

Euro keeps Malta flying

>> sector focus:

Malta

Despite EU debt crisis, the single currency has been Malta's salvation, say island's businesses, writes **Paul Gunton**

Like all hotels in Malta, the one in Valletta in which *Fairplay* stayed has an informative Service Directory in every guest room. The entry for 'currency' reads: "At present, the local currency is the euro."

The words 'at present' suggest a lack of confidence in the long-term use of the single currency that might be justified

in some Mediterranean members of the Eurozone but is out of place in Malta. Despite the difficulties the currency is facing across the continent, everyone *Fairplay* spoke to in Malta was certain of its importance for the country.

Kevin Borg, director general of the Malta Chamber of Commerce, Enterprise and Industry, saw its introduction in 2008 as crucial: "The euro has been credited with the salvation of our island. We would have been the first Iceland without it," he said, referring to that other island nation's banking and financial collapse. When we relayed the comment during later discussions, few disagreed with that analysis.

As Borg explained, Malta has no natural resources so it needs to import to survive and to export to pay for those imports. "The euro has made us more efficient in the way we import and more effective in our exports," he said.

It has also forced Malta's exporters to be more competitive, since a common currency makes it simple for customers to compare quotes. As a result, operating costs have been stripped of fat and export values have increased, he said.

At Palumbo Malta Shipyard, for example, general manger Joseph Calleja said that, with quotes expressed in euros, "it makes it

Paul Gunton

> Dilemma with diligence

Malta's economy relies on its service sector and shipping generates a large proportion of those services – from ship registration itself to legal services, ship agency and many other associated services.

In such an economy, financial oversight is essential and, for 10 years, the government's Financial Intelligence Analysis Unit has collected and analysed information to combat money laundering and terrorist financing in Malta.

But does its remit go too far? John Gauci-Maistre, chairman of GM International Services, thinks it does. It has "created some disturbance in the market", he told *Fairplay*, by requiring due diligence to be performed on every shipowning company. "I say it should be done on the manager," he argued, saying that some owners had not been happy about divulging their beneficial ownership. He cited one company that complied with the due diligence requirements but, because of the time and paperwork involved, subsequently de-registered its Maltese company.

"It is a loss for Malta's economy," he said, "because companies aren't

easier for [customers] to evaluate a project."

Palumbo, an Italian company, took over management of the former Malta Drydocks in 2010 and has many customers from Germany, the Netherlands, France and Italy, Calleja said: "Owners from the Eurozone feel more at home" with the familiar

currency. At €704M (\$900M), Malta's contribution to the European Financial Stability Facility (EFSF) is the smallest of the zone's 17 members when coupled with a series of austerity measures agreed by Malta's parliament earlier this month, but it is seen by many as an investment.

"I never worry about an investment with assurances that are unlikely to be withdrawn," remarked John Gauci-Maistre, chairman of GM International



The euro saved Malta, says Kevin Borg, director general of the Malta Chamber of Commerce, Enterprise and Industry

'If we hadn't joined the euro, who knows what would have happened' Kevin Borg

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> **Single MP could force election**

Malta's parliament has been in crisis this month and a motion of no-confidence in the ruling Nationalist party is due to be debated this week with the vote itself scheduled as this issue is published on 26 January. If the government falls, the word on the street is that there will be an election in March.

With a majority of just one, the government became vulnerable when one of its MPs, Franco Debono, withdrew his support when he failed to be offered a cabinet post in a New Year reshuffle and called on the Prime Minister, Lawrence Gonzi, to resign. Despite members of his own party calling instead for Debono to resign – which, under Malta's electoral system, would have resulted in another Nationalist Party member being appointed and the majority retained – Debono chose to stay on, forcing this week's vote.

The Nationalist Party has ruled Malta for 23 of the past 25 years but if there were an election now, "Labour will win unless they do something stupid," said one Valletta businessman to *Fairplay*. But at the Chamber of Commerce, director general Kevin Borg says it is not clear what Labour's policies will be if an early election is held. Either they are keeping their cards close to their chest, he said, or they do not have any plans.

At a time when austerity measures are being implemented, an election is not welcome and neither party is ready for one, many executives said.

But will the uncertainty or a change in government affect trade? Borg seems relaxed about the prospect: "Any election has an impact on business momentum ... but elections are a fact of life," he said. "It's a small price to pay for democracy." Asked the same question, another interviewee was more pointed: "There's not much harm these people can do."

being formed." As for his business, "we don't recommend anyone should form a Maltese company to own a ship," he said.

It was a view that received little support from others *Fairplay* spoke to in Valletta. "It's not a major matter," said Ann Fenech, managing partner at law firm Fenech & Fenech.

"We have always done due diligence on an owner [so] I don't see it as a problem. Full stop."

At Transport Malta, where the ship register is managed, the registrar general of shipping and seamen within TM's Merchant Shipping Directorate, Ivan Sammut, was equally unconcerned. "The way we see it is that due diligence has always been necessary ... we don't see any bureaucracy in this."

Gauci-Maistre finds the lack of support for his view frustrating, mentioning the Malta Shipowners Council in Greece, whose members he feels should be concerned about this. "But it has never made any representation to the government about this."

Services, which provides a wide range of business services.

"Germany won't pull out of the euro," he explained.

Being in the zone, he added, is like being part of "a big super-

market rather than a corner shop" and it provides a platform on which Malta can express an economic opinion. "If you want to fight, you can fight from within where you have a voice,"

Gauci-Maistre went on.

His company is one of many that make up Malta's large service sector where the euro has had "a huge positive impact," believes Ann Fenech, managing partner at law firm Fenech & Fenech. "We are a service economy," she pointed out. In such an economy, there are two things that matter, "what level of service you can offer and at what price. That's it". With the euro, clients "can see value for money".

She says Malta's level of

service has always been "on a par or superior to elsewhere," with a 24/7 approach to business across all parts of the service sector. The euro makes that obvious, she suggests, "you no longer have to go through currency conversions; no one loses out on exchange rates".

From a business point of view, "joining the euro has had no negative impact," she said. In fact, she said, echoing Borg's analysis, "if we hadn't joined the euro, who knows what would have happened".



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Small is beautiful

>> **sector focus:**

Malta

With new managers and fewer workers, Malta's repair yard is building its efficiency and reputation, **Paul Gunton** reports

Malta's shipyards – one for newbuilding, one for repair – had, for years, been a huge source of employment in Malta.

Thousands passed through their gates each day. But they had been an equally huge drain on the island's economy, with massive subsidies keeping them afloat. Membership of the EU made that arrangement untenable.

Now, life has returned to the former shiprepair yard, with Italian shipyard group Palumbo taking over its management in June 2010. Since then, with a workforce of just 100 and another 50 available through subcontractors, it has never had a day with no work in hand, said its general manager, Joseph Calleja.

On the day *Fairplay* visited, a number of jobs were in progress, with two ships moored abreast on one quay. A heavy-lift ship

occupied one drydock and a ferry that services neighbouring Gozo island was in another. The following day, a high-speed ferry was due to arrive.

Much of the work now passing through the yard is connected with local projects – seismic and offshore service craft, for example. But it has also received work from wider afield. Its clients are worldwide, Calleja said. Workers can be brought in from across the Palumbo group, he said, citing its largest contract so far, which saw 850 people working on a 335m ULCC that provided the yard with about six weeks of work. With its location in the middle of the Mediterranean, Calleja reported receiving a number of enquiries for work on tankers that have offloaded in Gibraltar and are heading for Suez, from which little deviation is needed.

On a per-head basis, both quantity and quality of the yard's work have improved, Calleja said, but he is conscious of the need to overcome old memories from the yard's previous incarnations. "Credibility is important," he said, leading to repeat business. He has had some success in this regard,



Malta's Palumbo shipyard is busy, says general manager Joseph Calleja

citing one owner that had placed four vessels with the yard and eight with another customer.

One ship agent underlined the size of the task. He had previously secured agency business from ships calling at the yard and, with its revival, spent three days last year contacting former customers to tell them of the yard's new management and potential. If he could encourage work for the yard, he reasoned, he could canvass agency work on the back of it.

Malta Drydocks, as the yard had previously been known, had gained a reputation for delays but under Palumbo, the yard "seems to be sticking to deadlines", this agent said. It was a story that his

clients were pleased to hear but, summarising their responses, they told him they had found satisfactory repair partners elsewhere. However, they did promise to consider the Malta option in the future.

€31M

investment pledged by Palumbo

Calleja said the yard wanted to learn from customer feedback. "All suggestions are welcome," he said, as he sets out to meet challenging targets, defined in terms of commercial, quality and safety goals.



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'We are improving our operations on a job-by-job basis' Joseph Calleja

Paul Gattin

He was unable to say whether the yard was profitable: he is responsible for its operations, he said, and would not be drawn on how much had been spent in the yard since Palumbo's takeover. Its 30-year deal included a pledge to invest €31M in that period, with much of that in the first five years, including €5.45M in the first year on machinery and infrastructure.

He confirmed that the company's investment plans are front-end loaded and that it had so far spent "a lot" on the facilities to improve their efficiency. That spending began on day one, across the whole yard, in particular to modernise its equipment and infrastruc-

ture, he said. He singled out one area of development that should make the working environment more comfortable and efficient while cutting energy costs: insulation is being fitted to the roof of one of the workshops to reduce its internal temperature during the summer. Solar panels will be fitted to the roof to generate power that will be used in the yard and reduce its electricity costs.

Those upgrading plans are at the forefront of his future policy and he spoke of constant upgrading – "you can't stop for a minute" – to make the huge facilities more efficient. "We are improving our operations on a job-by-job basis," he said. ■

Hopeful of growth

>> sector focus:

Malta

New openings are replacing naval work lost after African uprisings

If Sullivan Shipping is typical, Malta's ship agents are in a period of consolidation but with hopes of growth. The company has had links with Libya for some time and expects to see that market take off but the second half of 2011 saw a slight decrease in business, "in line with the market," said Matthew Sullivan, the company's CFO.

He is hopeful of growth "if everything goes well in north Africa," generating business in Tunisia and Egypt, "and there is a lot of hype about Libya", although he does not consider it to be a risk-free environment yet.

For Kirton & Co, the Libyan conflict generated a considerable amount of business, in particular from the UK's Royal Navy. Indeed, the company has long relations with both the UK and US navies, with framed photographs and letters of appreciation decorating its office walls. "It's been a good year," said Philip

Grech, joint managing director. But now, naval work has reduced, especially from US ships, since fewer of these are visiting Malta because the government has declined to sign a Status of Forces Agreement (SOFA). Such agreements set out which country may exercise criminal jurisdiction over US personnel and would mean that any US naval crewmember committing an offence in Malta would be returned to their ship for trial under US law.

One area of growth that Grech has seen in recent months is the provision of armed guards for ships heading through Suez towards the Gulf of Aden.

"We do everything legally here with the correct paperwork," he assured *Fairplay*. Not only can Kirton arrange such guards, a team leader often boards in Malta to brief the crew before the rest of the guards board elsewhere.

But Grech keeps his cards close to his chest as he explores new business opportunities.

For example, he sees opportunities for trade with Libya, but declines to go into details. "If I do what I have in mind, it will have a significant impact on the company," is all he would say. ■



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Malta Freeport is pushing for
3M teu/year

Heavyweight aims for Freeport

>> sector focus:

Malta

Government links share sale to investment plans boosting port tonnage

Ambitious investment plans at Malta Freeport are expected to boost its throughput to 3M teu/year by 2016, its sales, marketing, IT and operations director Alex Montebello told *Fairplay*.

That target is not just a management aspiration – it formed part of the agreement last year that allowed terminal operator CMA CGM to transfer half of its shares in Malta Freeport Terminals to the Yildirim Group of Turkey in November. “In authorising the share transfer, the government of Malta stipulated that the investment in Malta Freeport must continue until it can handle up to 3M containers/year,” Montebello explained.

Now it needs to find the additional business, which Montebello hopes to win both from existing clients and by recruiting new ones.

That target represents an increase of 27% on its 2011 throughput of 2.36M teu from 1,832 vessel calls, slightly down on the 2.37M teu achieved in 2010. Montebello described last year as “truly a particular one” during which a number of issues, including the Arab Spring, “affected the overall growth prospects”.

Another factor was reduced activity by Iran-based HDS Lines, which was formed in 2009 and took over container operations from the Islamic Republic of Iran Shipping Line (IRISL) as sanctions were invoked against the company. Some IRISL containers were stacked at the port on the day of *Fairplay*'s visit and Montebello commented that “Malta Freeport continued to operate HDS vessels as duly allowed by the authorities” but the line’s activity has reduced, with a corresponding impact on the port’s throughput in 2011.

Dredging work

The investment programme to make the port ready for these higher volumes is well under way. Dredging is in progress to

deepen most of its berths to 17m; the north quay of Terminal Two is already at that depth, which will be sufficient to handle Maersk’s latest generation of box ships when they enter service.

17m

depths of berths after dredging would be sufficient to handle Maersk megaships

Work is now in progress to dredge the port’s inner fairway and the vessel manoeuvring area for Terminal Two’s South Quay and Terminal One’s North Quay, together with the quays themselves, to the same depth. This is intended to increase the port’s efficiency by making it possible to accommodate larger container vessels and offer faster vessel turnaround.

The next project is to extend the West Quay on Terminal One, which is currently used as a lay-by berth. A tender is expected

to be awarded in the near future for this quay to be extended from 168m to 290m, with two post-Panamax cranes and a ro-ro ramp. Dredging will take its depth from 9m to 13m, enabling ships of 12.5m to berth.

Four more super-post-Panamax cranes, able to reach across a 24-container width and handle twin 40ft (12.19m) containers, are on the shopping list. At the same time, more storage space will be created by developing 86,500m² of land opening up an additional 2,200 ground slots for the storage of containers.

These investments continue a trend that started when the port was privatised in October 2004 and €175M (\$224M) has since been spent, mainly on cranes, yard space and upgrading the North Quay of Terminal Two.

In that time a number of productivity and training schemes have increased crane moves from 12.1/hour in 2004 to 27.5/hour at present, figures that Montebello described as “positive results for the freeport that place it in a favourable position to enhance its leading edge in the market”. ■



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A transport balancing act

>> sector focus:

Malta

Transport Malta responds to customer feedback while complying with international regulations, writes **Paul Gunton**

'Balance' was a word that cropped up many times during *Fairplay's* visit to the headquarters of Transport Malta (TM), which started operating on 1 January 2010 to bring together the whole of Malta's transport infrastructure, from buses to the ship register.

Transport Malta assumed the functions previously exercised by the Malta Maritime Authority.

Joe Degabriele is TM's chief operations officer and he spoke of the need to strike a balance between offering customers what they want while ensuring that Malta complies with international regulations. It is not an easy task, he said.

Ivan Sammut, registrar general of shipping and seamen within TM's Merchant Shipping Directorate, is the person who has to keep that balance. "We are



'This year will be very difficult for the industry'

Ivan Sammut, registrar general of shipping and seamen

developed and approved to make that possible. "Malta can do this because we are a small country," Degabriele pointed out, with easy access to policy makers who can take decisions.

The decision has been welcomed in Malta's shipping community. "The Malta flag administration did not take the pressure to accept armed guards onboard lightly," remarked John Gauci-Maistre, chairman of GM International Services. "Each application is thoroughly vetted and accepted on a risk analysis basis," he said. "This is a very reasonable stance given the legal uncertainties that may still arise."

Sammut was particularly pleased that Malta had passed an IMO Member State Voluntary Audit, which was conducted last October, with a report submitted at the end of the year. On the day before *Fairplay's* visit he had learnt the report had been finalised as a result of the audit and the Paris MoU secretariat had added Malta to its 'low-risk ship' list. "That was a priority I set when I started," he said.

Last Friday transport minister Austin Gatt revealed that Malta's register was now the largest in Europe and Sammut said that, while the Malta-flagged fleet had been growing – up 16.1% to 45.6M gt during 2011 – its

open-minded" towards feedback from customers, he said, citing one recent example: the directorate has changed its stance on the use of armed guards on

Malta-flagged vessels following what he describes as "the outcry" from the industry.

So, in the middle of last year, rules and procedures were

Law finds solutions

>> sector focus:

Malta

The legal workload has increased hugely as recession takes its toll

With the recession "we have seen a huge increase in workload," as chartering or financing arrangements have fallen apart, said Ann

Fenech, managing partner at law firm Fenech & Fenech.

In 2008, she recalled, "many banks looked at their portfolio and foreclosed on those [clients] going nowhere" and retained those that showed more promise.

Now, she said, some of that latter group are facing financial difficulties and "banks have asked us what rights they have under Malta law". They have a



The recession has increased lawyers' workloads, say Ann Fenech

lot: "the flag offers banks tremendous remedies," she said, some of which may not be

immediately apparent.

She cited a recent case in which a bank wanted to foreclose a loan, which would normally involve a judicial sale so the ship is transferred free and unencumbered. But the price cannot be guaranteed.

A statute that had never been tested allowed a private sale instead and Fenech & Fenech obtained court approval for such a sale. "This has been one of the main developments in the law in the past year," Fenech said. ■

> Watch on sanctions

With a large number of Iranian ships on its register, Malta keeps a close eye on the international sanctions against that country.

Ivan Sammut, registrar general of shipping and seamen within Transport Malta's merchant shipping directorate, was adamant that Malta will always meet its obligations under UN and other sanctions. "We will not support or allow any illegal action," he said. He drew a distinction between political and technical matters. "Our job is to ensure technical standards without in any way forgetting other obligations," he said.

But the situation is complicated. "It is very fluid and is evolving all the time," he said, explaining that, at present, the directorate can continue to provide a service to owners for ships registered before the sanctions were introduced, although it cannot take any more on. "But things might change."

Joe Degabriele, TM's chief operations officer, agreed. "We will follow any political direction," he said, but "there is no benefit for the industry for Iranian ships to go off radar".

> Flutters over the flag?

Not everyone in Malta welcomes the demise of the Malta Maritime Authority (MMA), which had overseen the register and other maritime activities prior to the creation of Transport Malta.

John Gauci-Maistre, chairman of GM International Services, described the amalgamation of all transport issues into one organisation as "the biggest mistake", because it removed the MMA's focus on what Gauci-Maistre sees as an important niche market for Malta. "When you have a niche market, you need a minister [for it] and this is our niche market."

He compared the decision to close the MMA with Greece combining its shipping ministry with its Ministry of Development and Competitiveness, only for a dedicated Ministry of Maritime Affairs to then be relaunched.

While Gauci-Maistre acknowledges that the register has made progress and the fleet has grown under TM's stewardship, it could have been greater. The register "has lost its trademark," he said. Although it is now the largest in Europe, on a global scale, "Why should the Marshall Islands be ahead of us?"

average age had been falling. This is thanks in part to a number of newbuildings but also to concerted efforts to attract younger tonnage to the flag, resulting in some older tonnage leaving the flag.

Some ships had left when their owners stopped trading because of the global recession but Sammut urged owners to contact his team as soon as they have commercial problems.

"There is a risk that the first cost control measure might be related to maintenance," he said, "and we can work with owners to agree a plan of action to mini-

> Malta flag's vital statistics

	End-2010	End-2011	% change
Ships	5,540	5,847	5.5%
GT	39.30M	45.63M	16.1%
Avg age, fleet	13 years	12 years	-
Avg age, deletions	n/a	18	-
Avg age, registration	n/a	7	-

Transport Malta

mise safety and pollution risks in accordance with international and national standards."

The same applies to financial difficulties: one of Malta's selling points is that banks can easily enforce mortgage terms,

so when an owner gets into financial difficulties, the flag administration can act as a go-between.

"We are here to try to find that solution," Sammut said, and predicted more such situations

in the months ahead. "This year will be very difficult for the industry," he said.

Accident investigation has been overhauled with the creation of an independent body, the Marine Safety Investigation Unit, in June last year. Although housed in the same building as Sammut's team, it is independent of the flag administration and is building its capacity to deal with increasing workloads.

"There is a trend for more minor incidents to be reported," Sammut said, leading to more investigations being carried out. P



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