

New Panama administration plans to put the flag back on the map

The appointment of a new administration to head Panama's maritime sector has renewed confidence in the country's shipping industry and it plans to tackle security issues head on. Rainbow Nelson reports

A new Panamanian government has created a sense of renewed optimism among the maritime sector with key appointments in the Panama Maritime Authority (PMA) designed to stamp out corruption and modernise the institution responsible for managing the world's largest ship register.

A month (started September 1) into his five-year administration, newly elected Panamanian president Martin Torrijos has given the maritime industry reason to feel optimistic.

Two key appointments have placed the sector at the heart of the country's economic policy. The appointment of one of his two vice-presidents, Ruben Arosemena, to head up the PMA and Ricaurte Vasquez, the former deputy administrator of the Panama Canal as minister of economics and finance send a clear signal that the government is finally taking the sector seriously.

The hugely experienced Hugo Torrijos, in his role as the president's special advisor on maritime affairs, further underlines the role the maritime sector is set to play in future economic development.

Far from being a nepotistic appointment, Hugo is largely regarded as being credited for establishing the flag as the world's largest ship register. It is hoped that the name Torrijos can once

again be associated with a resurgence in the maritime fortunes of the nation.

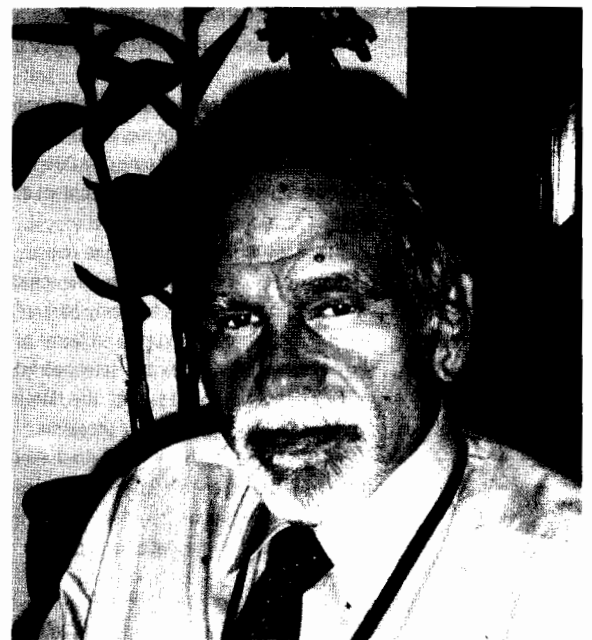
The president's father was responsible for signing the treaty in 1977 that resulted in the former US-controlled Canal Zone and the waterway being handed back to Panama in 1999.

The success of the Canal in operating the waterway with record efficiency has unfortunately not been mirrored at the PMA where systems still lack those of other registers.

Despite inefficiencies, it remains the market leader with an increase in the total number of vessels of 120 in 2003 to 10,254, according to PMA statistics. Overall 670 new vessels were added to the fleet, accounting for more than 13m gt of new tonnage compared to 550 cancellations or 11m gt. More than 60% of this new tonnage was less than 10 years old, highlighting the flag's efforts to attract newer tonnage and more corporate shipowners through a new fee structure that encourages shipowners with large fleets.

However, despite a general increase growth – albeit from a much smaller base – at other flags such as the Marshall Islands and Liberia has continued to cause concern.

As a result the new appointments have been greeted with great optimism by the Panamanian maritime industry as it looks forward to an administration keen to modernise the register, improve the international image of the flag and create stronger links between the various maritime sectors, from the canal and the register to shipbuilding, bunkering, maritime law and ship chandlers.



The appointment of Panamanian vice president Ruben Arosemena (left) as PMA administrator has been hailed by Eduardo Morgan (right), senior partner at law firm Morgan & Morgan, as a bulwark against corruption

Panama

“We have to compete and operate with the levels of professionalism as if this was a private institution because we are competing with other registers, with other countries that are interested in displacing Panama”

“The step of naming the vice-president as the principal functionary [of the PMA] is very important as it gives the maritime sector a special importance. The presence of Ruben Arosemena is great because he has a reputation of being extremely honest,” says Eduardo Morgan, senior partner of the country’s leading law firm, Morgan & Morgan.

In the last five years the flag has been plagued by corruption scandals including the sale of fraudulent seafarers certificates, a big issue in today’s security conscious world.

Mr Arosemena is quick to point out he will take a hard line on such cases during his administration of the register.

“We have the information that there was a lot of corruption in this institution,” he says. “So when the president, Martin Torrijos, decided to send me here to put things in order it is because we are aware of the importance of this industry for the image of the country.”

In an address to the civil servants working at the PMA, he spelt out the type of people he wants working for the register during his time in charge as being, “Honest people, who don’t sell permits, who don’t deal in favours, who don’t accept bribes, people who don’t come to the administration to steal money. We are public servants. If you don’t want to be a public servant you have the option of working for a private company.”

Managing the world’s largest ship register, boasting a fleet of more than 5,500 vessels of more than 500 gt or more and responsible for issuing certificates for some 250,000 seafarers the register brings in almost \$50m a year to the government in revenues, the task ahead of him is considerable.

The industry that surrounds the registry, including surveying and legal services to shipowners using the register, takes the total contribution to the Panamanian economy to more than \$200m, but still the flag lags behind other registers in terms of technology and systems and on many port state control detention lists.

Those that do business with the flag are hopeful that the new appointments will speed up the process.

“We believe that the new administration will be heavily involved to attract qualified people with the knowledge of shipping in order to modernise the Panama Registry,” says Erik de Koning, manager of Hubel Marine. “The present situation is too outdated and unmanned, which results in unnecessary delays.”

The Panama Chamber of Shipping has also greeted Mr Arosemena’s appointment with enthusiasm, although it is tempered with a desire to have greater input in the forming of the government’s maritime strategy.

“We have mixed feelings,” says Tom Kenna, president of the Panama Chamber of Shipping.

“We are generally pleased with the appointment of Ruben Arosemena, who traditionally is a straight guy. It gives the sector the weight and the importance we think it requires. The only thing we would like, we in the Chamber have made certain approaches to the new government and we are still at this time slightly dissatisfied with the new government’s availability with the Chamber.”

Representing the most important players in the Panama maritime industry the Chamber is the single largest maritime group in the country.

Mr Arosemena and PMA deputy administrator Carlos Moreno have said they want to maintain open channels of communication with everyone with an interest in the maritime field.

Not listening to the maritime sector was a mistake committed by the previous administration that nearly cost the flag dearly.

In the build up to the implementation of the International Ship and Port Facility Security Code (ISPS), the flag came under fire from its biggest clients, the Japanese shipowners, for its implementation of the Code.

Unhappy at the award of a monopoly of the approval process of the Code to one company, Japanese shipowners which account for 40% of the flag’s tonnage, applied unprecedented pressure to the previous administration in a bid to have the approval phase opened up to members of the International Association of Class Societies (IACS).

It is a dispute that the new PMA administrator is keen to resolve swiftly, albeit somewhat belatedly for many Panama flag users. The PMA is already looking at the legal implications of opening the process up to IACS members to prevent a fall in the future newbuildings registered in Panama.

“We want to modernise the maritime service,” says Mr Arosemena. “If we work with the private field we should work as a private institution. In that sense the first thing I am going to do is resolve the business of the security plans because we never understood why this past administration chose just one company.”

His deputy Mr Moreno, founder and former senior partner of Patton, Moreno & Asvat, says, “In the future ships will have the ability to use any class society. If they are recognised as a serious company then we should not restrict shipowners from working with anyone they want to.”

Under Mr Arosemena, the flag is set to become much more aggressive in promoting itself internationally. His role, he says, is to “put the house in order” and “rescue the image” of the world’s largest register.

After receiving so much flak from its Japanese clients, the key for the Torrijos administration is to get on top of the issue of security.

“We have to be able to give information immediately when it is requested now that the ISPS Code applies. That takes days now,” he says.

“Panama has a big responsibility to know that people working on a vessel are seafarers, not terrorists. We have to be very, very diligent in issuing certificates and that is one of the reasons that we have to use a new system and we have to look at new technology in order to be positive that these certificates are not false.”

As part of the bid to avoid the corruption scandals that have



Merchant vessels on the Panama register

Merchant Marine

Total vessels	10,254
Gross Tonnage of registered vessels	148,515,619
Newly flagged vessels	670
Gross Tonnage of newly flagged vessels	13,177,525
Vessels cancelled	550
Gross Tonnage of vessels cancelled	11,152,936

Newly flagged tonnage

Gross Tonnage less than 10 years old	8,131,743
Gross Tonnage more than 10 years old	5,045,782

Source: PMA 2003

damaged the image of the flag in the past, he says, it is keen to invest in a new seafarers' certificate and to carry out an audit of its working practices.

A tender to introduce a new passport-style document employing biometric technology and a web-based information access system was shelved in the summer due to a freeze on non-essential government spending by the previous government.

"It might be expensive but what is really needed is a document that travels with a seafarer for his whole career. A system where his information is updated as he moves up the ladder from cadet to officer to captain and is stored on a computer system that uses a chip on his ID card to access and store information," says Captain Aurelio Dutari, a pilot in the Panama Canal and an international maritime consultant.

Such a measure applied for the 250,000 seafarers it is estimated are active on Panamanian ships would require a serious financial commitment from the country.

With Mr Arosemena well placed to fight for these funds at cabinet level, however, for the first time it appears that the resources will be forthcoming for modernisation initiatives and greater promotion of the register abroad. "We have to compete and operate with the levels of professionalism as if this was a private institution because we are competing with other registers, with other countries that are interested in displacing Panama," says Mr Arosemena.

As part of the efforts to modernise and protect its status as the world's largest register, the PMA is looking to work more closely with IACS to carry out an audit of its working practices.

The move is part of an initiative being promoted by the International Maritime Organization to help blacklisted flags to improve their performance.

The scheme provides for small groups of experts from IACS member societies to work with flag states on improving their detention performance and upgrading their systems.

Panama's detention record has shown signs of improvement in recent years, although at a rate that has failed to remove it from the blacklists of two important port state control regions.

In Japan, where almost half of the flag's users operate, Panama has been taken off the Tokyo MoU's target list with a detention rate of 4.3% from more than 6,000 inspections.

In the US, the detention rate has also fallen to 3.7%, which is half a percentage point from a rate that would put it in line with flags on the country's white list. In Europe under the Paris MoU, the detention rate remains high at 10.3%.

In a bid to improve this, Morgan & Morgan advocates that the flag should take steps to remove some of the less reputable classification societies that are authorised by the PMA to offer services to shipowners using the flag.

"They have to clean up some of these companies that are not very good," says Jazmina Rovi, partner with Morgan & Morgan. "It's not difficult. You don't have to do anything other than look at the detention rates. These companies are not doing very much. They endanger the register and make it less interesting for the AAA companies. To put off these types of clients to attract the second grade clients is not good business."

Analysis of the systems used by the flag, says Mr Arosemena, is top of the list of priorities. It is all part of an effort to prevent the loss of large clients such as Zodiac Maritime, previously big users of the Panama flag that over a period of three years shifted nearly all of their vessels to other registers such as the UK or Liberia.

"There is a need for a lot of investment to demonstrate Panama as the leading maritime nation," says Ms Rovi, who represented Zodiac. A lot of work is required to reform the institution to make it more professional, according to Ms Rovi. In the case of Zodiac re-flagging a large part of it was linked to petty fines arbitrarily implemented by the register with little explanation. "With Zodiac it was not just the fines but it was the way that they implemented the fines. They would charge the fine and then ask what they [Zodiac] had done," she says.

Once new systems are implemented and the administration has tightened up on corruption, says Ismael Gerli, of Gerli & Co, the key will be to market the flag better abroad using the network of deputy registrars and selected roadshows and maritime events.

Mr Arosemena's first stop will be Japan and Asia where he hopes to meet with some of the flag's largest users such as MOL and Cosco to ease concerns that developed during the implementation of the ISPS Code. The PMA is also organising the Panama Maritime Congress and exhibition for February 2005 which it is hoped will be attended by shipowners and lawyers to discuss the opportunities they see for the registry to attract more tonnage.

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