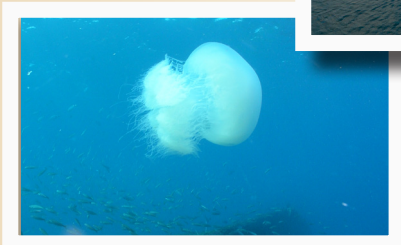
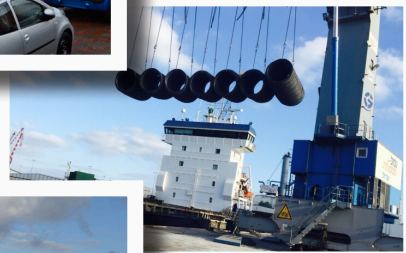
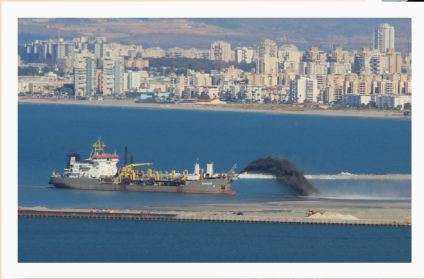


MARITIME STRATEGIC EVALUATION FOR ISRAEL 2018/19

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Where to for Israeli Shipping?

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This chapter presents the problematic situation of Israeli national port and shipping situation—including the lack of Israeli maritime manpower—to stakeholders and decision makers in the State of Israel. We recommend an urgent discussion by the government of the future of Israeli shipping, including the economic, strategic and national security needs of the State.

The authors believe that there is an urgent need to reexamine the question of whether and how to revive Israeli shipping. We recommend that the government and decision makers establish a policy that will guarantee the existence of Israeli shipping on a profitable and competitive basis and which will achieve the maximal strategic contribution to Israel's resilience and national power (economic, military, commercial, etc.).

Background

Shipping is a term that refers to anything related to vessels that carry goods of various types in the maritime domain (containers, general cargo, chemicals and fuel, passengers, etc.), including maritime facilities (rigs for the drilling and production of maritime resources, oil, gas and quarries).

Since the dawn of human history, shipping has been a significant component of relations between nations, whether commercial, economic, military or otherwise, and it has been an integral part of human development. Shipping continues to be the most important channel for relations between nations and will continue to advance together with mankind. Shipping will continue to serve as an important component in the national resilience of countries around the world and an important element in national strength. Shipping encompasses a large variety of activities: planning and building of ships, including equipment and systems; operation of ships; training of maritime manpower; commerce; seaports; etc.

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International shipping is regulated by the UN by means of the International Maritime Organization (IMO). The Shipping and Ports Authority (SPA) within the Ministry of Transportation is the body that oversees shipping and port activity in Israel.

About 99 percent of Israel's goods, cargo, raw material and foreign trade (in terms of weight) is transported by ships, primarily by global shipping companies, i.e. ships that are not registered in Israel and are not under Israeli control.²

For hundreds of years, the guiding principle of international maritime commerce, which is anchored in international covenants, has been freedom of navigation. This principle enables a ship under any flag to enter an Israeli port for the purpose of transporting cargo for import or export (apart from ships flying the flag of a country at war with Israel). As a result, Israeli shipping is dealing with fierce competition from many countries even in Israeli ports.

Israeli shipping is in continual competition with shipping companies based in countries with a long maritime tradition and allow shipping under flags of convenience, in addition to countries with extensive domestic trade, which provides them with significant economic advantages. Ships flying the Israeli flag are limited in their access to some ports of the world for political reasons, a fact that makes it difficult for Israeli shipping companies to create associations and alliances with other shipping companies, as is common today in international shipping.

Israeli shipping's ability to compete with international shipping companies must be preserved, based on a proper balance between maintaining the safety of ships and life at sea according to international standards, maintaining the quality of the maritime environment and the employment of professional and skilled maritime manpower.

Every maritime nation maintains a policy to preserve its national shipping sector, for both economic and strategic reasons. This policy is manifested in a system of exemptions and preferential tax treatment, financial supports and assistance, preference in the transport of government and public cargo, assistance to shipyards and ship owners, training of maritime manpower, etc. Furthermore, most countries work to advance bilateral and multilateral shipping agreements with the goal of improving the terms of trade between countries and to prevent economic

² Israeli shipping in this context is commerce that is carried out either by ships under an Israeli flag according to the Shipping Law (Vessels), 5720-1960 or ships under foreign flags but under Israeli control according to the Shipping Law (foreign vessels under the control of an Israeli entity), 5765-2005.

discrimination. Some of this data can be found in “Maritime Subsidies” which was summarized in a shipping policy booklet published by the SPA.

The importance of a shipping sector to a country’s economy, national resilience and ability to maintain operational continuity in emergency and in wartime is well-known and agreed upon. However, this importance is not translated into real assistance from the government that would advance shipping, based on the thinking that the international shipping will provide a solution in any future scenario. The approach that advocates globalization and a free economy, and which opposes intervention by the State, leads to a situation in which shipping in Israel does not get the attention it deserves from the government. The need for a healthy Israeli shipping sector is also a result of the fact that the State of Israel, which is a coastal nation, has huge potential in the maritime domain and in the resources that are located in its EEZ, and the fact that it is interested in producing the maximum from this situation and in a manner that is independent of external agents to whatever extent possible.

Current government support for the industry is on a relatively low scale and amounts to only about NIS 20 million and is intended for the support of Israeli ships (under the Israeli flag or Israeli ownership) and to support the employment of Israeli seamen.³

David Ben Gurion’s Vision

The need for Israeli shipping was already recognized in 1950 by then Prime Minister Ben Gurion, in words he spoke at the graduation ceremony of the Naval officers course on February 5, 1950:

The security of the State is also dependent on the sea. Our equipment, our commerce is carried on the sea waves and without maritime control and power, we will not have the strongest land and sea forces.

However, the importance of the sea is not only political and military: Our economy’s future is dependent to a large degree on the sea and the sea contains unlimited possibilities of settlement. This is not a paradox. The sea is not a water-desert, as it is perceived by many. The sea is full of treasure and lacks nothing.

3 Government decisions, the Airport Authority and improvement of Israeli shipping’s ability to compete, Government Decision 3373 from January 11, 2018.

Just as we must make the Negev bloom – so we must conquer the maritime domain. Our small country will flourish and expand if we understand that the coast is not a divider and a border but rather a bridge and a doorway...⁴

During the early years of the State, the shipping sector grew to an impressive size as a result of the support from reparations, and because the government of Israel emphasized its importance. Later on, this was manifested in active legislative efforts, various government decisions and the government's "gold share" in the Zim company⁵ which was privatized in 2004. At a later stage, the developments were manifested in the Authority for Training of Seamen and in a subsidization policy to reduce the cost gap between Israeli and foreign marine officers.

General statistics – Israeli shipping

Following are figures for the Israeli commercial fleet:⁶

As of March 1, 2018, the fleet of ships under Israeli ownership and control consisted of 34 ships with DWT⁷ of 1,960,295 tons. Total GRT⁸ was 1,349,256 tons and the NRT⁹ was 813,022 tons. The average age of the ships in the commercial fleet is 10.9 years. Only seven ships fly the flag of Israel, which in terms of DWT constitute about 15.9 percent and in terms of GRT about 18.6 percent of the total commercial fleet.

Table 1: Breakdown of the age of ships owned and controlled by Israeli shipping companies

Age of ship Type of ship	Up to 2000		2001-5		2006-10		2011-16		Total Ships	
	# ships	% of DWT	# ships	% of DWT	# ships	% of DWT	# ships	% of DWT	# ships	% of DWT
Container			5	28.4%	9	40.4%	3	31.2%	17	100%
General cargo	2	23.6%			4	65%	1	11.4%	7	100%
Bulk+coal			1	25.1%	3	50.6%	1	24.3%	5	100%
Tanker			2	29.9%	3	70.1%			5	100%
Total	2	0.5%	8	26.5%	19	46.3%	5	26.7%	34	100%

4 Speech by the Prime Minister taken from *David Ben Gurion, Yihud veYeud, The Navy – Speech at the officers Graduation Ceremony*, February 5, 1950, Givatayim, 1972, pp. 100-107. [Hebrew]

5 <https://he.wikipedia.org/wiki/%D7%A6%D7%99%D7%9D> Zim Combined Shipping Services Ltd., which was established in 1945 and upgraded in 1953 as a result of the reparations agreement.

6 The Statistical Abstract of the Shipping and Ports Authority (SPA) for 2017 and the Ports pp. 100-104. <http://asp.mot.gov.il/he/abstract>

7 Deadweight Tonnage.

8 Gross Register Tonnage.

9 Net Register Tonnage.

The Israeli shipping companies

The Israeli commercial fleet, as of March 2018, included:

Zim Integrated Shipping Services: 8 ships with a total DWT of 434 thousand tons and GRT of 348 thousand tons which are owned/controlled by the Zim Company. All of the ships under the exclusive ownership/control of Zim are container ships. Three ships fly the flag of Israel.

Zim also operates ships under leasing for various terms. In addition, it provides its customers with logistic services related to maritime transport.

XT Shipping Company: 12 ships with total DWT of 1.05 million tons and GRT of 1740 thousand tons. 9 container ships, 2 bulk coal ships and one tanker. Two ships fly the Israeli flag.

Other companies: 7 general cargo ships, 4 tankers and 3 bulk carriers with total DWT of 468 thousand tons and GRT of 260 thousand tons. Two ships fly the Israeli flag.

Table 2: The commercial fleet under Israeli ownership and control

Company	December 13, 2016				March 1, 2018			
	DWT of ships owned/ controlled			% of the company in total DWT	DWT of ships owned/ controlled			% of the company in total DWT
	Total (000s of tons)	Of that under an Israeli flag 000s of tons	%		Total (000s of tons)	Of that under an Israeli flag 000s of tons	%	
Zim	434	200.1	46.1%	22.3%	434	200.1	46.1%	22.2%
XT Shipping	1055	100.1	9.5%	54.3%	1049	100.0	9.5%	53,5%
Other companies	455	19.7	4.3%	23.4%	477	10.7	2.2%	24,3%
Total	1944	320	16.4%	100.00%	1960	311	15.9%	100.00%

Number of active seamen in the commercial fleet

Based on the active seamen in the commercial fleet (as of March 2018):¹⁰

- Total active seamen in the commercial fleet – 456 of which 128 are Israeli (28.1 percent).
- Number of active officers in the commercial fleet – 216 of which 119 are Israeli (55.1 percent).

¹⁰ Active seaman – one who has sailed for at least 30 days during the past year. The report presents the last shipping company with which the seaman sailed where each seaman is counted once.

- Number of active cadets in the commercial fleet – 5 all of whom are Israeli.
- Number of active enlisted seamen in the commercial fleet – 234 of which 3 are Israelis.

Table 3: Number of active seamen in the commercial fleet according to shipping company

Name of company	Total seamen	Israeli seamen	% Israeli seamen
ZIM	187	67	35.8%
XT Shipping	155	24	15.5%
Inter Global Shipping	42	18	42.9%
Others	72	19	26.4%
Total	456	128	28.1%

Due to the particularly acute shortage of Israeli officers, only about 50 percent of the quota of Israeli positions are manned by Israeli officers. A policy should be adopted as soon as possible in order to encourage the training of cadets.

The contribution of a strong Israeli shipping sector to the resilience of the State of Israel

The contribution of Israel's commercial fleet to its economy/commerce, security and foreign policy is reflected in the following elements:

1. The ensuring of the country's supply chain in an emergency (as part of the "Economy in a Time of Emergency" framework), with respect to both the import of essential goods such as energy, food, etc. and the export of goods produced in Israel, such as agricultural produce, bulk cargo (potash and phosphates), etc., in order to maintain the continuity of economic activity.
2. Shipping provides skilled workers in "dry land" occupations that require a maritime and shipping background, such as pilots and captains in Israeli ports, maritime supervisors in the SPA, positions related to protection of the coastal environment, maritime education and training, positions in the shipping companies and shipping agents, etc. Without Israeli workers in shipping there will be no source of skilled workers for these positions in Israel.
3. The added value of an Israeli ship to the Israeli economy is estimated to be about 25 percent.
4. Total revenue of Israeli shipping companies is about NIS 14 billion annually,
5. The savings due to the existence of an Israeli shipping sector in times of emergency: In an emergency, a war risk insurance fee is imposed by the international insurance companies (Lloyds) on ships entering a dangerous region and the insurance coverage is paid by the State.

6. The development of a maritime industry (development and production of systems and services in the maritime sector whose target markets are both in Israel and abroad).

In order to produce an assessment of the Israeli shipping sector that is needed by the Israeli economy, the economic and defense establishment in Israel must define their needs for sea transport in times of emergency, in terms of volume of cargo and type of ship (primarily general cargo ships). It can be assumed that in times of emergency there will be limitations on the entry of foreign ships into Israel's ports and coastal waters and that ships will refrain from sailing in areas declared as war zones (as was the case in 2006 during the Second Lebanon War). Problems may also arise with regard to the high insurance premiums that will be imposed on carriers under a foreign flag and under foreign ownership.

In the next stage, and in an effort to arrive at the optimal size of the Israeli shipping sector, the necessary steps should be considered that will help entrepreneurs build up Israeli shipping. As of now, there are businessmen who are involved in international shipping and a government policy is needed that encourages them to return to Israel or transfer part of their activity to Israel.

Among the means for expanding Israeli shipping is the passage of legislation for a "tonnage tax" which has been delayed for many years and which is likely to encourage the expansion of Israeli shipping. Similarly, an assessment should be made of the extra cost to an Israeli company to operate a ship under Israeli control, with respect to the added cost of employing Israeli officers as the core of the skilled manpower that the State requires. Furthermore, an effort should be made by means of subsidization or some other economic measure to arrive at "economic indifference" among ship-owners when weighing the employment of an Israeli or foreign officer, to whatever extent that is possible (in other words, a difference in cost between an Israeli and foreign officer such that a ship-owner will prefer employing the Israeli even if he is somewhat more expensive than a foreigner). It should be mentioned that if costs were similar between an Israeli officer and a foreign one, it is certain that ship-owners would prefer employing an Israeli officer.

Furthermore, there is a need for encouragement, upgrading and development of maritime training as a source of manpower for shipping companies and obligating them to subsidize this activity in exchange for switching to a tonnage tax, as has been done in more than a few European countries. Another measure is the earmarking of a portion of government/public sea freight for Israeli shipping (in the US, 50 percent

of foreign aid shipments by sea must be shipped under the US flag). This includes defense sector cargo; energy cargo; cargo for emergency stores; government and public sector tenders; recognition of sea transport by Israeli shipping as a reciprocal purchase of Israeli goods for companies that win tenders in Israel; etc.

Conclusion

Israeli shipping is in a particularly bleak situation and is on the brink of disappearing altogether, from the perspective of both the number of Israeli ships and the infrastructure of maritime manpower (machine and deck officers, including captains and chief engineers).

The situation of Israeli shipping may lead to a problematic dependence on foreign commercial fleets (foreign shipping companies) and foreign seamen filling critical national tasks. This is in parallel to the loss of revenue to the State and the hindering of development of maritime industry that relies on a flourishing national shipping industry. The need for an independent shipping sector in an emergency is self-evident and is the responsibility of leaders in the defense sector and those charged with maintaining the economy in an emergency; it is their job to define the need and how to meet it.

The dismal reality with respect to the number of ships and the level of maritime manpower does not facilitate the guarding of interests that the governments of Israel have in the past sought to protect, through legislation, government decisions and Zim's "gold share".

The era of globalization and pure economic considerations, which is driving Israeli companies out of shipping, does not constitute an excuse for the government not to take action to revive Israeli shipping. Advanced nations worldwide assist their national shipping sector if it experiences difficulties. There is no reason why the State of Israel cannot make a significant contribution to reviving Israeli shipping and expanding Israeli maritime manpower.

The vision of Ben Gurion is still valid and the government decision and declarations regarding the need for a strong Israeli shipping sector are as well. Therefore, the issue of Israeli shipping should be put higher on the agenda and greater attention should be given by policy makers to this issue within the context of maritime resource development (natural gas, fisheries, artificial islands for seaports and airports, etc.). The Ministry of Transportation should present the government with up-to-date

information on the dismal situation of the shipping sector and on the forecast for coming years.

A decision should be made as soon as possible to adopt a long-term policy that will significantly improve the situation (of both ships and maritime manpower) and ensure the existence of Israeli shipping.



Figure 1: Port Of Haifa (Port of haifa spokesman)