate to or affect the framework of how shipping operates. Therefore in the previous chapter the discussions on the general framework and fundamentals of the global seaborne trade and the shipping business were explored in more detail. It is for the same reason that it is imperative that we include a review on discussions about China to show to the reader how, in addition to economic demand in general, commodity markets can also lead to big changes and implication on the shipping markets and thereby seaborne trade.

3.9.1 The Case of China as driver of the current global trade trends

In global economics in general, a phenomenon exists where a growing economy or a local economy that is in a “surge” leads to far reaching trends globally. The activation of such a “surge” can be attributed to issues like industrialization or economic growth.

The Chinese economy has undergone phenomenal growth over the past 3 – 5 years. The growth of the economy being driven by increased levels of industrial activity.

“Industrial production continues to steam ahead, increasing by 17.9% year on year in May, despite measures to cool down the economy. Vehicle and aluminium production sped up to show 28% and 30% year on year growth. Meanwhile, house completion figures continued to shrink in May, by 19% year on year. Raw material, factory and retail indices all increased in May. However, except for the retail price index, they all remain below the annual averages for 2005. According to the World Bank’s latest calculation, China is the world’s fourth-largest economy with \$2.3 trillion in output in 2005. This measures gross national income converted into US dollars using a method of currency conversion, which smoothes out exchange rate fluctuations by using a three-year average. The US,

Japan and Germany remain the world's three largest economies". (Clarkson's China Intelligence Report, July 2006: 4).

The main interest for the author lies mostly on how the continued growth in China affects seaborne trade and the shipping markets. One of the resultant features of the growth in China has been the increased industrialization levels. Following that is the increased demand for steel production.

Table: 3.1
Title: Chinese Economy – Steel

Million Tonnes

	2002	2003	2004	2005	March	April	May	YTD	2006pend.
Crude Steel Production	179.7	219.3	269.3	348.1	32.9	33.7	35.9	162.3	412.2
% Change year-on-year	27.10%	22.00%	22.80%	29.20%	19.40%	20.00%	20.90%	20.00%	18.40%
Steel Demand									
Production (Steel Products)	161.8	197.4	242.4	313.3	29.6	30.3	32.3	146.1	371
Imports (Incl.Landborne)	29.5	42.5	34.2	27.4	1.8	1.7	1.4	7.8	18.7
Exports (Incl.landborne)	8.2	10.3	22.6	29.5	3.3	3.4	4.4	15.6	40
Apparent Steel Demand	183.1	229.7	254	311.2	28.1	28.6	29.4	138.3	349.7

Source: Clarkson's Chinese Intelligence Report July 2006

The table above depicts a very clear picture of how the production of steel in China has been increasing year on year. It is evident that the apparent demand decreases from 311.2 million tones to 28.1 million tones between end 2005 and March 28.1 however it is very interesting that on year to date reading (i.e. in May – the table's compilation date) the figure was already at 138.3 million tones. Readings suggest that the trends would be 12% firmer at the end of 2006 and the figure as per the pending 2006 reading sits at 349.7 million tones.

The fundamentals of the Chinese steel industry confirm that:

“Crude steel production picked up further to 35.9 mt in May (up to 20.9% year on year. Imports of steel products fell to 1.4 mt and our projections suggest a significant fall to around 19 mt in full year 2006. Exports also rose 1.0 mt month on month to 4.4 mt. Although steel prices rose month on month in May, they remain subdued compared with 2005 levels. Plate,

Hot Rolled Sheet, Hot Rolled Coils prices are 23%, 20% and 18% down (respectively) from last year.

Chinese steel mills and major global iron ore suppliers finally reached an agreement on 2006 contract iron ore prices, which are set 19% higher than 2005 levels. Fifty two private companies, including steel mills set up a Chamber of Commerce for Metallurgy. Members steel producing capacity totals around 60 mtpy, around half of China's private steel makers total capacity." (Clarkson's China Intelligence Report, July 2006: 6)

Steel forms the core of the industrial and building processes and demand. What results from the increased demand of steel is the increased demand for iron ore and coal. In this instance let us concentrate on iron ore. The author aims to show how a demand for certain commodities may have an impact on the sea transport supply demand.

Table: 3.2

Title: China's Seaborne Imports Summary (million tonnes)

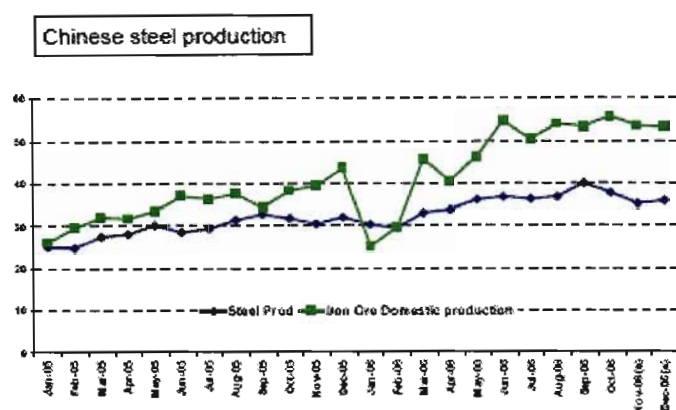
	2001	2002	2003	2004	2005
Iron Ore	91.4	110.7	146.8	204.7	270.6
Coal	2.5	11	10.3	16.9	23.4
Grains (Incl-soybeans)	17	13.8	22.5	29.1	32.3
Major bulks	110.9	135.5	179.6	250.7	326.2
Agribulk (incl sugar)	3.4	2	1.3	2.7	2.7
Fertilisers	13.6	19.3	15.6	16.9	12.1
Metals	12.9	12.8	16.8	20.5	23.6
Minerals	6.8	9	11.2	13.9	14.9
Steel Products	23.4	27.2	39.8	31.8	25.2
Forest Products	8.7	9.8	11.9	13.5	14.5
Minor Bulks	68.8	80.3	96.6	99.3	92.9
Total Dry Bulk Cargoes	179.6	215.7	276.2	350	419.20.
% Change Year on Year	27%	20%	28%	27%	20%

Source: Clarkson's Chinese Intelligence Report July 2006

Considering table 3.3 above, Iron Ore is on top of the list in as far as the cargoes that were imported by China are concerned. That gives evidence of how the demand of product (in this case steel) could create an increase in demand for a commodity related to that particular product. It is also very interesting to note that coal is listed second.

The reason is that, coal is imported to fire the furnaces during the production of steel products. The demand for coal will therefore follow that of steel and iron ore.

Figure: 3.3
Title: Chinese Steel Production

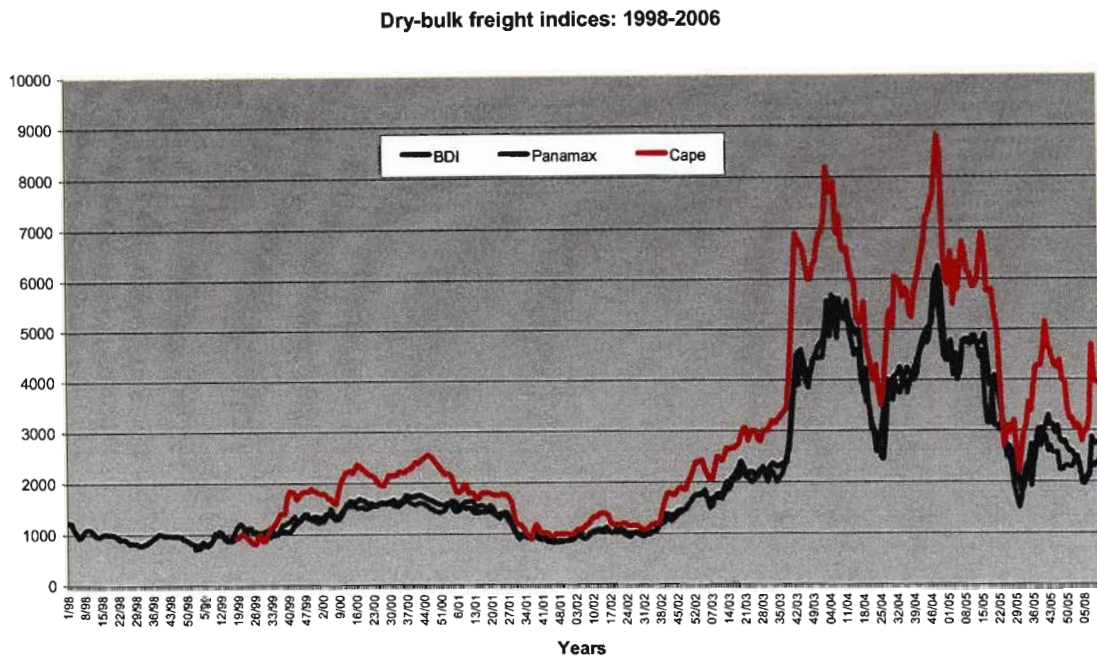


Source: Fairplay, December 2006

Further evidence is given above of how a domestic demand could ignite a high demand for a certain commodity with implication to related industries and economies. The dry bulk shipping rates were for the past years highly driven by the Chinese demand. Also the amount of vessels available in the market diminished due to many vessels sailing towards China to discharge cargoes like iron ore and coal (see figure 3.3) which were on high demand and which still continue to be. In addition to the above the port congestion that resulted from many vessels calling China to discharge also kept many vessels held up around China and that lead to vessel supply being decreased further.

Figure: 3.4

Title: Dry Bulk Freight Indices (1998 – 2006)



Source: Clarksons, Panamax & Capesize Report, 2006

Even when the vessels had discharged cargo in China, they would be snapped up on spot charters out of Asia, further decreasing the supply of ships in the market. Resultantly the Chinese demand gave birth to high and sustained high rates for bulk vessel (see figure 3.4 above).

The above section showcases a very important dynamic in global sea trade. It is very important to note that China has led to current high freight rates and shipping trends. It is very interesting that a single country's domestic growth can lead to global movements in terms of both commodity markets and also shipping markets. It is therefore important to this work's topic that concepts of this nature are drawn in into the discussion in order to paint a picture of the global environment within which the South African maritime industry exists. Since the subsequent chapters go into detail on the framework and structure of global shipping, it was therefore of utmost importance that a section on

China (an economy that would go down as one of the major trend setters in shipping for the last decade) was included. The reason for such an inclusion was not purely based on the fact that China will go down in history as a “big event” but also because its case shows how commodity markets can become drivers of global seaborne trade due to demand from a certain region in the world.

3.10 THE SOUTH AFRICAN GOVERNMENT AND THE MARITIME INDUSTRY

3.10.1 The South African National Transport Department – Maritime Transport

Like in all other economies in the world, it comes as a common feature that the government takes a central or at least has a part in any industry that conducts its business within its borders.

The South African government has not intensely engaged itself on issues that affect the country’s maritime industry. However there have been strides made the government’s national transport department in trying to make headway in giving the maritime industry the attention and the assistance that it deserves. The new Ports Act has been viewed as an indication of the government’s willingness to engage the maritime industry whereas the reality is that the act is there to police the administration of the ports.

The South African government’s Department of Trade & Industry and the Department of Transport are the arms with which the state has contact with the maritime industry. The maritime transport section of the DOT envisages that it seek to:

“To encourage and support the SA maritime transport industry in a manner which underpins the four fundamental objectives of the Reconstruction and Development Programme, gives effect to the overall vision of transport and in so doing which develops a maritime awareness in South Africa; assists in the creation and fostering of an economic environment for the Maritime Transport Industry which will allow it to compete on at least an equal basis with the maritime carriers of other

nations and South African land based carriers; ensures safety of life and property at sea and the prevention of pollution of the sea by ships; ensures fair labour practices, employee rights, job creation and security with acceptable standards of employee health, welfare and safety in the maritime industry and contributes to the release of the full potential of the maritime industry in South Africa and to the modernization of shipping administration in South Africa” (Maritime Transport, 2005, ‘The South African Maritime Transport - Mission’, Available at: <http://www.dot.gov.za/search/index.html>).

When the importance of shipping and the entire maritime industry’s importance to the global economy and to the economy of South Africa at large is concerned a much more concise, strategic and fundamental relationship between the government therefore needs to exist. Although the government’s intuition is questionable, the following puts forward a case for the government:

“The governments strategic objectives are:

- To facilitate and enhance the expansion of international trade and tourism in general and exports in particular.
- To ensure that economic decisions are, as far as possible, left to market forces, subject to general competitive principles applicable to all industries, with the view to maximizing consumer choice, need satisfaction and job creation.
- To promote the development of an efficient and productive South African maritime industry capable of competing on international markets.
- To maintain control over maritime services within a well defined regulatory framework that is flexible enough to cater for changing needs and circumstances and to ensure orderly, safe and reliable maritime transport services.
- To promote international relations with other countries and international organizations involved in maritime activities.” (Maritime Transport, 2005, ‘The South African Maritime Transport – Strategic Objectives’, Available at: <http://www.dot.gov.za/search/index.html>).

The above strategic objectives look very good on paper but it will be established in the later chapters whether the government's engagement is of such a level that it cements or highlights the government's belief that the shipping industry is also at the core of the country's economy. In addition to that, issues and questions around the realization of aims encapsulated on the maritime industry black economic empowerment charter would be raised and compared to the way government engages itself on business issues and policies that are of importance to the maritime industry. The following section looks at the extent of South Africa's participation in global trade.

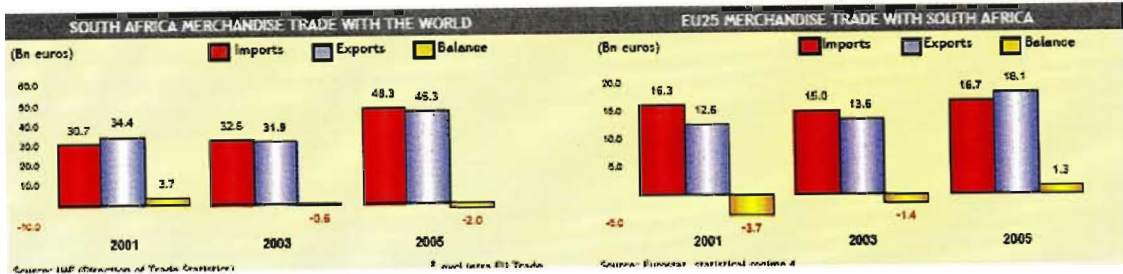
3.11 THE EXTENT OF THE SOUTH AFRICAN SEABORNE TRADE

When the new political dispensation came into being in South Africa, global trade activity became stronger. South Africa became a very strong participant in the global trade with trade links and agreements being put into place at much more higher rate than before. More countries established trade and economic ties with South Africa.

In that regard, seaborne trade also increased. South Africa is now regarded as a major sea trading nation. Traffic was estimated at about 193 million tons in 2004 and in real sea trade terms South Africa was standing at approximately 1 460 billion ton-miles. When that is compared to the global real sea trade of approximately 24 600 billion ton-miles, South Africa therefore accounts for 6 % of world sea trade. The figures place South Africa among the top 12 global sea trading states (The South African Seaborne Trade and The Development of the South African Shipping Industry, Class Notes, Jones, 2005 : Pgs 1, 2).

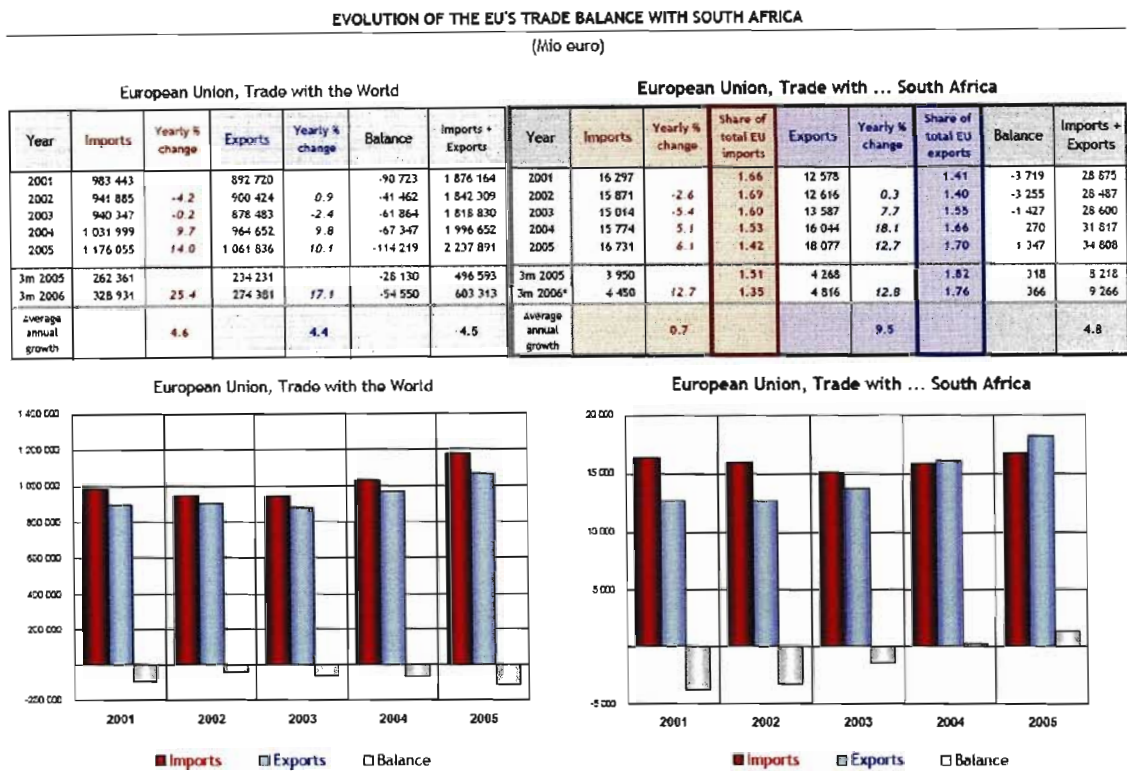
Trade in South Africa grew in almost all sectors of the economy. Major countries and unions like the United States and the European Union rate South Africa as one of their major trade partners.

Figure: 3.5
Title: South Africa's Trade with the EU



Source: EU Bilateral Trade and Trade with the World, 2006: South Africa, Available at: http://trade.ec.europa.eu/doclip/docs/2006/September/tradoc_113447.pdf

Figure: 3.6
Title: Evolution of the EU's Trade Balance with South Africa



Source: EU Bilateral Trade and Trade with the World, 2006: South Africa, Available at: http://trade.ec.europa.eu/doclip/docs/2006/September/tradoc_113447.pdf

The above statistics show how South Africa compared with the rest of the world when it comes to trading with the European Union. South Africa comes across as very competitive when for example we consider exports to South Africa in 2006 and compare

them to those to the rest of the world during the same year. The EU exported more goods to South Africa than it did to the rest of the world (please see figure 3.6 above). I must be mentioned though that when the South Africa balance of trade is considered it would have been better for the EU to rather have more imported goods from South African than those it exports to South African. South would then have more exports than imports to the EU. However, the main issue is that there was more trade done between the two regions and that strengthens South Africa's position in global trade.

Table: 3.3
Title: EU Trade with main partners

EU TRADE WITH MAIN PARTNERS								
(2005)								
The major imports partners			The major export partners			The major trade partners		
Partners	Mio euro	%	Partners	Mio euro	%	Partners	Mio euro	%
World	1 176 055	100.0	World	1 061 836	100.0	World	2 237 891	100.0
1 USA	163 057	13.9	1 USA	251 657	23.7	1 USA	414 714	18.5
2 China	158 098	13.4	2 Switzerland	81 980	7.7	2 China	209 894	9.4
3 Russia	106 766	9.1	3 Russia	56 445	5.3	3 Russia	163 211	7.3
4 Japan	73 243	6.2	4 China	51 796	4.9	4 Switzerland	148 334	6.6
5 Norway	67 474	5.7	5 Japan	43 663	4.1	5 Japan	116 906	5.2
6 Switzerland	66 354	5.6	6 Turkey	41 849	3.9	6 Norway	101 261	4.5
7 Turkey	33 492	2.8	7 Norway	33 787	3.2	7 Turkey	75 341	3.4
8 Korea	33 326	2.8	8 United Arab Emir.	25 288	2.4	8 Korea	53 456	2.4
9 Taiwan	23 835	2.0	9 Canada	23 681	2.2	9 Canada	40 855	1.8
10 Brazil	23 300	2.0	10 Romania	21 825	2.1	10 India	40 021	1.8
11 Saudi Arabia	22 092	1.9	11 India	21 110	2.0	11 Brazil	39 287	1.8
12 Algeria	20 735	1.8	12 Australia	20 710	2.0	12 Saudi Arabia	37 535	1.7
13 Libya	19 473	1.7	13 Hong Kong	20 434	1.9	13 Romania	37 130	1.7
14 India	18 911	1.6	14 Korea	20 130	1.9	14 Taiwan	36 653	1.6
15 Singapore	18 219	1.5	15 South Africa	18 077	1.7	15 Singapore	35 447	1.6
16 Canada	17 174	1.5	16 Singapore	17 227	1.6	16 United Arab Emir.	35 087	1.6
17 South Africa	16 731	1.4	17 Mexico	16 762	1.6	17 South Africa	34 808	1.6
18 Malaysia	15 905	1.4	18 Brazil	15 987	1.5	18 Algeria	31 150	1.4
19 Romania	15 305	1.3	19 Saudi Arabia	15 443	1.5	19 Hong Kong	31 109	1.4
20 WA_AO	13 761	1.2	20 WA_AO	13 484	1.3	20 Australia	30 182	1.3

Source: EU Bilateral Trade and Trade with the World, 2006: South Africa, Available at: http://trade.ec.europa.eu/doclip/docs/2006/September/tradoc_113447.pdf

Considering the table above, South Africa ranks as the 17th major trade partner with the EU ahead of major countries like Hong Kong (19th) and Australia (20th).

The above statistics are explored to showcase the strength and the presence that South Africa has acquired or gained in the global trade arena.

3.12 THE PORT OF RICHARDS BAY

This research paper is based on the port of Richards Bay or on the activities (within the South African maritime industry) with the port of Richards Bay being the focal point.

“The Port of Richards Bay is a relatively young port, having opened on 1 April 1976. The port is presently South Africa’s leading port in terms of cargo volumes and handles in excess of 80 million tons per annum, representing approximately 55 % of South Africa’s seaborne cargo trade. Approximately 1644 commercial ocean going vessels call at the port’s five terminals annually.

One of the port’s inherent strengths is its deep water infrastructure, with a maximum permissible draught of 17, 5 metres. This coupled with the high-tech state of the art terminal infrastructures allows for high speed, high volume cargo handling and a fast turn around of vessels

What makes the Port of Richards Bay probably the most exciting port project in the world today is its capacity to develop into one of the largest ports in the world, in all aspects.

The present total land and water surface areas of the port are 2157 hectares and 1495 hectares respectively. To date only 40 % of available land area is developed, however, this does not include the future development potential if one includes the areas lying outside port limits that are zoned for port development. With the growing South African economy and ever increasing international trade coupled thereto, the Port of Richards Bay is ready to play its part. Not only is the port

relatively closely situated to South Africa's major economic centres of Gauteng and the Northern Province, the port's immediate hinterland of Kwazulu - Natal has much to offer by way of development

The Port Development Framework Plan is a planning tool to facilitate the long term planning of the port ensuring that all the port user's requirements will be met in future.

- Space is available for long-term development
- Land usage and development takes place in a systematic, orderly manner
- National development objectives are included
- Flexibility is inherent in the planning
- Development takes place in areas having suitable geotechnical conditions

Some developments and strategies being considered for short term development;

- A Strategic Environmental Assessment for long-term development
- Calling proposals for the construction and operation of a ship repair facility
- An additional bulk liquid handling berth and a bunker vessel berth
- An additional coal export berth
- Additional berths for break-bulk handling
- Specialized container handling facilities at an existing berth
- Improvements in the facilities for phosphoric acid exports" (Richards Bay – Overview, Available at: <http://www.npa.co.za/>).

The port of Richards Bay has emerged as a core factor to the economy of the region of Kwa-Zulu Natal and particularly the town of Richards Bay. It also provides "a gateway to the world" for South Africa's seaborne trade. Mostly bulk cargoes are exported through Richards Bay.

3.13 CONCLUSION

The following chapter goes into details on the fundamentals of research methodology applied on this paper. The purpose is to show how the research work was carried out and why. Proceeding from Chapter 3 to Chapter 4 creates a flowing transition because the analysis of Island View Shipping in Chapter 2 has painted a picture of the company itself and also of the elements that exist within and that affect the maritime industry at large. Apart from that, Island View Shipping forms a platform for the data researched. Therefore a clearer understanding of Island View Shipping will assist in enforcing the understanding of the reader when Island View Shipping's role (in as far as data gathering is concerned) emerges in the following chapter.

CHAPTER 4: RESEARCH METHODOLOGY

4.1 INTRODUCTION

Chapter three laid a foundation, through the literature review, for any possible realignment of critical questions and refocusing of this research. This chapter will therefore look at some critical questions deduced from the literature review, information as to how the interview guide was drawn up and information on how the representative sample of interviewees was identified. To close the chapter, a conclusion will be drawn from the discussions undertaken in the chapter.

4.2 CRITICAL QUESTIONS

The questions that the author needs to answer have been strengthened or sharpened by the information generated from the literature review chapter above. The critical questions are:

- Is the nature and structure of the South African maritime industry conducive for the realisation of the aspirations of increased involvement of previously disadvantaged individuals?
- Has there been a detailed understanding by the South African government as to how the shipping markets dynamics work and how the issues of supply and demand can be imperative in the decision making process? In mind here is a set of decisions that need to be made on issues regarding promoting increased registry.
- Is there enough awareness of the risks and benefits attached to an employment of either CIF or FOB?
- Are South Africans in the maritime industry and at government level aware of the challenges presented by the need to increase skills production in the industry?

4.3 DATA COLLECTION METHODS

The collection of data was through semi-structured interviews and observational research. The nature of qualitative research recommends the usage of semi-structured interviews and the circumstances and the working environment at Island View Shipping required an interview guide. The interview guide was a set of questions which were

discussed with the interviewees during the interviews. However, and as mentioned above, there were some unforeseen circumstances that surfaced during the fieldwork. Some of the members of the sample were very busy and some were travelling. Consequently the author had to email the questionnaire to some of the interviewees. In that sense some of the interviews were conducted electronically. It must be stressed that the action was taken in response to unforeseen circumstances.

Secondly, observational research was conducted. Due to the author being part of Island View Shipping the type of observational research that was conducted was participant observation. In addition to that, the observation was covert because it was only during the last two months (end October 2006 to December 2006) that the sample got to know about the research being conducted. The conducting of interviews revealed the fact that there was a research fieldwork being done. There was an advantage attached to observation research which the author discovered during the fieldwork. One of the respondents who was very vital because of his position at Island View Shipping was more comfortable being involved in an informal discussion rather than an interview conducted under a strict and formal interview environment. The discussions with him (within a working environment, sometimes with author involved and sometimes not) did produce vital data for the author. So observation research proved to be worthwhile.

Lastly and much because Island View Shipping was used a case study context from which to reflect issues that affect the maritime industry at large, the circumstances that surfaced with the unavailability of some interviewees and the sending of interview guide questionnaire to them brought in a dimension of triangulation because the interview guides were also taken as questionnaires by the interviewees/respondents.

4.4 THE STRUCTURE OF THE INTERVIEW GUIDE AND THE RELATED QUESTIONNAIRE

The approach behind the interview guide was that it must not be too long at the same time it had to contain questions that had the potential and ability to source crucial and important responses from the interviewees. The questions also had to have a unique way of touching on the issues of INCOTERMS, ships registry, black economic empowerment opportunities and surrounding issues, Island View Shipping, government

participation, training and skills developments and different degrees of ship ownership.

The interview guide had ten questions some of which were divided into two parts (e.g. Question 1 and 1 A, Question 5 and 5A and Question 6 and 6A). One of the most important reasons behind the use of the semi-structured interview guide was that the author had to get a personal perspective of the interviewees and the personal meanings they attach to different situations. The interview guide was designed such that an answer is inserted or recorded after each question was discussed. The interview guides also ensured that the interviews were open as interviewees knew the questions or issues that were to be discussed.

4.5 THE IDENTIFICATION OF A REPRESENTATIVE SAMPLE OF INTERVIEWEES/RESPONDENT

Interviewees were identified on the basis of their level of experience at Island View shipping and in the maritime industry. They were also identified according to their position in the company. The selection was made up of top management, middle and lower management. The sections of the company covered were chartering, operations and marketing. The aim behind including people from the above mentioned departments was that these units form the core of the company's decision making structures (e.g. the IVS board of executives, the directorship on the Island View Shipping/Lauritzen Bulkera Joint Venture, the Island View Shipping's operations management and vessel operators).

The sampling technique was of a Non-random or Non-probability sampling class termed Purposive Sampling. The interviewees that were selected from the entire sampling frame at Island View Shipping were selected because the author knew that they would deliver the best information in the light of the objectives of the research.

Out of the entire sampling frame of 17 individuals, 10 of them were selected as interviewees. Out of the representative sample of 10 individuals 8 interviewees were achieved and 8 interview guidance questions were therefore answered. 2 individuals could not complete the interview guide questionnaires and attend interviews because of business travelling and heavy office schedules.

4.6 PROBLEMS DURING DATA COLLECTION/FIELDWORK

The problems that were experienced during the fieldwork and data collection period were mainly due to tight schedules of the interviewees that had been selected. As a result the interview guide questionnaires were sent to those people by email. To make an example, the Managing Director of the company did his answering via the computer and because the opportunity for a discussion on the same issues came, the interview was also conducted. As attached on the appendix section of this paper, there are 8 interview guide questionnaires that were completed.

4.7 SETTING UP DATA FOR ANALYSIS

Since the research was of a qualitative nature, the data was allocated or arranged into concepts e.g. different levels of ship ownership, INCOTERMS, ships registry and black economic empowerment and the degree of involvement by South African along cargo value chain. The above mentioned concepts are also descriptions of what formed the core of the interviews and observational research.

4.8 CONCLUSION

This chapter commenced with the formulation of critical questions which originated from the reviewing of literature in the previous chapter 3. Following that was a discussion on how the fieldwork was done and how the problems that emanated were dealt with. A much more important discussion was on how the survey instruments were drawn up because it gives the reader a more concrete sense as to what to expect of the following chapter 5. In addition to the above mentioned note the reader is also given a sense or a rationale behind the section and the compilation of the sampling frame and the representative sample. The information emanating from that discussion contributes towards the completion of the picture that represents the research and the following chapter's content. The chapter also discusses the type of problems that were encountered during data collections and how they were encountered. Towards the end of the chapter, the reader is enlightened of the issues around the setting up of data in readiness for data analysis.

On continuation to chapter 5 where data analysis and results will be undertaken, chapter 4 presents a frame of the research methodology and chapter 5 will add a completion to the flow by discussing the data and then showing results produced from the analysis. The connection between the two chapters is built on the fact that for the reader to consider the analysis of data he/she must be advised of what measures were employed in collecting the data.

CHAPTER 5: DATA ANALYSIS AND RESULTS

5.1 Introduction

After setting the scene for the data analysis and results chapter in the previous chapter, chapter 5 follows with a detailed presentation of data analysis and results. This chapter will present a theoretical framework of data to be analysed and of data analysis, the demographic profile of interviewees, the presentation of data and its analysis, the results and then the conclusion. The data analysis section is divided into four sections namely: the case study of Island View Shipping, the data from interviews, data emanating from previous research and observational research data. The discussion and analysis of information generated on Island View Shipping is set up to construct a foundation from which to grow when analysing and discussing general industry issues.

The author would like to stress that in his belief, the consideration of Island View Shipping as a case study was viewed as the best way to fulfil the objectives of this research paper. The best angle from which to tackle the questions raised by this work's topic was through a selection of a company that has a very high degree (through operations, chartering and ship ownership) of participation, value and decision making in the industry.

5.2 Theoretical framework.

The analysis of data under a qualitative research does not require an employment of statistical processes. Phillip Mayring expands on this point and says: "The rules of analysis require that the material is to be analyzed step by step, following rules of procedure, devising the material into content analytical units; categories in the centre of analysis mean that the aspects of the text interpretation, following the research questions, are put into categories, which were carefully founded and revised within the process of analysis (feedback loops)" (Mayring, Phillip (2000, June). *Qualitative Content Analysis. Forum: Qualitative Social Research [On-line Journal]*, 1(2). Available at: <http://www.qualitative-research.net/fqs-textel/2-00/2-22marying-e.htm>).

The author's analysis is based on inductive reasoning as the data collected will be utilised to generate ideas that are going to follow the themes (used in the analysis below).

The analysis of qualitative data involves idea identification and themes and not computer based analysis instruments. It is agreed that these can be used for purposes of triangulation but “although there are many qualitative data analysis computer programs available on the market today, these are essentially aids to sorting and organising sets of qualitative data and none are capable of the intellectual and conceptualising processes required to transform data into meaningful findings” (Thorne, S. 2000. *Evidence Based Nursing. Data Analysis in qualitative research*. Available at: <http://ebn.bmj.com/cgi/context/full text/pdf>).

5.3 Demographic profile of interviewees

The interviewees were/are employees of Island View Shipping and were selected specifically because the author viewed them as a representative sample that has the ability to address the issues and answer the questions that formed the interview guide. The term representative sample can be defined as a sample, when used in a research work, which is viewed as having the ability to produce results that are true and valid, with certain limits, for the population from which that particular sample was chosen from. The author viewed them as a sample that could satisfy the objectives of this research.

The age range of the interviewees was between 30 and 60 years. The interviewee’s pool of experience in the maritime industry was 202 years. The interviewees were selected from the operations department, senior management (1 managing director and three directors), middle management (a legal department manager, a commercial and marketing manager and an operations department manager and then lower management (vessel operators). The selection of this particular representative frame also provided a very fertile ground for the author into which to ground his discussions. This is the same approach behind the employment of Island View Shipping as a case study. The author expanded his arguments to discuss issues that affect the general maritime industry setting. There is no one single approach with which issues and concepts can be developed in a dissertation

Table: 5.1
Title: Interviewee Coding and Profiles

Interviewee Code	Age (Yrs)	Experience (Yrs)	Position
R 1	56	36	Managing Director
R 2	59	38	Director
R 3	40	20	Chartering Man.
R 4	44	16	Chartering
R 5	48	24	Man.New Bus.Dev.
R 6	30	11	Research & Dev.
R 7	36	15	Vessel Operator
R 8	60	42	Ops.Manager

Total Exp.	
Pool	202

Source: Author created to show information on interviewees



5.4 DATA ANALYSIS

5.4.1 ISLAND VIEW SHIPPING – A CASE STUDY.

Growing from the analysis model that was generated in chapter 2, Island View Shipping has grown from strength to strength. Starting from the remote environment, the social, technological, ecological and economic factors are not in any manner inhibitive to Island View Shipping's business operation. The economic factors in particular, with the growth in the country's economy, give evidence that seaborne activity increases with South Africa's entry into the global trade markets. The results for Island View Shipping were fruitful.

Considering the literature review in chapter three and also the in-depth look at Island View Shipping the following concepts/themes/ideas emerged. These themes in some way did refocus the research but still remained within the parameters created by the research's topic. These are;

5.4.1.1 Business Environment's Impact on Island View Shipping

When data collected from observations, interviews and the business analysis model is considered, Island View Shipping has enjoyed a favourable business environment. Such business environment is characterised by a rising economy, low threat of new entrants in the maritime industry (which, in the context of this research work, might mean low opportunities for the new BBBEE companies) and the opening up of global markets to South Africa. South Africa's increased participation in global trade has had an impact on the maritime industry and Island View Shipping has, according to one of the interviewees, moved from being just a role player in the industry to become a global heavyweight in the fraternity.

5.4.1.2 Ship Registration, Ship Ownership, Supply and Demand

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Island View Shipping has increased its purchasing activity. The driver behind the booming ship owner's market and the increasing shipping activity and seaborne trade is the booming Chinese activity. The

impact of the Chinese demand for cargoes like coal (rose from 2.5 million tonnes in 2001 to 23.4 million tonnes in 2005) and iron ore (rose from 91.4 million tonnes in 2001 to 270.6 million tonnes in 2005) has been of fundamental proportions for the past 3 – 4 years. Hence Island View Shipping has increased the number of ships owned under its company. Also, global participation in the ship owning field has been cemented by the establishment of the IVS Singaporean office and joint ventured with large scale ship-owners like Lauritzen Bulkcarriers. The IVS/Lauritzen pool owns 51 ships.

Another issue arising from the literature review is that of supply and demand in the shipping markets. The literature review taught us that supply and demand has a big influence on the way shipping markets operate. The Chinese boom created a big demand for ships and freight rates increased changing the shipping markets into the owners markets. Evidence (IVS on its own contributing 89 – 90 percent of earnings for the logistics group Grindrod for the past two-three financial years) from the case study shows that Island View Shipping became a known global player by purchasing ships in time to enjoy the benefits of the demand.

5.4.2 MARITIME INDUSTRY – INTERVIEWS DATA

The interviews were conducted with an objective to obtain more data in relation to the issues that are built into this research which focuses on the following themes:

- Degrees/level of ship ownership and related opportunities for black economic empowerment.
- South African ships registry and related issues.
- Black economic empowerment.
- Value-adding involvement along cargo value chains
- The South African Maritime Industry and the economy
- Training and skills development in the maritime industry.
- Government participation in the maritime industry.
- INCOTERMS or terms of shipment.

These themes emerged from the range of answers or responses that were obtained. The analysis below will therefore be based on the above mentioned themes with the objective of using the information that will be generated to answer this dissertation's main questions.

Let us consider the structure and nature of the questions that made up the interview guide.

QUESTION 1

THEME/S: South African ships registry, BEE opportunities and related issues.

This question asked the interviewees/respondents about what the benefits are and what the risks are for South Africa to increase a number of ships registered under its flag. It also asked the interviewees/respondents what do they consider the benefits would be and whether there would be any opportunities for black economic empowerment. The final part of the question asked whether there would be risk (in case the South African ships register increases) in case of a downturn in the shipping markets.

The purpose of this question was to extract or reveal a set of beliefs that shipping professionals have of the view that South Africa should increase the number of ships registered under its flag. Secondly, it was to clarify whether that action has a potential of any substantial gains or benefits for black economic empowerment considering the state that the South African maritime industry is in. Inside the question was a vehicle to obtain information and views as to how the players in the South African maritime industry view black economic empowerment. Revisiting our topic, the answers/responses to the question would define whether treating an “increased ships register” is king or re-allocating resources to some other issues would lead to even more benefit. Our topic addresses the benefits attached to increased national ships registration or an increased presence of South African entities along cargo value chains.

RESPONSE

The majority (75% i.e. 6 interviewees) of the responses gave mention of the fact that the benefits will be phenomenal. These will include increased revenue for the country, and increased job opportunities (in maritime related industries) leading to increased opportunities for black economic empowerment. Out of the other 25% (two people), one half felt that there is racist element attached to black economic empowerment and suggested that foreign shipping companies would not register their ships in a country that endorses reverse discrimination. The other half's (i.e. one person) response was more on the fact that black economic empowerment would not be effective or opportunities thereto would not be realised because people from previously disadvantaged background would have no experience.

It is also very important that in the discussions that emerged during interviews, a theme emerged where the interviewees mentioned that increased benefits would not necessarily benefit BEE only but the industry at large.

QUESTION 1 A

The question was very specific and it required the interviewees to particularly mention whether the economic benefits or black economic empowerment opportunities that could be accrued by South Africans, could be weakened or be less in the instance of ship-owners opting to operate their ships under other flags other than the South African flag while retaining full beneficial ownership.

The above question was used to concentrate the interviewees' attention to the fact that there exists a comparison between South African shipping companies being fully fledged ship-owners or having them as operators of ships which they own under or during commercially feasible periods.

RESPONSE

When the interviewees responded it was clear that the issue of operating vessels or having beneficial ownership on them and owning them directly was very important in as far as opportunities and gains are concerned. To this question 3 out of eight responses gave a direct no answer whereas 4 responses mentioned that there will some undermining of local gains. One response touched on the fact that the concentration should be on answering whether BEE is detrimental or not.

QUESTION 2

THEME: South African ships registry and related issues.

Interviewees were asked to enumerate factors that they regard as drawbacks or stumbling blocks in the increment of ships registered under the South African flag and those that they regard as incentives for shipping companies to register their ships in South Africa.

The aim behind the question was to obtain from the interviewees reasons that they regard as potential drawbacks in South Africa's quest to increase its ship's registry. The other aim was to see whether there is an approach that may be regarded as global and whether South Africa needs to adopt the same global approach. The question was also exploring the potential incentives that could be employed to attract ship-owners to register their ships in South Africa.

RESPONSE

The issue of taxation was mentioned by all the interviewees. The background was that other countries offer tax incentives to foreign ship-owners and South Africa does not. There was mention of one of South Africa's most successful shipping companies Metall Und Rohstoff having moved from Johannesburg to Dubai to extract value of operating their business in a tax free environment. In addition, one of the respondents/interviewee (coded R3), whose response is attached discussed that tonnage tax is a much better option because a ship-owner is taxed on the total tonnage that he owns rather than on his earnings. However, one other interviewee (coded R1) took the point a step further and said that although tonnage tax is cheaper, it is better in countries like Singapore and Dubai where there is no taxation (imposed on ship-owners) and other very friendly flag conditions. Therefore taxation was presented as a major drawback. Other minor problems mentioned were labour laws and the strength of South African labour unions and the cost of crew and labour.

On the other side, relaxed taxation, relaxed labour legislation and a ship owner friendly business environment are all regarded as major incentives that need to be implemented.

QUESTION 3

THEME: Degrees/level of ship ownership and related opportunities for black economic empowerment.

This question referred the interviewees to the Maritime Industry's BBEEE charter strategy document and asked whether they saw any reasoning between being a country that promotes fully-fledged ship ownership as opposed to promoting a fine balance between full ownership and full charter control of vessel fixed for various periods of time and under various terms.

The point behind the question was to see whether interviewees saw it as a viable business/economic option for South African shipping entities to own ships fully or to operate them on charters. The question also looked at assessing the appropriateness of striking a balance between the two factors or ownership approaches.

RESPONSE

The responses, although coming from different directions (in terms of explaining) were in support of striking a mix between full ownership and chartering ships. The question of skills also was included in the responses where points were made that for full benefit the nature of ship ownership must be accompanied with increases in skills. Another important response was that the type of ownership selected depends on the company concerned and any system would be beneficial as long as it is set on good grounds.

QUESTION 4

THEME: INCOTERMS or terms of shipment.

The question's asked interviewees for their opinion in as far as the issue of any formal and rational approach that has been put into place in South Africa to ensure that South African exporters in particular, trade in a manner (including favourable trade terms) that stands to benefit them in terms of capital gain and value addition.

The main purpose of the question was to analyse whether the professional and experienced people can put an issue of a "formal approach" to INCOTERMS into perspective and hopefully a draw a picture of whether there has been such an approach or that there has never been one.

RESPONSE

The responses ranged from issues to do with risk to even deeper issues of commercial relationships, competitiveness and global distribution of raw products or minerals. In detail, exporters are in a position where they have to give (an act associated with FOB) much more control to their foreign customers if they want to survive because competition has increased due to other parts of the world now producing minerals. Also, if they continue to resist from selling on FOB they would be regarded as uncompetitive. The markets dictate that sellers have to agree to buyer's terms. As South Africa is becoming more competitive and the world is discovering more sources of commodities, there are more suppliers and thereby buyers have got a lot more choice. South Africa is no longer a dominant player in minerals and other commodities. On the risk side, the financial outlays made for freight that are associated with CIF are far too large and exporters avoid such costs.

QUESTION 5

THEME: INCOTERMS or terms of shipment.

This question asked the interviewees whether, in their opinion, there was a strong argument that the exporters could raise in defence of their decision to use FOB more than CIF.

The aim behind this question was to work out a stance that seems to have been declared by South African exporters. It was to see whether that is a commonly shared stance/opinion in the maritime industry.

RESPONSE

The majority of the responses said the main reason is customers and their satisfaction.

QUESTION 5 A

This question asked the interviewees to specify the single most significant factor that prevents South African exporters from processing a high proportion of their sales on CIF terms.

The aim of the question was to identify a factor that is regarded as the most significant cause or reason for export transactions to be done more on FOB than on CIF.

RESPONSE

The exporters did so to protect their businesses from financial risks and other related exposures that are related to CIF sales. The exposures range from lack of expertise, freight layouts that need to be made and issues like insurance.

QUESTION 6

THEME: INCOTERMS or terms of shipment.

This question asked the interviewees to pinpoint the best INCOTERMS to employ in South Africa for more economic benefit/s.

The purpose was to give the interview a wider picture and look at the issues attached to the national economy rather than only those that involve the maritime sector.

RESPONSE

The types of economic dynamics that affect each company or exporters are not necessarily the same. In addition, it cannot be said in reality that one INCOTERM is better than the other. The parties concerned must decide on the issue per transaction. FOB was pointed out as best when an exporter wants to avoid risks. On the other side, if we wanted to increase control by SA entities CIF was given as the only way to go.

QUESTION 6 A

THEME: Government participation in the maritime industry.

The question asked the interviewees to air their view as to whether there are any formal suggestions that could be given to national policy-makers in assisting them in facilitating the implementation of the most preferred set of trading arrangements.

This question was aimed at getting a feel of how professionals in the industry think about the national government's involvement or lack of (involvement) in the maritime industry and in policies that affect the maritime industry. The same question would assist in answering questions related to our topic and verify whether the government's involvement in the industry is appropriately directed to issues that matter the most or not.

By “issues that matter the most” the author means those issues that have a potential of driving the much more substantial involvement of South Africans along cargo value chain e.g. when cargoes are sold on CIF, issues around training and skills development and much more importantly issues that would create opportunities for black economic empowerment.

RESPONSE

The national government and policymakers must leave the markets to decide on factors that affect the trade unless they want to interfere and issue products like tax incentives and enhance the position of exporting companies. Otherwise a trade friendly environment must be created and commercial forces set free to shape the commercial practices.

QUESTION 7

THEME: **Black economic empowerment.**
 Training and skills development in the maritime industry.

The question asked the interviewees whether the country should promote the involvement of the previously disadvantaged more on the sea based business operations or whether energies must be concentrated on promoting their involvement along cargo value chains. The interviewees were also asked to, in their opinion, stipulate whether the promotion of the previously disadvantaged individuals along cargo value chains will have an impact on their general participation in the industry at large.

RESPONSE:

The response from interviewee coded R8 was very interesting in a way that it drew in issues regarding training, education, hard work and barriers of entry. To be exact the interviewee’s opinion was that there are no barriers to entry or to participation by previously disadvantaged individuals but shipping needs a person who is willing to be

educated and gain experience on the business over time. It was also revealed that shipping should also be advertised and prompted as a sector of interest. The issue of training and individuals must be trained and based on merit, not colour, and achieve promotions to higher levels/positions. The issue of skills shortage was presented as an industry problem, never mind people being black or white, the South African maritime industry has a skills shortage problem. There also a discussion based on change. Promotion of black individuals in the industry was viewed by interviewee coded R6 as a catalyst to change in the industry that will lead to the transformation as required by the maritime sector's Broad Based Black Economic Empowerment Strategy.

QUESTION 8

THEME: INCOTERMS or terms of shipment

Value-adding involvement along cargo value chains

The question asked the interviewees to draw from their experience (working in the South African maritime industry) and confirm whether there has ever been a significant participation of South African entities along cargo value chains. In depending on the answers, they were asked to advise reasons for either of the answers.

The purpose of the question was to verify whether there is any history behind the elongated participation of South African along cargo value chains. The aim behind the question revolved around issues that would clarify whether the South African maritime industry has taken a serious approach to the issue or not.

According to the responses it was evident that yes there was and there still is involvement (in mining of the cargoes, transportation, shipping agencies and loading operations) of South Africans along cargo value chains. However, and very importantly, this involvement ends when the cargoes are loaded onto ship and cross the ship's rail in Richards Bay. This touches on one of the objectives of this research work where the author investigates whether the "maximum gains" are realised along cargo value chains

or whether the type or duration of participation involved leads to minimum gains. This takes into consideration cargoes that are sold on FOB terms. Interviewee coded R1 put it specifically and concisely by saying “There has been a significant participation with the exceptions of ocean freight”. One of the reasons that were put forward as the cause of limited involvement was lack of experience and skills in South Africa.

QUESTION 9

THEME: **The South African Maritime Industry and the economy.**

The question asked the interviewees what they think the South African maritime industry could contribute to the South African economy at large. The question also asked the interviewees whether they thought there are some measures within the industry that could be corrected in order to maximise the economic gains for the country in general and for the previously disadvantaged individuals in particular.

The question aimed at getting to know whether the individuals/professionals see themselves as in a position to assist the government to reach its economic goals. It also looked whether the industry could be somehow re-aligned in order to ensure increased economic gains for the economy and more importantly black economic empowerment.

RESPONSE:

Interviewee coded R8 stipulated that the maritime industry can indeed contribute to the South African economy by creating more depth to the industry through local registration of ships which will lead to an increase in employment opportunities (for example ship-building, dry-docks and ship repairs will open up job opportunities) for all involved in shipping and logistics. Encouraging shipment of more commodities on CIF terms would also enhance earnings for locally based entities. On the other side angle the competitiveness of the maritime industry and related services was brought in through a mention of port and rail system inefficiencies that are affecting shipping, where it was

revealed that these need to be taken care of in order for the country to be able to take advantage of opportunities that get presented by booming markets. The correction of issues like high labour costs inexperience and skills shortage also need to be implemented. If these factors are corrected and in turn ploughed back into the maritime industry, the industry itself will improve and be more efficient and productive.

QUESTION 10

THEME: Island View Shipping, the political environment and global markets

The question asked the interviewees to shed light on how Island View Shipping, their company, has asserted itself in the light of South Africa becoming a player in the global trade village. Also, they were asked for their opinion as to how Island View Shipping has been affected by the new dispensation in South Africa.

The purpose of the question was to find out whether there has been any shifts in Island View Shipping's approach in the face of the changes that have take place in its political environment. On a more commercial sense it was also aimed at clarifying whether the new markets that have been opened since South Africa's admission to the global trade village have in some ways benefited Island View Shipping. The question was also to see whether there were any negative effects incurred by Island View Shipping's business due to economic sanctions that South Africa was under and if not why.

RESPONSE

A very interesting phenomenon came into being when the above question was being discussed with different interviewees. There were some interviewees who felt that any opinion on the above question will in some way expose Island View Shipping in a sense that any question will be taken as "this is the way IVS views the current political dispensation in South Africa". It came across as a very important issue because the purpose of the questions was purely commercial. However, the point was made that

Island View Shipping has embraced the new dispensation and opportunities in new global markets have indeed helped the company shift from where it was before to where it is now. The new ventures formed the desire to grow and also changing with the dynamic business environment has cemented Island View Shipping's move from being one of the country's successful entities to being a very high valued global player.

5.4.3 DATA EMANATING FROM PREVIOUS RESEARCH - INCOTERMS

The South African maritime industry has not received good attention and has attracted limited research. The government, on the other hand, is still yet to consolidate its position in as far as a solid strategic approach to the maritime industry is concerned. In 2005, the South African president pleaded with all related stakeholders (in the transport and logistics fraternity) that the costs of doing business with South Africa, transport and logistics cost must go down. The African National Congress's website stipulates that:

“Areas where government is taking steps to reduce input costs are in telecommunications, energy, water and transport. Each of these sectors will be expected to produce infrastructure investment plans and strategies by September.

This will be accompanied by an announcement on how increased capital expenditure in these areas will be financed.

The National Treasury will soon submit a report to Cabinet on what can be done to ensure that prices of telecommunications, water, energy and transport services are affordable and accessible to the poor, and help to enhance the competitiveness of enterprises.

In the area of transport costs and access, a review of public transport is currently underway and work is being done to develop a comprehensive strategy for the transportation of freight.

In his briefing to the media, transport minister Jeff Radebe pointed to problems in rail passenger transport, including under-investment in infrastructure, and

said that there was a need to review the current system of subsidizing public transport. He said a major impediment to greater trade and investment in the economy was the various bottlenecks in the transport system. "The rail system is unreliable, the road freight system is under enormous pressure, [and] our ports suffer from poor throughput," he said. He said a plan to address all these problems would be in place by November." (www.anc.org.za)

The above statement is evidence to the fact that a number of researches must be conducted as to how the shipping industry (which naturally is of utmost importance to the country's economy) can be aligned and given enough attention in order to achieve national economic objectives of the nature mentioned above.

However, a number of research papers e.g. Jones, *The Port of Durban Metropolitan Economy*, 1997; Chasomeris, *South Africa's Seaborne Commerce and global Measurement of Shipping Costs*, 2006 and Lushnikov, Andre, *Richards Bay and INCOTERMS*, 2005, have been done on a few branches of the maritime industry. These papers have an imperative importance to the industry and further studies that are being done on it. They form the pillars of such studies. There are different approaches like shipping costs, shipping and local economies, the economics of ports, shipping markets and global seaborne trade issues represented by such papers and these have been scrutinized, read and drawn into this particular research work.

5.4.3.1 Terms of Shipment - INCOTERMS

Part of this research work's objectives is to get into the core of the reasons why trade or business related to trade and shipping in South Africa is practised the way it is being practised. The investigation of issues and their analysis goes towards a point where we then inter-relate them and then set to align them to our topic.

Below is an analysis, via the INCOTERMS theme, of the role the terms of shipment have in the South African seaborne trade and shipping.

The research on previous work reveals that INCOTERMS form an integral part of any sales contract whose goods are to be transported by sea. These also apply to other modes of transport but our main interest lies on those that involve transport by sea. There is of course inter-modality levels that are there when you consider cargoes that are transported by road from source, loaded onto ships and then relayed by road or rail to places of final destination. In such instances you do find trade terms that include those inter-modal transport levels/options.

In consideration of our topic, we need to evaluate whether INCOTERMS mostly used in South Africa and most importantly for bulk cargoes leaving the country through Richards Bay, are such that the aspirations envisaged by the BBBEE charter on the maritime industry will be realized or whether such terms are favourable to the achievement of such aspirations.

An importance of INCOTERMS in the way trade is done will be exhibited by explaining the fundamentals, responsibilities and obligations attached to the different trade terms.

5.4.3.2 Description of Trade Terms / Incoterms

(a) Buyer Fixes Contract of Carriage

EXW – Ex Works

DELIVERY: Named Place or Seller Premises / goods placed at the disposal of a buyer and not loaded onto/into means of transport

TRANSFER OF RISK & COSTS: Place of delivery.

FCA: Free Carrier

DELIVERY: Named place of handing over or placing at the disposal of the Carrier

TRANSFER OF RISK & COSTS: Place of delivery.

FAS: Free Alongside Ship

DELIVERY: Alongside a vessel at a named port of shipment/delivery

TRANSFER OF RISK & COSTS: Place of delivery.

FOB: Free on Board

DELIVERY: On board a vessel at a named port of shipment

TRANSFER OF RISK & COSTS: Passing ship's rail.

(b) Seller Fixes Contract of Carriage

CFR: Cost and Freight

DELIVERY: On board a vessel at a named port of shipment

TRANSFER OF RISK: Passing ship's rail

TRANSFER OF COSTS: Named port of destination

CIF: Cost, Insurance and Freight

DELIVERY: On board a vessel at a named port of shipment. Seller arranges insurance (minimum Cover Institute Cargo Clauses or Equivalent)

TRANSFER OF RISK: Passing a ship's rail

TRANSFER OF COSTS: A named port of destination

CPT: Carriage Paid To

DELIVERY: Named place of handing over or placing at the disposal of the first carrier.

TRANSFER OF RISK: Place of delivery.

TRANSFER OF COSTS: Named place of destination.

CIP: Carriage and Insurance

DELIVERY: Named place of handing over or placing at the disposal of a first carrier. A seller arranges insurance (Minimum Cover Institute Cargo Clauses or equivalent).

TRANSFER OF RISK: Place of delivery.

TRANSFER OF COSTS: Named place of destination.

DAF: Delivered at Frontier

DELIVERY: Named place at frontier before the customs border of the adjoining country; cargo not discharged

TRANSFER OF RISK & COSTS: Place of delivery.

DES: Delivery ex Ship

DELIVERY: Named Port of Discharge; cargo not discharged.

TRANSFER OF RISK & COSTS: Place of delivery.

DEQ: Delivered Ex Quay

DELIVERY: Placed at a disposal of a buyer at a named port of discharge.

TRANSFER OF RISK & COSTS: Place of delivery

DDU: Delivered Duty Unpaid

DELIVERY: Placed at the disposal of a buyer at a named place of destination – cargo not discharged.

TRANSFER OF RISK & COSTS: Place of delivery.

DDU: Delivered Duty Paid

DELIVERY: Placed at the disposal of a buyer at a named place of destination – cargo not discharged.

TRANSFER OF RISK & COSTS: Place of delivery.

5.4.3.3 The nature and the application of trade terms

In 1936, the Paris-based International Chamber of Commerce (ICC) – which was founded 16 years earlier, issued the International Trade Terms (INCOTERMS) for the first time. During the course of time, INCOTERMS developed into a widely acknowledged tool for the interpretation of the most commonly used trade terms in foreign trade. (Fairplay, March 30, 2000:22)

“INCOTERMS are a set of uniform rule codifying the interpretation of trade terms defining the rights and obligations of both buyers and sellers in an international transaction, thereby enabling an otherwise complex basis for sales contracts to be accomplished in three letters. INCOTERMS underwent several revisions, in 1953, 1967,

1980 and 1990. The 13 INCOTERMS is essence refer to the reciprocal obligations of parties bound under international sale contracts relating to the delivery of goods.” (Lushnikov, 2005: 7).

When cargo is to be moved from point to point by sea, the person moving the cargo selects a ship to move to such goods. Suitable terms must be applied into that cargo movement. In global seaborne trade the most common (in dry bulk trades) used terms are CIF and FOB and due to that fact, out discussion centres on them.

As per the explanation above, goods can be sold on FOB terms where the seller is obligated to deliver the goods safely on board the vessel. As soon as the goods pass the ship’s rail and get delivered on board all risks are transferred to the buyer. On the other hand, goods can be sold on CIF terms where the seller’s responsibilities include arranging a ship and insurance for the cargo with the risks being transferred to the buyer as soon as the goods are loaded on board the vessel.

5.4.3.4 The split between CIF & FOB in Southern Africa (through Richards Bay).

Evidence suggests that there is big split when it comes to the usage of CIF and FOB INCOTERMS for the majority of bulk cargoes exported through the port of Richards Bay.

Lushnikov through his work on INCOTERMS confirms as follows: “FOB shipment still commands the lion’s share of all export consignments handled in the port. In terms of cargo volumes, of more than 78 million tonnes of cargo covered in the survey, more than 64 million is shipped on FOB terms, which constitute approximately 82% of all exported commodities from the Port of Richards Bay.” (Lushnikov, 2005: 20). The figures are based on bulk cargoes like coal, woodchips, fertilizer, phosrock, steel, aluminium, pulp & paper, andalusite, vermiculite, titanium slag, pig iron, ilmenite, zircon, rutile, chloride, sulphate, chrome ore, ferro alloys and granite.

Over the years there have been some changes in a split between the usage of FOB and CIF INCOTERMS but this had not been significant enough e.g. in 1998 15% of coal was exported on CIF and 85% FOB and in 2003 the terms were still unchanged. For chrome ore the terms were 10% CIF and 90% FOB whereas in 2003 they were 42% CIF and 58% FOB, phosrock 85% CIF and 15% FOB in 1988 and 80% CIF and 20% FOB in 2003. So, although there is a change on some cargoes the change in CIF employment has not been substantial. The rationale for the changes in terms over years has been based on South Africa's increased involvement and participation in global trade. The seat of that type of reasoning rests on the fact globalization has brought exposure and therefore competition for South African commodities.

5.4.3.5 Why are certain INCOTERMS chosen?

There is variety of reason why sellers and buyers chose a certain type of INCOTERMS. Although the most obvious reason could be that choosing a certain term should follow a particular trade's customary practice. However, the more realistic fact is that although it is customary for certain cargoes to be shipped under certain terms, the main reasons behind the choice of terms are commercial in nature. Following that, it therefore goes without saying that if reasons are of a commercial nature, they would then be different from exporter to exporter.

It is supreme logic to say that choices of INCOTERMS are based or differ along the lines of cargoes, trades, sellers and buyers involves in a particular transactions. However, even with a deep understanding and clarity of the above statement there still is a need and necessity for discussions and introspective examination of these opinions on a subject that so much has influence on the economics of doing business or seaborne trade. The capital gains and related costs in the shipping business are very much influenced by the choices made. Previous work on the subject reveals that the majority of exporters, irrespective of the terms of shipment blatantly defend their respective position, as the most appropriate choice under the prevailing circumstances and conditions.

5.4.3.6 Why choose FOB?

The closing part of the above sections suggests that based on certain commercial practices, participants in the shipping industry and related trades exhibit a range of reasons (most of them grounded on a “prevailing market conditions” scenario set out above) why they choose certain terms.

Readings and previous work on INCOTERMS groups a number of factors that emerge as reasons as to why most exporters choose to apply FOB terms.

“The following factors were expressed most often in the defence of shipment on Free on Board terms:

1. The choice in terms of shipment depends on customer requirements;
2. Customized practices in the trade of certain commodities;
3. Buyers have stronger market power;
4. Buyers can negotiate better freight rates, compared with abilities of the sellers;
5. FOB terms are dictated by exporter’s commercial decisions and provide shorter terms of payments as opposed to CIF terms;
6. Extensive knowledge of the market conditions or direct involvement in shipping is not a value added activity and firms favour a concentration on the core mining activities of the businesses.” (Lushnikov, 2005 : 25).

The majority of the above points when thoroughly scrutinized demonstrate a “sense of business/commercial reasoning” by the South African exporters and sellers. It is apparent that to South Africa exporters or sellers, business relationships are of utmost importance. To them, it seems, a clear understanding of INCOTERMS is not vital but a business relationship that they facilitate with their customers is.

5.4.3.7 Why choose CIF?

Since this paper also investigates / assesses the possible gains that could be to the favour or benefit of South African players along cargo value chains, it becomes very imperative that we search for the reason or causes that make South African exporters chose a certain INCOTERM. In particular we are looking at reasons why CIF is chosen as opposed to FOB.

“The following factors were the most common reasons in favour of CIF.

1. The choice in terms of shipment depends on customer requirements;
2. Control by exporters over the value chain and logistics of the operations;
3. Shipment on CIF terms allowed the buyer to secure the vessel most suitable for trade;
4. Ability of the seller to negotiate better freight rates than the buyer;
5. CIF terms provide exporters with additional revenue.
6. The terms of shipment where sellers nominated the carrying vessel allowed exporters to make use of warehouse facilities in the countries of destination.

The proponents of CIF terms agreed that shipments on FOB terms are easier, but limited compared with C-terms, or more extended arrival contracts. Furthermore CIF/CFR terms allowed shippers to create added value, control inventory levels and are considered more market orientated compared with FOB terms. An additional factor is that CIF allowed buyers to secure the vessel most suitable for trade and is usually very appropriate for shipment from Richards Bay of commodities other than coal or woodchips which normally are shipped in full shiploads. The small size of parcel consignments of such break-bulk commodities normally requires laborious consolidation of tonnage from different exporters in the holds of one bulk carrier. This situation is so typical to Richards Bay that it deserved the term of “grocery ship” and most notable in the exports of metal, minerals and chromite.” (Lushnikov, Andre 2005: 27).

The employment of a certain INCOTERMS has a high impact on the nature of the commercial transactions entered into between the buyers and the seller. The commercial relationship between the two parties is highly based on the type of business transaction that they enter into. The elongation of control and value addition, form the core of discussions when a rationale of choosing CIF is delivered. It appears that selling on CIF gives a buyer more control of his goods. Also if a South African sells on CIF creates a platform for South African companies to elongate their operation to foreign countries for example in cases where they have to arrange for warehousing facilities in countries of destination. It has also been mentioned above that a vessel that is suitable for the trade is chosen. Therefore to the core of CIF is the issue of control and value addition by the seller.

5.5 OBSERVATIONAL RESEARCH / SURVEY

Observation research was conducted in the premises of Island View Shipping.

The port of Richards Bay forms the centre of the discussion as most of the cargoes and trade transactions that form the core of this research paper are related mainly to the port of Richards Bay. In addition, the maritime industry at large comes under scrutiny and other issues related to the nature of the South African maritime industry are discussed.

5.5.1 The Nature of the South African maritime industry

The issues that form the core of our research work have been observed as being very dependent to the nature and the stage of our maritime industry. The point is that for any industry, issues differ with the structure, nature and stage in which that particular industry is in. For example, if an industry is run like a cartel and is still in a growing phase, its issues will be different from those of an industry which is operated openly and is in a mature stage. The applicability of that to South Africa is that the maritime industry is not as open as the construction industry is for example.

The South African maritime industry is a business that is strongly based on relationships. According to observations, you find a group of professional of almost the same age. Most of these are close to retirement at almost the same time e.g. at Island View Shipping the MD is between 55 – 60 years and four of the directors beneath him are between 50 and 60 years old. You also find a phase of new/young professionals e.g. Rennie's has a lot of trainee ship's agent ranging from 22-26 years. These young trainee professionals come into the industry and develop (in terms of career growth) at almost the same time and level. That is to say that that a particular culture naturally gets passed from generation to generation. That phenomenon ensures the continuity of a culture of strong relationships within the industry. The very same culture gets cemented by the very nature of the maritime industry of being interdependent. For example, an exporter or even a ship owner or operator will work with a group of ships agents, clearing & forwarding

agents, stevedores etc to execute a certain cargo movement. So you end with a certain logistics line along which that particular cargo gets conveyed. Relationships therefore get formed and as such movements continue, such relationship become more strategic, deeper and imperative. The situation therefore cultivates a culture where different groups are in existence within the same industry.

Over time and generations, the South African maritime industry involves the same group of professionals almost all of whom know each other. Evidence emerges where a protective approach seems to exist against anything that is viewed as bringing about a certain type or level of change (maybe to the industry at large or to the way that business is or must be done).

Due to the above, a lot is left to be desired when one considers issues that have a potential of bringing change to the industry. Black economic empowerment is one issue and it is of course a vital and a very important one in as far as this particular research paper is concerned.

Black economic empowerment has also become a strategic issue. Companies or industry sectors who view it in a positive way agree that it has become a boardroom issue. The maritime industry has also come under scrutiny in as far as BEE is concerned. Resultantly, the Maritime Sector's BBBEE Strategic Document came into being. The majority of the members who were party to the creation of such a document were people with a lot of passion and urges to change or transform the industry. Most of them were to a certain level attached or involved in the industry. However, there is a question of whether the major players in the industry did take part (substantially) in the processes involved with the drafting of the document. The question borders so much on the nature and associated behaviours that exist within the said industry.

It is also observed that historically and when one considers divisions in shipping where the main decisions are taken, where core shipping activities like for example chartering, ship operations, marketing and ownership, black people were not at all

participants in the maritime industry. There was of course an occurrence of black people in areas like ship crews but not on the core activities stipulated above.

Currently there is, however, a wave of new entrants, more particularly the so called “previously disadvantaged individuals” coming into the industry. Although the numbers are still not enough but at least there is motion. Over the past 4 years only 6 – 10 black ships agents have entered the industry in Richards Bay. On the ship owning and on operations parts of the industry, the author and 1 colleague are the two black role players over the past 4 -5 years. The new entrants come at a time when BBBEE is being introduced into the industry and resultantly most of them are viewed as affirmative appointees. In addition to that, most shipping companies have not yet put into place strong, efficient, career path orientated training systems in place. Therefore the question of skills development and skills transference is very serious and needs to be answered.

The nature and structure of the shipping industry has been observed to be a much closed entity and in some way very resistance to change. This particular finding is very fundamental when one considers an introduction of subjects like transformation which are underlying Broad Based Black Economic Empowerment.

5.6 RESULTS

This is the section that considers the above data analysis and produces the results of our research work. Below, the section commences with the revisit of the fundamentals of the research work which are the topic and the research objective. Afterwards, each section (The case study, Island View Shipping, Interviews and Observations) of data analysed above will each have its own set of results presented.

5.6.1 Research Topic Revisited

The topic stipulates that there are three routes that the penetration of markets associated with the carriage of goods by sea can take.

These are:

1. Beneficial ship ownership and fully-fledged vessel ownership/management with owned vessels registered under the national flag or under foreign flags.
2. A second method these focuses on the full charter control of vessel fixed for various periods of time and under various terms.
3. A third and a more diffused route involves the control of the transport process by cargo owners, through appropriate commercial terms of shipment.

At present, however, South African enterprises are seriously under-represented in all three of the above mentioned areas.

This dissertation explores the broad question of greater South African involvement in this transport logistics chain, in particular with a view to identifying opportunities for black empowerment ventures in this sector.

The focus of analysis has fallen principally on the range of bulk and neo-bulk transport opportunities, which have been explored through an examination of the extended logistics chain in respect of certain selected commodities.

5.6.2 Themes generated from data collection, literature review and the results per section of data

As discussed in section 5.3 above, the analysis of data that was collected and the refocus that was obtained from the review of literature lead to the emergence of themes that spans among all the data research methods discussed and analysed above. Following the principles of data reduction, the data generated was assigned to the following themes/categories:

1. Degrees/level of ship ownership and related opportunities for black economic empowerment.
2. South African ships registry, BEE opportunities and related issues.
3. Black economic empowerment.
4. Value-adding involvement along cargo value chains
5. The South African Maritime Industry and the economy
6. Training and skills development in the maritime industry.
7. Government participation in the maritime industry.
8. INCOTERMS or terms of shipment.

Below we set out results for each of the data sections (except for the data generated on the studying of Island View Shipping which has its own categories/themes) discussed under section 5.3 using the above themes/categories to maintain order.

5.6.3 ISLAND VIEW SHIPPING – A CASE STUDY

5.6.3.1 Business Environment's Impact on Island View Shipping

The nature of the environment under which Island View Shipping conducts its business has been proven to be conducive for growth and the company is thriving from opportunities opened up by South Africa's increased participation in global trade. The business analysis model (using Porter's Five Forces in Chapter 2) that was employed on the study of IVS also revealed that the threat of new entrants was very low (placed at Factor 2). Therefore IVS can concentrate on competition that already exists within the industry. In that way, the allocation of resources is much easier to carry out as challenges become more visible. It was also revealed through interviews that IVS has grown bigger and has moved from being just a player in the industry to being a global force to be reckoned with.

5.6.3.2 Ships Registration, Ship Ownership, Supply and Demand

The demand generated by the boom of the Chinese economy has also affected IVS. More ships were bought and more were taken on hire to seize the opportunities generated by China. It was also discovered that a number of ships are on short term charter and others on long term charter. This is evidence of a fine balance between fully fledged ship ownership and period charter to safeguard against the risk that comes with recession when the shipping markets go down. That in itself shows the effects of supply and demand at IVS.

5.6.4 DISCUSSION OF ANSWERS AND THEMES GENERATED FROM THE INTERVIEW SURVEY

5.6.4.1 South African ships registry, BEE opportunities and related issues.

The fundamental finding under this particular theme is that an increase of the South African ships registry on its face value will lead to increased revenue for the country and will also create employment opportunities. A very interesting finding was also made when it was discovered that interviewees felt that the opportunities that would be accrued from an increased ships registry will also benefit everyone involved in the industry. There was also a racist element attached to the channelling of opportunities to the previously disadvantaged.

Issues like taxation, strict labour laws, and the strength of the labour unions were revealed as the major deterrents for foreign ship-owners to register their ships in South Africa. The correction of the same issues and the creation of a ship owner's environment and incentives like tax free conditions would be regarded as attractive.

5.6.4.2 Degrees/level of ship ownership and related opportunities for black economic empowerment.

The information discovered led to a result that the ownership of vessels on beneficial terms is very important and is viewed as a wise and economically viable option that can also lead to great opportunities (in terms of job creation and skills development) for the previously disadvantaged.

A finding that striking a mix between fully fledged ownership and beneficial ownership is of utmost economic importance and balance was also obtained. The importance and the need of skills development in the shipping industry was also discovered to be of major concern to the professional in the field. Their aim was to drive home the point that there is a great need to create skills in order to realise opportunities that could be created by different ownership options.

5.6.4.3 Black Economic Empowerment

Under this theme the results are that the shipping industry is not viewed as having barriers of entry for black individuals or the previously disadvantaged. It was discovered that shipping is a type of industry that involves long hours of work and requires a lot of dedication, training and experience in order for an individual to advance. It was revealed that the promotion of black individuals in the industry can be a catalyst for change (meaning transformation). Skills training and development (of everyone) are much more urgent issues in as far as the professionals are concerned. The point is that people must benefit because they are well skilled, trained and developed not only on basis of their skin colour.

5.6.4.4 INCOTERMS and value-adding involvement along cargo value chains

The involvement of South Africans along cargo value chains was discovered to have been always in existence. However, it is only in land based activities. The activities controlled by South Africans go up to and cease at the port of Richards Bay after the cargoes have been loaded on board / crossed the ship's rail. After that, the cargoes go under the control of foreign buyers. This scenario was discovered to have been created by the high engagement of FOB terms by South African exporters. This research and data analysis also revealed that South African exporters seem justified in the continued utilisation of FOB terms of shipment because they are protecting their business interests and commercial relationships. On the other side they are covering themselves against high financial risks (through freight outlays) that are involved with CIF terms.

5.6.4.5 The South African Maritime Industry and the economy.

The importance of the seaborne trade to any countries economy has been confirmed as of a very high degree. In the literature review section (Chapter 3) we learnt that shipping has effects on the balance of trade and balance of payments (where the balance of payments comprises of three elements namely, the balance of trade, the balance of invisibles and the balance of capital items). The invisibles are services given by South Africa to foreign buyers and the main invisibles are insurance, shipping, air

transport, tourism and income from foreign investment. The registration (under favourable conditions like relaxed tax laws and ship-owner friendly environment) of ships in South Africa with its potential of increasing employment is one of the ways that was revealed as the reasons for the maritime industry's importance economically. The encouragement of exporting on CIF terms is another one and so is the competitiveness of ports and harbours.

5.6.5 DATA EMANATING FROM PREVIOUS RESEARCH - INCOTERMS

INCOTERMS have been proven to be of utmost importance to the execution of seaborne trade. They underlie each and every transaction involving cargoes that are to be transported by sea. The analysis above revealed that FOB terms of shipment still command the biggest share of all exported cargoes leaving the country through Richards Bay.

Lushnikov confirms by saying "FOB shipments still commands the lion's share of all s export consignments handled in the port. In terms of cargo volumes, of more than 78 million tonnes of cargo covered in the survey, more than 64 million is shipped on FOB terms, which constitutes approximately 82% of all exported commodities from the port of Richards Bay"(Lushnikov, 2005: 20).

Another result from the analysis is that exporters justify their action of employing more FOB than CIF terms of shipment. The basis of their reasoning and justification is highly based on their commercial relationships with their customers. It was also revealed that customers demand that they have control (through CIF) of their cargoes. In addition to that, local exporters fear the risks that are involved with selling on CIF. The freight outlays and insurance are but the main of those risks. Another reason that emanated is that the lack of skills, expertise and experience also has a contributing effect as to why exporters sell on FOB. Resultantly exporters marvel in their reason that shipping is not their core activity, so selling on FOB is more beneficial to them. Conclusively, to the core of this result is the fact that commercial relationships and cowering under the power and might of foreign buyers are at the core of the rationale behind the current high us of FOB.

5.6.6 DATA EMANATING FROM OBSERVATIONAL RESEARCH

The results from observational research have been that the South African maritime industry is not a type of industry that has an environment which is conducive and accommodating to change. BEE is a new phenomenon and according to discussions and related observations a lot of people feel threatened in some way. The nature of the industry has been found to be very closed and tight. Any new idea or sign of change causes ripple effects through the industry.

The closeness of the industry has also been found to have a potential of causing a situation where new ideas do not get fertile grounds from which to grow because no one pays attentions to them due to the fear of change.

Lastly, the type of succession for position from generation to generation has been found to have a potential of leading to a “group think” phenomenon where people feel that it is fine to think A,B and C as long as long Mr X or Mr Z think that I am doing the right thing. Individualism in not practiced which obviously cuts down the value those different individuals might bring to the industry.

5.7 CONCLUSION

The chapter covers the analysis of data and results. It commences with a theoretical background which sets the scene by presenting the theoretical concepts behind the analysis of data.

Following that is the demographic profile of interviewees which was used to present information on interviewees for the reader. The first part of the analysis covers the analysis of data generated from studying Island View Shipping, followed by that of the maritime industry (interview), data emanating from previous research which was used to cover INCOTERMS data and lastly observational research.

The analysis of data was broken into categories using themes that have emerged from the data collection phase and during the literature review process.

After the analysis of data, followed the results section where the findings that were obtained from the analysis of data are presented.

The following chapter has its base on this chapter because it contains the conclusions that are drawn from the results generated from the analysis of data above. Also the following chapter closes with a recommendations section which uses the information presented on the conclusions part of the chapter to recommend issues related to the research for future use and reference.

CHAPTER 6: CONCLUSIONS AND RECOMMENDATIONS

6.1 INTRODUCTION

Chapter 6 forms the core of this research work. It will show the manifest of data analyzed and the results produced in an interpretative way. The conclusions will be presenting the information that the author draws in from the previous chapter to answer the critical questions as presented via this work's topic.

The second part of the chapter will enumerate limitations that were experienced during this research work and the following section will focus on answers to critical questions. The chapter will end with a presentation of recommendations for further research.

6.2 LIMITATIONS

The limitations for this research work were the unwillingness of some role players in the South African maritime industry to discuss certain issues freely. It is understood that shipping is a very confidential business but some of the members of the sampling frame were just not willing to talk. The matter was made worse by the issue of Black Economic Empowerment forming a greater part of the research, questions and discussions. Some members and colleagues at Island View Shipping adopted an extremely closed view on the issue. Their failure was that they did not recognize the commercial importance of the research work itself, including the value of discussing matters surrounding Black Economic Empowerment and the challenges that it brings to the industry.

Another limiting factor is that experienced decision makers are mostly old professionals who are in top positions and getting hold of them always proved a daunting task. In addition to that, their views on issues that have a political element in them scared them a little.

6.3 CONCLUSIONS

6.3.1 The increased ship's registry as envisaged by the BBBEE charter

According to the data analysis in Chapter Five, the author concludes that the increased ships registry will only take place when friendly tax policies are established in South Africa and when incentives to lure foreign ship-owners are created and implemented. The same principle applied to those ship-owners (who we are trying to stimulate via the sector's BBBEE strategy) who are of South African origin. Until that changes, shipping companies will continue trading in tax free countries like Dubai and Singapore.

Therefore on the issue of BBBEE, the author concludes that unless the South African government looks first at creating an environment that will attract foreign ship-owners to register in South Africa, the aspiration for Black Economic Empowerment in the maritime industry will not become a reality.

6.3.2 On degrees or levels of ship ownership

It is concluded that fully-fledged ship ownership comes with its own huge financial risks. Also, depending on market conditions having vessels on charter is much safer in case shipping markets experience a decline. I must be noted though, that a fine balanced between the two ownership options is preferable as it allows ship an opportunity of weighing up the potential risks and the potential to seize big opportunities that arise in the shipping markets due to the supply and demand of vessels. Following that, opportunities for Black Economic Empowerment can be realized with the application of any of the above options but the matter of skills development is of utmost importance. That is because even if opportunities arise due the implementation of any of the above options, if the skills in the industry are not developed, opportunities will be missed.

6.3.3 On black economic empowerment and the maritime industry

The author concludes that major players in the maritime industry has not embraced Black Economic Empowerment and still needs to be educated. Also, the government and the people behind the BBBEE strategy document need to re-assess the position and treat the maritime industry as a “special industry” which needs its own set of BBBEE strategies. For example, the author has concluded that more emphasis should be put on the training and skills development of previously disadvantaged individuals in the industry. The South African maritime industry has been found to be very closed and based on relationships between various players.

6.3.4 On INCOTERMS and increased participation (along cargo value chains) by South Africans

On this matter, the conclusion is clear: South Africa has a problem when it comes to INCOTERMS. The nature of the problem is that it is known that for value addition along cargo value chains, CIF is the way to go. However, on the other side the exporters who continue to apply FOB on their trade transactions are in a difficult position because they need to protect their markets or deals. Secondly, they deal with buyers who have power and control. This is the reason is why the costs and risks associated with CIF are so high and the South African exporters do not have resources to safeguard such risks. Therefore, the conclusion is that South Africa has a problem because the need for CIF is supreme but the commercial relationships between foreign buyers and South African exporters are what keeps South African exporters in business. The competition from other countries is too great for them not to take cognisance of what the buyers demand which is that they must sell on FOB.

6.3.5 On BBBEE aspirations based on cargo value chain participation

The conclusion is that the opportunities for BBBEE will only occur in Richards Bay when the cargoes cross the ships rail. So, participation by South Africa will only be land-based and up to the port of load only. Therefore, the BBBEE aspirations of adding value will not be created.

6.4 ANSWERS TO CRITICAL QUESTIONS

Problem Statement and Answers Revisited

1. Is the South African maritime industry and Black Economic Empowerment such that maximum benefits are reaped from our participation in the global sea-trade?

Answer:

The South African maritime industry and the Maritime Black Economic empowerment strategy are not properly aligned in order for South Africans to reap maximum benefits from participation in global trade.

2. Are we going to create an economic empowerment standing that will ensure that maximum opportunities for the previously disadvantaged are created? Are we going to fully exploit the opportunities represented along the cargo logistic chains within our country?

Answer:

The answer is no. South Africa has to adjust its economic empowerment strategy and direct it towards training, skills development and education about the shipping industry. Secondly, the opportunities represented along cargo value chains will not be realized to their maximum because due to FOB, the participation by South Africans ends at the port of loading

3. Are we aware that a fine balance between direct ownership of vessel and controlled chartering can lead to extra benefits if we consider that the cargo markets can sometimes be on the negative side of the economy and the shipping markets on the positive side?

Answer:

The aspirations of the BBBEE charter on the maritime industry do not show the said awareness.

4. Does the maritime industry's Black Economic Empowerment strategy document go far enough to be recognizing the significance of more participation (through appropriate INCOTERMS) on cargo logistics and ship-chartering than just pure direct ship-ownership?

Answer:

No, the BEE strategy document does not show depth when it comes to the importance of INCOTERMS and the ways with which the problems that force South African exporters to trade on FOB can be tackled.

6.5 RECOMMENDATIONS

- 6.5.1 A strategy to create skills and skills development for and in the maritime industry must be devised if South Africa is to sustain its role as a major player in the industry. Further research on skills, training strategies, human resource development must be carried out.
- 6.5.2 More focused attention must be given to the challenges presented by INCOTERMS to the South African maritime industry. Research work must be done to validate whether it is correct and responsible to admit that the market conditions and exporter/buyer commercial relationships lead to the use of FOB rather than CIF.
- 6.5.3 The South African government must intervene (in terms of having a major role in promoting and supporting the maritime industry and its related functions) but not interfere (with the ways or systems through which the business itself is carried out or operated) with the maritime industry. An area of further research is whether the government can have a positive influence on the industry without disturbing the market dynamics by interference.
- 6.5.4 The South African government needs to design plans to lure foreign ship owners to come and register their ships in South Africa through relaxed tax laws, corrected labour systems and laws and other incentives. Tonnage tax, for ship-owners, is much better than tax on earnings. Potential further research can be done on how the tax laws can be designed along the needs of the maritime industry.
- 6.5.5 The South African maritime industry needs to change and be more open to change and encourage individualism in order to create

skills wealth (i.e. more skilled people in the industry) and be in line with environmental changes. Research could be carried out on how attitudes and relationships affect decision making and by shipping professionals.

Addenda

1. Letters of Informed consent
2. Interview Guide Schedules
3. A copy of a charter party
4. Maritime Sectors Black Economic Empowerment strategy document

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19 FEBRUARY 2008

MR. L NDI MANDE (203518440)
GRADUATE SCHOOL OF BUSINESS

Dear Mr. Ndimande

ETHICAL CLEARANCE APPROVAL NUMBER: HSS/0884/06M

I wish to confirm that ethical clearance has been granted for the following project:

“The South African Shipping Industry: Bee and Seaborne Trade”

PLEASE NOTE: Research data should be securely stored in the school/department for a period of 5 years

Yours faithfully


.....
MS. PHUMELELE XIMBA

cc. Supervisor (Prof. T Jones)
cc. Christel Haddon