

# The UK's maritime resilience in the light of the Covid-19 pandemic



## Introduction

The coronavirus pandemic has focused attention on the essential nature of shipping to an island nation. In recognising the crucial role played by the industry and that of UK seafarers within it, the UK designated seafarers as key workers. This was a welcome recognition of their vital transport role in local, regional and global supply chains.

As the UK looks to restart the economy and plan ahead to support the nation's recovery from this crisis, a fundamental reassessment of the UK's maritime resilience needs to be undertaken. The ongoing negotiations for the future relationship with the UK's largest trading partner, the EU, is also important in this context.

Through Maritime 2050, the UK government has adopted a forward-looking strategy that was broadly welcomed by all stakeholders in the maritime industry. The delivery of the many pledges made in Maritime 2050 now need to be actioned without any further delay.

This briefing seeks to assess the impact of the global coronavirus pandemic and highlight some worrying consequences of our lack of preparedness and resilience in the face of the virus. It makes several recommendations for the Restart and Recovery work of the UK Government.

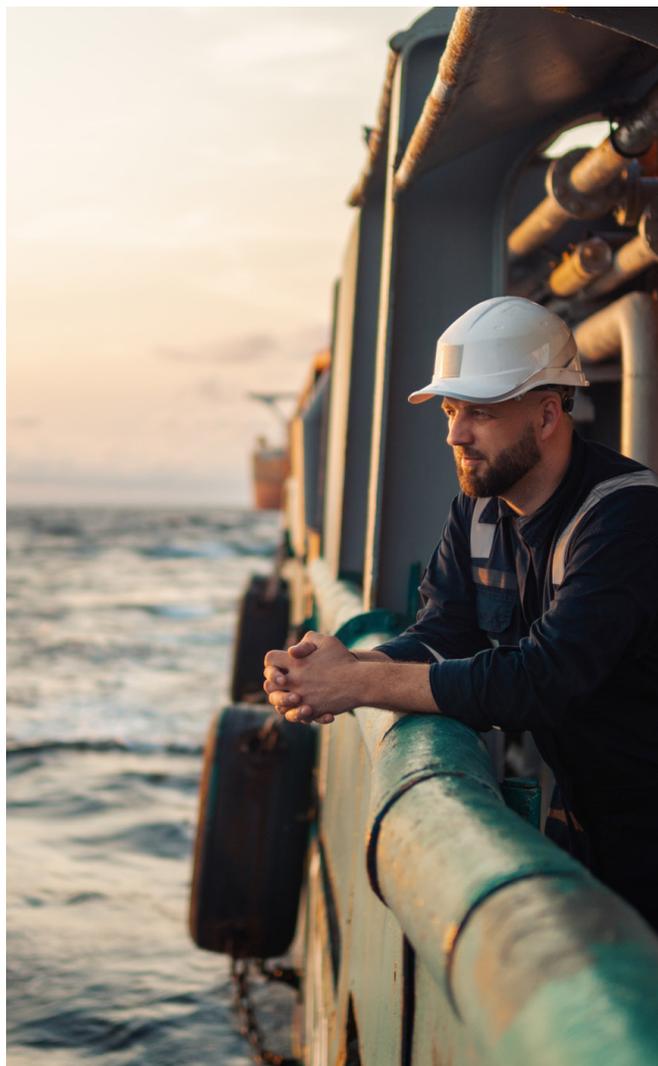


Image: Getty Images

## UK seafarers

The measures taken by global governments in response to the pandemic have caused a major crew change crisis for tens of thousands of seafarers – some estimates suggest that up to 300,000 seafarers were affected. UK seafarers have not been immune. Although exact numbers are hard to estimate, several thousand were either stuck onboard their vessels or at home unable to join their vessels.

This has had several consequences. Many UK seafarers faced a financial triple whammy: unable to have their employment protected via the Coronavirus Job Retention Scheme (CJRS) as their employer was not eligible; unable to claim income support via the self-employed scheme (SEISS) as they declare foreign earnings to HMRC; and unable to work due to travel restrictions and thus unable to qualify for the Seafarers Earnings Deduction (SED). In July, the Treasury confirmed it was unwilling to provide any support to these seafarers or waive the eligibility criteria for SED, and those seafarers now face the prospect of a huge unexpected tax bill next year.

## Pandemic economic impact

The true scale of the economic damage the Covid-19 coronavirus has done to global, regional and national economies is becoming clear. The World Trade Organization (WTO) has predicted a global slump in trade ranging from 13% to 32% in 2020 and it predicts that the future impact on trade will be greater than the downturn caused by the global financial crisis of 2008.

The World Bank added that the economic damage is already evident and represents the largest economic shock the world has experienced in decades. Most countries are expected to plunge into recession in 2020, with per capita income contracting in the largest number of countries globally since 1870 and many economies shrinking by as much as 7%.

A survey by the European Community Shipowners' Associations (ECSA) found that shipping company turnover is set to decrease by more than 60%, with the hardest hit sectors being cruise, ferry, car

carriers and offshore services. With such a heavy toll on financing and employment, the industry does not expect to return to pre-crisis levels of activity in 2020 and the employment of seafarers is expected to sharply decrease in the longer term.

However, and perhaps counterintuitively, the global shortage of seafarers is set to continue, according to UK-based shipping consultancy Drewry. The current deficit amounts to around 2% of international demand for officers, and is expected to increase from around 11,000 at present to 17,000 by the start of 2025.

Alongside this, the UK-EU transition arrangements will end in December 2020. The UK will either have negotiated a future trade agreement or fallen back on WTO arrangements. The implications of this are not fully understood in UK shipping. Not least the issues of the continuation of state aid to shipping and the maintenance of a level playing field with the EU in terms of health, safety and environmental standards; the mutual recognition of certificates of competency; and the coordination of social security protection for the nearly 4,000 UK officers who work on EU-registered vessels.

## Flag state responsibilities

The crew change crisis has revealed deep-rooted structural problems in the practice of registering vessels with so-called 'flags of convenience' (FOCs). This should concern the UK not only as a bona fide national ship register but also as the protector of the Red Ensign Group (REG).

Of the top ten ship registers, five are flags of convenience (i.e. Panama, Marshall Islands, Liberia, Malta, and Bahamas) and the top three are all FOCs.

These flag states have shown how the abuse of the ship registration system undermines the governance and regulation of the industry. Their utter inability to fulfil their obligations to seafarers on their vessels under international law has been brutally exposed by the pandemic. It should trouble the UK that shipowners who register their ships or companies in such jurisdictions still expect support from the UK in times of crisis.

The UK has oversight of several ship registers under the auspices of the REG. This group includes (in Category One) Bermuda, British Virgin Islands, Cayman Islands, Gibraltar and the Isle of Man. Several of these registers have been declared as flags of convenience by the International Transport Workers' Federation (ITF) and some have dubious reputations as tax havens. Indeed, the European Commission has recently announced that financial support should not be granted to companies with links to tax havens, and has singled out the Cayman Islands as a non-cooperative jurisdiction in this regard.

This presents an opportunity for the UK to show leadership. There has been global condemnation of the practices of FOCs, notably Panama's decision to allow seafarers to remain onboard for up to 17 months (later withdrawn due to public outrage). In this time of international crisis, these flag states were found lacking and unable to fulfil their obligations under international law. Unable to support shipowners who then seek succour from the state in which they are ultimately based or controlled (the cruise industry came under particular focus in this regard).

## Employment status of UK seafarers

The employment status of most UK seafarers has left them exposed during the pandemic. Those who were fortunate enough to have an eligible employer were furloughed under the CJRS. These were a minority, as Nautilus estimates that up to 11,000 UK seafarers were left without the government support afforded to other workers, despite their key worker status.

The Treasury has confirmed it has no intention of extending seafarers any support beyond that available to the general population, such as Universal Credit, despite seafarers being essential for the economic restart and recovery process.

Nautilus is concerned that this unwillingness to assist UK seafarers derives in part from their 'invisibility'. UK seafarers are atypical workers, often employed under employment contracts in overseas jurisdictions via agents which means that the ultimate employer is not liable for National Insurance contributions. It is time this practice, tacitly endorsed by successive governments, was ended and seafarer employment contracts brought back onshore.



Image: Getty Images

## International standards

The ease with which governments the world over were able to ignore the fundamental rights of seafarers and their obligations under international law is of profound concern to Nautilus. Ships were refused entry and seafarers denied shore leave and medical attention even for urgent and non-Covid-19 related conditions. Repatriation of seafarers was blocked, and they were unable to join their vessels. All this despite a plethora of international conventions guaranteeing fundamental rights to ships and seafarers to facilitate global trade, safety of life at sea and the protection of the marine environment. All ignored or waived based on the argument of 'force majeure' due to coronavirus-related travel restrictions.

Whilst Nautilus supported the international calls for contract extensions due to force majeure, the basis for that was soon eroded. The International Labour Organisation (ILO) acknowledged that once the industry protocols of safe crew changes and repatriation had been agreed by the International Maritime Organization (IMO), and the ILO, the case for force majeure no longer existed. An updated ILO Information Note reflects that.

It is important to recall that the UK was quick to signal that crew changes for seafarers, as key workers, would continue. As a leading maritime nation, the UK should be extremely concerned that others did not follow suit, and that seafarers have essentially been forced to continue to work way beyond what could reasonably be considered humane.

The UK Government must recognise that the dislocation of ship ownership and ship registration has undermined the rights of seafarers. The dominant FOC ship registers have no legislative clout and no diplomatic outreach.

## Security risks

The UK has signalled that it will not now allow Chinese businesses to take part in the development of the UK's 5G network due to national security concerns. And our children are being told that a seemingly harmless application that allows them to share videos is a sinister data harvesting tool run by the Chinese state. These concerns should also be addressed for the UK's maritime industry.

As a 2016 report from the Hawaii Pacific University 'Sea Strangulation' warned: China's maritime policies are focused on dominating global shipping services. This risk, and the UK's reliance as an island nation on shipping for 95% of everything, ought also to be high on the government's agenda.

Our maritime resilience is critical, and concerns for our national maritime security and the risks associated with becoming dependent on third party shipping and non-UK seafarers must register as a significant risk that is worthy of being assessed and where necessary mitigated in the national interest.

## The need for review

Nautilus maintains that there is a need for a thorough and comprehensive review of the structure of the UK shipping industry and its employment practices.

Whilst the UK maritime industry often complains about the levels of 'Sea Blindness' in the UK, it is complicit in hiding the industry away to support its arguments for exemptions and special treatment.

This low profile allows the industry to avoid scrutiny for employment and business practices which ultimately do not sufficiently support the national interest. The industry calls for special measures from the government without delivering sufficient returns to justify the levels of taxation and fiscal support. A recent report from the ITF – OCED questioned whether state aid such as tonnage taxes to the shipping industry provided value for money to the taxpayer.

Nautilus believes the shipping sector needs to be brought out into the open with a full and transparent review of ship registration practices, training and employment policies, and how the fiscal support provided is linked to the employment and training of UK seafarers and to the registration of ships on the UK Ship Register (UKSR). The UK Tonnage Tax scheme must be adapted so that it helps to grow the UK flag by establishing a mandatory flag link, as well as increasing the training and employment of UK seafarers and contributing to the Government's environmental objectives.

The UK should not protect the competition provided by the REG and should look to review that support. When 60% of UK-owned tonnage is registered in these and other open registers and flags of convenience, this is a nonsensical Government policy.

The UK should build the UKSR with a full commitment to the enforcement of the 'genuine link', as required under the United Nations Convention of the Law of the Sea (UNCLOS) 1986, to which the UK is a signatory. The maximum permissible fiscal support should be provided to shipowners prepared to commit to the UK's maritime resilience and its national maritime security.

Tripartite discussions on the review of Tonnage Tax must recommence once the immediate coronavirus crisis has been resolved. The review should use examples of the way in which countries have developed policy programmes that attract ships and more to their registers and grow their maritime skills base.

With job growth being the government's goal and job losses escalating in shipping and in the wider economy, it is important that stricter controls are introduced on the issuing of Certificates of Equivalent Competency (CECs) to foreign nationals for work on UK-registered vessels. Equally, work permits and visas, and the recent welcome extension of the National Minimum Wage are all necessary to promote the employment of UK seafarers, especially in UK waters.

The UK government must make significant investment in maritime education and training to ensure the UK is not as heavily reliant on foreign seafarers in future.

## Conclusions

Nautilus believes that the UK government should work with maritime unions and shipowners to conduct a review of the state of the UK maritime industry and its resilience in support of the UK economy and strategic considerations.

A review should support the aims and objectives of Maritime 2050 to ensure that the UK maritime industry is robust, secure for the future and better able to deal with a global crisis of the type we are now facing. It should look at the employment status of seafarers, the state aid that is provided to the industry and what that delivers to the nation in support of its strategic and maritime security needs and ambitions as a maritime nation. It should make recommendations to ensure the nation is resilient in times of national crisis and need.

## Key recommendations

- Review the practice of 'offshore employment' and make recommendations on the desirability of seafarers being required to have contracts of employment that fall under the jurisdiction of the UK.
- Review the provision of state aids to the UK shipping industry from the perspective of employment costs (National Insurance) which does not necessitate 'offshore employment'.
- Review the government's policy of supporting the Red Ensign Group and develop a coherent flag registration policy which is consistent with its obligations under the United Nations Convention of the Law of the Sea (UNCLOS) and which supports the Government's stated aim of growing the UK Ship Registry.

## Further recommendations

- Call for a global review of ship registration practices to tighten up ship registration and reinforce UNCLOS Article 94 that requires a genuine link between the shipowner and the country of registration.
- Call for a global review of the ineffectiveness of international regulations in light of the Covid-19 pandemic when port states and flag states ignored the fundamental rights of seafarers in a way which was tantamount to forced labour
- Ensure that the needs of the maritime industry and UK seafarers are included in discussions on the future relationship with the EU.
- Ensure the promotion and maximisation of UK employment in the UK shipping industry is part of all strategies to grow UK shipping.

## And finally

- Initiate a global discussion on the need for a reflection on the impact of the pandemic on seafarers and on shipping with a view to strengthening the adherence to and enforcement of international conventions.

Cover image: Danny Cornelissen

## ABOUT NAUTILUS INTERNATIONAL

Nautilus International is the trade union and professional organisation for maritime professionals at sea and ashore. We represent 20,000 maritime professionals including ship masters (captains), officers, officer trainees (cadets) and shipping industry personnel, such as ship pilots, inland navigation workers, vessel traffic services operators (similar to air traffic control), harbourmasters, seafarers in the oil and gas industry, and shore-based staff.



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