

Competitiveness of Turkish Coaster Merchant Fleet: A Qualitative Analysis By Short Sea Shipping Perspective

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ABSTRACT: There is an intense competition across many sectors in the maritime industry. Coaster owners being in a market where perfect competition rules apply has to be competitive in order to survive. This study aims to analyze the competitiveness of Turkish coaster merchant fleet that consists of the vessels whose cargo carrying capacity differs from 1.000 dwt to 12.000 dwt and that carries dry bulk goods and general cargo based on short sea shipping concept covering Black Sea, Mediterranean and Continental Europe. Based on a qualitative research methodology, interviews were held and data were collected by using semi-structured questionnaire, and the data collected from the interviews was categorized in order to describe and explain patterns and themes. The findings of the interviews were analyzed within the context of sector-specific external factors and company-specific internal factors, and the competitiveness of shipowners operating in the Turkish coaster market was analyzed in detail. It is expected that the findings and implications will especially shed light on the decision makers and policy makers in the sector and contribute to the current literature.

1 INTRODUCTION

As of the humans' transforming from being the agrarian society into an industrial one, massive productions have been performed since the industrial revolution that revealed firstly in Great Britain, and subsequently, overspread all around the world (Griffin, 2010). This has triggered the increase in global trade which has grown dramatically over the last few decades (Fan et al., 2012: 133) in accordance with the evolution of transportation systems. Especially carrying different types of cargoes with various sizes by sea has been possible with the emergence of specialized vessels in terms of the supply and demand characteristics for the specified routes all around the world. Accordingly, maritime transport has been a catalyst for economic development and wealth throughout the history

especially for dry cargoes which is considered as the fuel of economy of the world.

Although majority of the goods are carried on the open seas, there is a significant amount of goods which is traded and transported intra-regionally. In Black Sea, Mediterranean and Continental Europe (hereafter "the region") as an intra-regional area, short distance maritime transport by coasters with the dry bulk and general cargo carrying capacity from 1.000 dwt to 12.000 dwt has been conducted from the beginning of the 20th century in the region which comprise about 25% of the world's sea trade and 50% of the global short sea shipping (Fejer, 2013: 137). Although there is a substantial amount of trade in the region, there has always been a severe competition among the coaster owners. Especially, due to the sharp decline in demand after the financial crisis faced in 2008, coaster owners could not generate

sufficient income to keep their current business activities alive. Hence, the supply side has been pushed lower as demand faded.

The competition in international shipping is getting fiercer, and shipping companies are looking to expand their service portfolio to attract new customers and gain a competitive advantage. Development of shipping trade which stands for great importance in world trade, and efficient use of the geographical advantages are one of most effective ways for Turkey to gain competitive advantage. In this context, coaster shipping that can be investigated based on short sea shipping concept stands forward. Considering the importance of transportation activities for a country, coaster shipping could be regarded as a strategic issue for Turkey, and focusing on the issue may generate considerable value added activity to put the economy further. Although Turkey holds the first rank of beneficial ownership of coaster fleet operating in the region (Istanbul Freight Index-ISTFIX, 2017), it is about to lose its position in such a competitive environment mainly due to operating older vessels, weak capital structure, lack of professional management and so on.

This study intends to qualitatively highlight the recent dynamics of Turkish coaster shipping industry based on short sea shipping perspective, and to propose recommendations considering the implications on how to sustain competitive advantage by filling the existing gaps. Concept of competitiveness is analyzed in the next section. Then, short sea shipping concept is investigated in the third section, and the fourth section comprises the literature review. The fifth explores the short sea shipping market in the region. The sixth section consists of the methodology and then findings of qualitative research is given. The paper ends with the conclusion and discussion.

2 CONCEPT OF COMPETITIVENESS

The shipping industry comprises a number of different markets, each with its own distinct market structure. These market forms use various competitive models, ranging from perfect competition to monopoly. In shipping, dry bulk and tanker markets which are also known as tramp shipping markets have conform to a model of perfect competition. (McConville, 1999). Under a perfect competition, bulk shipping operators operate in a very competitive environment (Veenstra, 1999). Since coaster shipping market comprises of bulk (both dry and liquid) and general cargo vessels, coaster owners operate in a market where perfect competition rules apply.

2.1 *Competitive Forces*

Studies on competitive strategy have been based on two distinguishing groups of competitive factors: external factors and internal factors. External factors involve macro and micro environmental factors (Cerit, 2000). In a competitive market, Panayides (2003) indicates that competitiveness can be attained

through the formulation and implementation of competitive business strategies which are developed to analyze industry and competitors. The first step towards formulating a competitive strategy is to define "the industry structure" within which it is to operate. "The generic industry structure" results from a balance of five basic competitive forces (Porter, 1980) which consist of the threat of new entrants, the intensity of rivalry between existing competitors, substitute products from other industries, the relative bargaining powers of buyers and the bargaining power of the suppliers.

2.2 *Competitive Strategies*

In coping with the five competitive forces, there are three potentially successful generic strategic approaches to outperforming other firms in an industry. The first, overall cost leadership, emphasises low cost relative to competitors. The second strategy, differentiation, requires that the firm create something that is unique in the industry, thus permitting the firm to command higher than average prices. The third is a focus strategy, in which a firm concentrates on a particular group of customers, geographic markets, or product line segments (Porter, 1980).

In Porter's framework, firm performance is a function of industry and firm market positioning. Porter's contentions of positioning only explain part of the differences in performance within an industry (Panayides and Cullinane, 2002) but neglect the firm's resources and skills (Grant, 1999). According to the resource-based view a superior performer possesses not only an attractive position, but also unique and hard to imitate resources. The resource-based view of the firm focuses on the relationships between the internal characteristics of a firm and its performance (Panayides and Cullinane, 2002).

3 SHORT SEA SHIPPING

The nature of the study leads us to discuss the SSS concept as we deal with the short distance dry cargo transport by sea. Definition of the concept is difficult as it has not reached an academic agreement yet as indicated by Medda and Trujillo (2010). SSS can be referred as 'coasting trade', 'regional shipping' or 'marine highway' or even 'motorway of the sea' based on the context (Morales-Fusco and De Melo, 2013: 477). Although the definition of the concept differs from the parties, the commonly accepted point is that SSS is seaborne goods transport that does not cross an ocean (Douet and Cappuccilli, 2011: 969). According to Douet and Cappuccilli (2011), the first academically definition of the concept was asserted by Balduini (1982) implying that "SSS is a maritime transport between ports of a nation as well as between a nation's port and the ports of adjacent countries".

4 LITERATURE REVIEW

The literature on the issue of competitiveness in maritime industry is extensive. However, the studies related with competitiveness on maritime transportation is rather limited. Yang (2010) determines the competitive advantage of the national merchant fleet, based on the resource-based view. Brooks (1993) identifies the sources of competitive advantage for ocean container carriers. Denktas (2005) analyzes competitive power of Turkish Mercant Fleet in Dry Bulk Shipping. Lee et al. (2014) identifies the factors influencing a country's shipping competitiveness and shipping policy. Davies (1986) analyzes the competition and contestability in liner shipping industry. Devies (1990) has studied on destructive competition and market unsustainability in the liner shipping industry. Panayides and Cullinane (2002) address the issue of competitive advantage by considering the main themes that appear in the literature regarding liner shipping. Sys (2011) examines the competitive conditions of the containerized liner shipping Industry. Panayides and Gray (2010) has explained the role of intangible resources in order to achieve competitive advantage in ship management companies. Panayides (2010) has empirically examined the competitive strategy-performance relationship in the context of ship management companies. Yang (2010) determined the competitive advantage of the national merchant fleet, based on the resource-based view. Yang (2014) conducted a comparative analysis of the competitive advantages of the national fleets of Taiwan, Korea, and Japan, and explored the effect of shipping aid policies on a national fleet's competitive advantage. Wang (2012) has assessed the impact of OSRA (the Ocean Shipping Reform Act) on the structure and competition of shipping market after 1999 in Trans-Atlantic eastbound and westbound routes. Graham (1998) tries to give answer to question of how to achieve an equilibrium balance between stability and competition in intermodal shipping.

The studies on competitiveness within the scope of short sea shipping concept are mainly about modal shift of the goods from other types of transportation modes to the sea (See: Ng, 2009; Paixao and Marlow, 2002; Suarez-Aleman et al., 2015a-2015b, Galati et al. 2016). In this study, general assessment is conducted on competitiveness of Turkish coaster ship owners operating in the region actively as there is a gap in the literature. To fill this gap, this study aims to provide contribution on competitiveness from a different perspective to the current literature on short sea shipping.

5 METHODOLOGY

This study employs a qualitative research in an attempt to explore the competitiveness of Turkish Coaster Owners in short sea shipping. The reason for using a qualitative approach is to obtain deeper insight regarding this issue. In this study, a semi-structured interview method has been used to provide reliable qualitative data. Semi-structured interviews work well with other qualitative data collection methods which allow researchers to

develop a more in depth understanding of the topic of interest (Lyndsay et al. 2018).

5.1 Data Collection

A literature review on competitiveness of shipowners has been conducted to compile prompt questions for semi-structured interviews. In addition to the questions regarding the profile of the participants, an interview instrument was created.

In this study, interviews were conducted either face-to-face or a questionnaire was sent to the participants by e-mail. 4 face-to-face and 3 e-mail interviews were conducted and responses were received during March and April 2018 from 7 participants from ship owning and shipbroking companies in Turkey (For the details of participants see Table 1). Participants were recruited by purposive sampling method. All participants were asked if they were willing to participate in a research study. The study was explained and an oral informed consent was obtained.

Table 1. Profile of Respondents

No	Age	Education	Position in the firm	Years in the firm	Sector Experience
1	37	College	Shipbroker, Founder	2	16
2	36	College	Shipbroker, Founder	5	15
3	36	College	Shipbroker	7	11
4	51	Master	Secretary General (Association of Turkish Shipowners)	2,5	15
5	36	Master	Research Director (Association of Turkish Coaster Owners)	7	15
6	46	Master	Shipowner	15	20
7	32	College	Shipbroker	8	8

The face-to-face interviews took place in participants' offices and lasted for approximately 1 hour. In face-to-face interviews, the interviewer transcribed the respondent's responses. In interviews, when the number of interviews reached 7 (4 face-to-face and 3 e-mails), it was reached theoretical saturation which is the point where no new insights are gained (Solvang et al, 2018) and the interviews were stopped.

In this study, the data collected from the interviews was categorized in order to describe and explain patterns and themes. The data collected from the respondents was categorized under 3 main categories which are macro external, micro external and internal factors.

In the next part, the findings of the study are presented in the form of relevant quotations from the interviews.

6 FINDINGS

Based on the questions discussed with the participant, the following points have been revealed. The results of the study have been classified according to two main competitive factors which are known as external and internal factors. External factors involve macro and micro environmental factors and internal factors include firm resources.

6.1 External factors

External factors have been categorized under macro and micro environmental factors.

6.1.1 Macro environmental factors

Macro environmental factors have been classified under the headings of economic and political changes, technological developments and effects of shipyards on coaster shipping, legal Disputes.

6.1.1.1 Economic and political changes

A shipowner will be indifferent with the domestic crises in Turkey if s/he has no vessel running in cabotage. However, the variations in Turkish export cargoes will have an impact on Turkish coaster owners. One participant specifies regarding the effects of national and international market fluctuations on shipowners as follows:

“Regional developments have influenced Turkish shipowners making business heavily in these regions, especially the chaos experienced in Libya and Egypt had much more effects. Nonetheless, the coasters running in cabotage are merely under the effect of domestic tides.

Another participant commented on the effect of macro external factors in the coaster market as:

“Regionally, the coaster market can be in crisis though global setting is much better. The exporting countries in the region may experience the cyclical peaks and troughs. An example like this was undergone in Arab Spring. In this period, BDI (the Baltic Dry Index) and ISTFIX (Istanbul Freight Index) acted totally differently from each other. As BDI was going up, ISTFIX had decrease in its intense phase. Any trouble, economic or political, related to the regional demand will affect the freights in this region. Turkish coaster owners were hit at every turn during Russian crisis, Ukrainian tensions, and Syrian chaos.

Maritime industry is exactly under the impact of global developments. In the periods of international economic crisis, Turkish coaster owners have been influenced as much as their rivals. Especially several shipowners who gave ship order to shipyards with the optimistic expectation towards the markets have not been able to bounce back yet or had to pull out of the market. However, traditional shipowners who had experience about good and bad cycles in markets and accordingly adopted the consistent policies have somehow managed to survive.

6.1.1.2 Technological Developments and Effects of Shipyards on Coaster Shipping

One of the respondents has opined as follows: “There is no specific new technology for coasters. However, Ballast Water Management (BWM) and Sulphur Cap are two critical restrictions globally influencing navigation. BWM compliance costs between 300,000\$ and 500,000\$ for a normal coaster of 6,500 DWT while the cost of Sulphur cap reaches up to 1.6 million \$. The total cost of both investments is almost equal to the sale price of a 6,500 DWT vessel. The operations of alternative fuel and eco-designed vessels are limited in coasters just like in all other segments.”

The competitiveness of all the old coasters will be adversely affected by the constraints of BWM and Sulphur, in particular. Furthermore, Turkish coaster owners have found quite opportunity to regenerate their fleet by means of these regulations. Port State Controls may help the vessel conditions being kept above a certain level, which is otherwise increasing the running costs.

Turkey has covered a lot of distance in the area of shipyard services and become one of the first five countries which are favorite of many shipowners worldwide due to a quality upkeep service, low cost, and its locational advantage. Nevertheless, the important thing in shipyard services is at what extent the domestic share is rather than the availability of shipyards. From this perspective, Turkey is not at a desired level. In the case that domestic share rises, the advantages of cost-efficiency and upkeep services will offer a high competitive power.

The recent development in modern ship-building remains insufficient in Turkish shipyards. It is very costly to design a multipurpose vessel. In Europe, full productivity is essential and particularly designs are formed over emissions. The studies are focused on building the ships operating by full electricity due to the criterion of zero emission by 2020.

6.1.1.3 Legal Disputes

In Turkey, specialized courts regarding maritime issues do not much work in practice, that's all the contracts are made in accordance with the British code. In fact, Turkey who has a goal of being financial center should necessarily become a legal center as well, and if he would like to develop the trade capacity, Turkey should or even must bring maritime law into force and raise its legislation up to the level of global maritime capitals.

6.1.2 Micro environmental factors

In this section. the framework is based on Porter's five competitive forces: the entry of new competitors, the threat of substitutes, the bargaining power of buyers; the bargaining power of suppliers; and rivalry among competitors

6.1.2.1 The threat of new entrants into the Coaster Market

Because of financial abundance and attraction of shipping activities, new entries have been made into the coaster market. The new entries that have occurred in last decade are far lower than those in several years ago. In short-run, huge quantity of entries made may lead to supply surplus. However, they can be absorbed at a reasonable pace because of the shrinkage of fleets. Furthermore, the vessels still joining the market are limited to stimulate the competition since they are second-hand.

Now, high-capital investment groups, at the least, may enter into the coaster market. These invest the shipping industry, from very distinct sectors. They previously perform the detailed feasibility studies via financial counselors and make their investments consciously.

6.1.2.2 The bargaining power of the suppliers

The prices of goods and services may have direct effects on the competition power of shipowners as well as market credits, in particular. The suppliers for the supply materials such as bunker, lubrication oil, provision, spare parts, etc. can in effect finance the shipping companies as much as their term structure allows. This is not much seen in Europe. In this way, the suppliers might provide a significant competition support for Turkish shipowners.

6.1.2.3 The relative bargaining powers of Charterers

Having large trade volume, the charterers are the natural players in the market and expect reasonable freight and quality from the shipping companies. The freights are based on demand and supply equilibrium, reputation of the shipowner, relationship of cargo owner and shipowner, criteria desired for the vessel by the charterer, and presence of return cargo.

6.1.2.4 The intensity of rivalry between existing Shipowners

Turkish shipowners have costs not less than others in the geographical region, and so reasonable freight is impossible. Charterers often prefer the European shipping companies because Turkish ships are aged and have low condition. Furthermore, Turkish shipowners are afraid of the detention risk related to the vessel due to not meeting high standards in PSC controls to navigate to European ports. Unfortunately, there is no possibility to make use of that market despite very high freight rates compared to Mediterranean Sea and Black Sea.

Arab shipowners, particularly Syrian and Egyptian ones, rather operate old and low-conditioned ships. Such owners may have low running costs and even mostly do not demand demurrage. They often run their ships in Mediterranean Sea and Black Sea waters, and carry the lowest-cost cargo. For operating costs, Turkish shipowners have difficulty in competing with Arab counterparts.

6.1.2.5 The Substitute Services from other transportation modes

Considering the type of cargo and the volume of shipments carried in coaster shipping, land and rail transportation cannot be a substitute to the coaster shipping in Black Sea and Mediterranean Sea. However, in Europe, there is a significant competition between land and sea transportation.

6.2 Internal Factors

6.2.1 Corporate Structure

Out of different nationalities in Mediterranean Sea, Black Sea, and Continental Europe, many shipowners compete in coaster market. In that region, Turkish shipowners who have the biggest fleet region-wide set about this business with small metal boats called "taka" and then by means of huge state aid to the industry, have grown so large that they have a say in the coaster business. Because of the increasing number of ship owning companies, Turkish fleets are desired by the charterers in the region, whether domestic or foreign.

The capital structure of Turkish coaster companies, most of which are family businesses that are small-scale structured and cannot be frequently institutionalized, is not at sufficient levels, especially compared to European counterparts. In this issue, one of the participants has put this into these words:

"In the coaster business companies, family members are often working in the offices so departmentalization is not much clear. One person does more than one job. He or she, for example, performs both personnel affairs and ISM. Its advantage is reducing the costs. The disadvantage is huge fines that will be imposed in ports and crew-related problems when there is lack of professional and competent staff."

Another participant has suggested that institutionalization in the coaster enterprises can only be made via the coaster renewal project and explained this as follows:

"By means of the Coaster Renewal Project, economies of scale will be created from the dispersed fleets of 2-3 ships to 50 or 100-ship fleets per company. This project outcome will develop corporate governance, form a credible structure for charterers and bankers, and also provide marketing power for the companies."

In the past, the coaster operators were mostly self-educated, however they now have a more educated and visionary perspectives, with new generations. Even though Turkish shipowners may have not so much market maker power as their neighbors, Greeks, their role in global NGOs (non-governmental organizations) is increasing day by day.

6.2.2 Business Model

Not well engaged in asset play requiring self-confidence and capital, Turkish coaster owners commonly aim to make money from ship operations. Whenever ships are traded at right times, this will probably become a lucrative business. For this, it is essential to remain liquid especially in crisis times

and to buy a ship during underpricing and be able to sell her out in market boom. Of our rivals in the coaster market, Greek shipowners are quite active in trading ships. One participant points out this issue as follows:

“In February of 2016, BDI reduced to 291 and many shipowners scrapped their own ships for the lowest market prices. New ship investments virtually all dried up. Greek shipowners had capital and by this means, they could afford the vessels whose prices fell nearly up to one third. These purchased at low prices are now at a premium of 40 to 50%.”

6.2.3 Coaster Type, Tonnage and Age

Turkish coaster fleet consists of old ships having generally similar features to each other while European shipowners run rather young, modern, low draft, river going, box type, multi-purpose, and flexible vessels. Therefore, these can carry more valuable and higher-freight cargo, and so it is difficult for Turkish coaster fleet to compete with those ships.

Turkish coaster fleet by and large comprises general cargo carrying coasters and river going vessels. Turkish coaster owners mostly have 5,000 DWT to 6,000 DWT capacity vessels though they run any coaster-type ships of 1,000 DWT to 12,000 DWT. Mean age of these vessels is above 20 years. The second most frequent use is of 7,000 DWT to 8,000 DWT segment, which is a new area of investment and has a lower average age. Due to declining freight rates in the markets, the market share of Turkish owned fleet some time has reduced to 28% and in recent years has risen above 30% in the region.

In Turkish coaster fleet, the number of newly-built coaster is very low. In general, the coasters owned by European shipowners that become inoperative because of the emission standards valid in the Northern Europe are included in their fleet. Turkish shipowners struggle to earn money from their vessels having higher average age and older technologies in the fierce competition environment created by European, Syrian and Russian shipowners. Nonetheless, the weak safety of life, property and navigation in such ships leads to the increasing operational costs including maintenance, upkeep, repair and insurance expenses and weaker competitiveness. A participant has stated the results of running old ships as follows:

“An old fleet is the first and worst influenced from economic crises all the time. It calls for more upkeep operations and dry dock and special survey expenses more increased after a certain age. In decreasing operating income, higher operating costs will produce very dangerous outcomes. Operating the aged ships will become totally impossible.”

Another has acknowledged that the coaster fleet has been not only aged but also worn out more than its mean age, like this:

“Along with aging Turkish coaster fleet, the vessels are poorer ground according to their age due to lack of proper technical management. The shipowners, who are in financial crisis and have insufficient working capital, have lost their bargaining power and adopted makeshift policies including using less quality fuel, employing less qualified

personnel, performing urgent, not periodic maintenance. This naturally results in earlier aging of the vessels' main engines or worse condition than their age.”

Higher mean age of the fleet increases running costs. In fact, the shipowners in Turkey can seemingly have lower costs than those in Western Europe in consideration of regional dynamics, however there are high freights in there, not in Mediterranean Sea and Black Sea. Any waters in which a vessel operates have different requirements and in turn different returns. What is important here is how Turkish shipowners can manage to maintain the quality of vessel and crew in the Eastern Mediterranean freights. Therefore, there can be a general equality but the substandard competition made by Syrian and Russian shipowners is insurmountable.

6.2.4 Class, Insurance, Flag and Crew

Turkish coaster owners may become members in any P&I club or class their vessels under different classes. However, the charterers favor IACS classed and A1 P&I Club vessels. The highest cost items of the shipowners are class and insurance expenses. Rather than club insurance, constant-premium P&I insurance is preferable because of price advantages. In classes, IACS member organizations are more favorable but secondary classes may find a chance unless they frighten charterers. However, class is a key commercial sign and Turkish shipowners have no competition power with these secondary type classes to trade outside Black Sea and Eastern Mediterranean Sea Waters.

Turkish shipowners operate both foreign and Turkish flagged vessels. High insurance premiums for Turkish flag have disadvantages as well as trade and credit conditions, heavy custom and flag flying procedures. This situation attracts the escapes to foreign flags to provide more facilities on crew salaries, insurance, etc. Furthermore, Turkish shipowners can access to cabotage cargo provided that their ships operate under the Turkish flag.

It is difficult to recruit and work with well-educated and experienced seamen in coaster ships. The shipowners who have crew lower licensed but more professional and well trained are much more competitive as well as those who have invested in lower safe manning requiring vessels. Turkish coaster fleet now have well-qualified land personnel.

6.2.5 Finance, State Aids and Expectations

Most of the shipowners in Turkish coaster market have small equity. This forces shipowners to make use of external financing in ship investments and business operations. Shipowners seek ways to meet their financing needs via bank credits. However, there are some difficulties in access to finance for coaster companies. In this issue, the shipowners in higher tonnage and/or in different segments are more advantageous thanks to their corporateness and transparency than the coaster enterprises who are less transparent and have lack of high financial standards.

The security issue is one of the drawbacks which the coaster owners have in finding credit. The banking system currently finds maritime mortgage

insufficient for credit and additionally conditions land mortgage such as an apartment, real estate, etc. Until 2008, it was satisfactory that 20% of ship investment cost be financed by the shipowner and remaining 80% by the bank. Afterwards, both maritime and land mortgages have put Turkish shipowners into trouble. One of the participants clears up the financial structure and access of shipowners in Turkey like this:

"From 1996 to 2002, there was no money in Turkey. Ship purchasers were mostly foreign centered companies. Credit buyers were very rare. In Turkey, there was no bank to finance. This portrait can be seen yet. No bank credit the market with low profit margin by way of bearing risks, knowing the maritime industry and making good project appraisals. Those who can find money abroad invested in vessels. From 2002 onwards, ship purchases increased much more. In 2006, purchasing stopped with plummeting ship prices."

The lending policies of world banks were severely hit by the global crisis of 2008. The maritime sector is one of the most and worst influenced industries from this chaos. After 2011, shortage in supply have gradually become outstanding, and hence maritime markets hit historical trough levels in 2016. In this period, the capital of shipowners ran out and the willing banks to make loan available disappeared. The subsidy channels were also closed for private enterprises like maritime corporations since the states made cash injections first into the bankrupt banks to raise and then government in pursuit of the Keynesian policy. Major financing sources in maritime sector are special capital funds, leasing operations and intra-financing of shipowners. Particularly in small purchases, financing can be made through Bare Boat Hire and Purchase (BBHP). In this case, securities become critical, and again the transparency and institutionalization of the shipowner will stand out. In the coaster market, when considering Turkish shipowners' rivals, German and Dutch ones can more easily access to the financing sources.

In recent years, a flow of money from the Middle East has been towards Turkey as foreign loans. Many investors have tended towards Turkish economy due to some crises in there, and the number of the shipping companies with Arabian capital has risen. This monetary inflow has change the Turkish shipowner profile and they are now extending to the larger tonnages.

In project financing, sustainable loans is major one of the expectations from the state to terminate foreign-dependence and make positive contributions to the Turkish shipbuilding and marine technologies industry. The state should adopt this sector as a strategic area because of non-obtained funding resources abroad due to the low rating of the financing institutions and thus provide necessary aids to develop a selective financing model. In this sense, scrap incentive law is a key step, and its execution will also be a valuable progress.

In the Turkish Star Project, a Turkish coaster fleet renewal project, the state support is still expected to obtain the required financing. In this context, a financing model can be developed that 70% of project finance will be met by government, 15% by the

shipowner's equity and remaining 15% by the scrap value of a ship that has lost its economic value. Also, there is an additional expectation that the state's part of the financing source will be loaned with the favorable interest rates below market and 10 year payment term.

7 DISCUSSION AND CONCLUSION

Of the most important factors obstructing the competitiveness of Turkish coaster fleet, operating aged and outdated general cargo vessels is eatured in interviews. This increases the running costs and adversely affects the competitive advantage against European, Russian and Arab shipowners. In order that Turkish coaster owners outclass their rivals, it is necessary to build low draft, river going and box type vessels. Legal requirements including high compliance costs such as Ballast Water Management and 2020 Sulphur Cap distress Turkish shipowners as well as weaker competitive power. For instance, the biggest problem in modernization or new fleet establishment is unavailability of sufficient financial resources. Coaster owners have to make business with small equities and hence require but struggle to have external loans in shipping investments.

The employment of seamen having no quality training and satisfactory experience may lead to irreversible adverse consequences and insurmountable damages. Furthermore, the structure that is far from the institutionalization principle might particularly obstruct the professional corporate management and thus make a negative impression upon the charterers and creditors such as banks.

Turkish coaster owners that have insufficient capital structure to finance the investment projects place their hopes on state aids. Turkish Star Project comes to the fore out of these expectations. They will be able to accomplish a more modern structure and become market maker thanks to the credibility given to various stakeholders, particularly charterers and banks, by the fact that corporate structure is getting much more professional. The model discussed under the Project will provide that the ships can be managed by a corporation established in public private partnership, economies of scale will be created in the cooperative model instead of the dispersed fleets, and by this means with a huge fleet, more competitive freights could possibly be offered to charters.

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