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# TECHNICAL REPORT

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## CORPORATE SOCIAL RESPONSIBILITY AND THE SHIPPING INDUSTRY - PROJECT REPORT

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# TECHNICAL REPORT

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Summary:  
To look into how new notions of responsibility present themselves in the shipping industry and how CSR can be integrated more in shipping companies' operations a joint research project was formed in 2003 between the shipping companies Eidesvik and Jebsens, the Norwegian Shipping Association and Det Norske Veritas. The project scope has been from ultimo 2003 through ultimo 2004.

Eidesvik's local community involvement has been in focus through personal interviews and an extensive local community and supplier survey. Jebsens' engagement in Svalbard, an environmentally sensitive area in the arctic with strong NGO-attention and the company's operations out of the Philippines has been investigated. A stakeholder dialogue with a broad range of representatives from the Philippine maritime cluster has given input to the project. A reference group with key participants from the Norwegian maritime industry and CSR experts has given guidance to the project.

This report represents an in-depth study of CSR and shipping and presents findings from all the activities in the project. The report also forms the basis of another shorter document "*Corporate Social Responsibility in shipping – guidance for shipping companies*" seeking to offer concrete guidance for shipping companies on why and how to work with social responsibility in daily operations.

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# 1 INTRODUCTION

## 1.1 Project background

Does a charterer have a co-responsibility for the welfare of crew?	Should it be a political or commercial decision to intervene in a situation where revenue from a ship registry is used by others to purchase weapons?	Is HIV also a corporate responsibility?	How can values be an integral part of business processes?
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Globalisation is altering business processes as well as producing challenging questions. Perceptions of the role of private companies are changing. In the middle of the 90ies, the Brent Spar-platform incident and the execution of Ken Saro-Wiva, a leading protester against the oil industry's activity in the Niger Delta, instigated a vociferous campaign targeted against Shell in particular and the oil & gas industry in general. Civil society in the western world, spearheaded by non-governmental organisations (NGOs) such as Greenpeace and Amnesty, reacted to the industry's seemingly lacking concern for environmental impacts and human rights violations related to its activities.

Brent Spar and the Ken Saro-Wiva-case made several things apparent to business leaders:

- Expectations to companies were higher and largely stemming from:
  - a reduced overall belief in governmental solutions (the neo-liberalism of the 80ies)
  - increased corporate activity in areas with absent or low-efficacy government
- NGOs' power-base had grown and they were increasingly using media deliberately
- The strength of corporate brands had more weight in the valuation of companies

The International Business Leaders Forum May 1999 conducted a global public opinion survey (covering 25.000 informants in 23 countries on 6 continents). The Millennium Poll<sup>1</sup> illustrated that the Brent Spar and Ken Saro-Wiva debacle was not a singular instance, but rather an expression of a global shift in expectations towards corporations:

- 2 of 3 wishes for corporations to contribute to broader societal goals
- 1 of 2 pays attention to corporations' 'social' behaviour
- 1 of 5 rewarded or punished corporations' performance the previous year

With the oil and gas-industry in the front, land-based industries have sought to address these new expectations. Their efforts to define, measure and manage the social and environmental dimension of their performance are summed up in the notion of Corporate Social Responsibility (CSR).

<sup>1</sup>[http://www.iblf.org/csr/csrwebassist.nsf/550d4b46b29f68a6852568660081f938/852568eb00754e1085256a02003a4d9a/\\$FILE/MillPoll\\_ES.pdf](http://www.iblf.org/csr/csrwebassist.nsf/550d4b46b29f68a6852568660081f938/852568eb00754e1085256a02003a4d9a/$FILE/MillPoll_ES.pdf)

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## 1.2 Project description

While CSR has become an integral part of the business process within many land-based corporations, it has not been high on the agenda within the maritime industry. Several elements of CSR such as work to improve environmental performance as well as Safety, Health and Environment are natural foci for providers of quality shipping services. CSR *per se* has, however, not been much in focus.

Our curiosity arose over:

1. Whether structural differences between land-based industries and the shipping industry make CSR less relevant in shipping?
2. The extent to which what constitutes CSR for land-based industries is already part of due business process in quality shipping?
3. To what degree new notions of responsibility need to be moved higher on shipping companies' agendas?
4. How shipping companies can choose to integrate CSR in their business operations?

To look into these research questions a joint research project in 2003 was formed between the shipping companies Eidesvik and Jebsens, the Norwegian Shipping Association and Det Norske Veritas. The project scope has been from ultimo 2003 through ultimo 2004.

The defined project objectives have been to:

- Build knowledge on how to define and report on social responsibility for shipping companies
- Increase awareness of CSR in the shipping industry
- Further NSA and DNV's ability to assist shipping companies' in handling new notions of responsibility

CSR is characterised by a range of topics that have relevance to companies depending on the nature of their operations. It is, however, important to approach CSR with regards to the concern for *materiality*. What, within the plethora of possible CSR issues and approaches, is of particular relevance to companies within a specific industry? To give guidance on what constitutes a material and sensible approach to CSR for shipping companies, is the overall objective of this project.

## 1.3 Methods

Desk-top studies of general CSR literature as well as shipping specific information form the basis of this report. Furthermore, knowledge has been built by in-depth work with the case companies Eidesvik and Jebsens. With Eidesvik the focus has been on the company's local community and stakeholder involvement through personal interviews, focus groups and an extensive survey. With Jebsens a two-fold focus has been pursued, investigating both the company's operations on Svalbard, an environmentally sensitive area in the arctic with strong NGO-attention, and its operations out of Manila, Philippines. The case companies act as useful illustrations of CSR within the industry. Knowledge has also been built through the case-work that have applicability for other industry actors.

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A reference group with key participants from the Norwegian maritime cluster has given guidance to the project.

#### **1.4 Report outline**

- Chapter 2 gives a general introduction and definition of CSR
- Chapter 3 addresses research question 1 and 2 and discusses whether it is right and/or necessary to bring CSR into the shipping industry
- Chapter 4 introduces and describes the case-companies with regards to CSR
- Chapter 5 outlines CSR topics and corresponding suggestions to shipping companies (question 3)
- Chapter 6 describes how CSR can be integrated more in organisational processes in shipping companies (question 4)
- Chapter 7 addresses research question 2 on the potential overlap between quality shipping and CSR and whether there is a business case for CSR

## 2 INTRODUCTION TO CORPORATE SOCIAL RESPONSIBILITY

### 2.1 What is CSR?

The Nobel prize-winner Milton Friedman in 1970 phrased what has long been the dominant view on the extent of social responsibilities of business:

‘There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game’<sup>2</sup>

A related view was stated by one interviewee in this project:

‘Business is to climb up on the prison wall and to fall down on the right side’

Government is commonly expected to define the rules of the game, thereby creating a room in which profit-seeking can take place. Although CSR represents a partial challenge of this view, the business of business remains business. Corporations are not supposed to replace governments and CSR does not convey a criticism of capitalism or liberalism. As indicated in 1.1 CSR has, however, come about because globalisation entails that ‘the rules of the game’ are sometimes unclear or poorly enforced by government. The Millennium Poll indicated that globalisation reduces trust in the steadiness of the invisible hand. In addition, a media revolution enables 24 hours surveillance of corporate behaviour world-wide. Public opinion does no longer think it is solely a governmental task to regulate and/or punish negative social or environmental consequences of business activities. Social and environmental considerations are expected to be integrated in due business processes, externalities increasingly expected to be internalized. In a globalized world, companies and industries need to define and communicate its own ‘rules of the game’.

This shift in opinion has been described as a move from a ‘*trust me*-world’ in which corporations were left largely alone to perform their business, to a ‘*show me*-world’ where corporations actively have to demonstrate efforts to manage the impact business processes have on people and the environment<sup>3</sup>. More global operations of corporate activities and governments’ limited ability to regulate business activities across borders have resulted in a perceived global accountability deficit. Thus, for corporations to continue to enjoy the latitude stemming from globalisation, business efforts to self-regulate have become timely.

Friedman’s view, therefore, has received notable competition from the view on corporate social responsibilities defined by the World Business Council for Sustainable Development (WBCSD) as:

‘The commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life’<sup>4</sup>

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<sup>2</sup> Friedman, Milton. *The New York Times Magazine*, September 13, 1970

<sup>3</sup> Watts, R. H. (2000) Corporate social responsibility: making good business sense. WBCSD

<sup>4</sup> *Ibid.*



According to this most supported definition, CSR is a **voluntary** pursuit by companies to address the interest not only of *shareholders*, but also of non-financial *stakeholders*<sup>5</sup>.



### CEOs with a legal responsibility towards the local community?

The 2002 Company Law-review in the United Kingdom to the last stages of the review process considered to codify a legal obligation for the country's Chief Executive Officers to the welfare of his or her company's stakeholders.

The review resulted in the less radical decision to make elements of environmental and social reporting mandatory, as is the case for corporations in France.

**Figure 1: Typical financial and non-financial stakeholders**

The voluntary nature of CSR remains. It implies that CSR involves ensuring that laws and regulations are followed, but also a commitment to go *beyond* these. Companies often state both ethical and long-term profitability arguments as the reason for doing so.

CSR is seen as corporations' contribution to sustainable development. Both CSR and sustainability entails:

- concern for the natural environment
- concern for labour (employees)
- concern for human rights
- concern for the wider community
- stakeholder involvement
- business ethics

To ensure sustainable profitable operations, companies need to manage its activities according to a triple-bottom line<sup>6</sup>. Companies wishing to succeed and to sustain its position consciously manage their operations to find what the company sees as the right equilibrium between the need

<sup>5</sup> Stakeholders are understood as individuals and/or organisations, groups etc. that impact *on* or are impacted *by* the company.

<sup>6</sup> John Elkington, *Cannibals With Forks; The Triple Bottom Line of 21<sup>st</sup> Century Business*, Stony Creek, CT: New Society Publishers, 1998. J

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for profitability, environmental protection and social equity<sup>7</sup>. However, a triple bottom line is a supplement and not a replacement to importance of financial results as an indicator of the company's commercial performance. Good financial results are not only the first bottom line, but also the most important one.

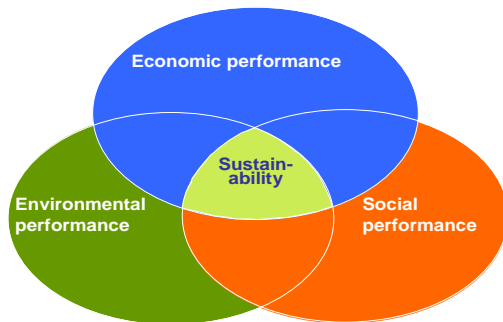


Figure 2 A triple bottom line for business

## 2.2 The business case for CSR

Businesses like, for instance Statoil, often simultaneously give *both* ethical and economical reasons for their CSR-activities<sup>8</sup>:

First, because it's the right thing to do, or a moral imperative. Statoil prides itself on conducting business in an ethical, sustainable and socially responsible manner...Second, because it's the smart thing to do. It's in the long-term, educated self-interest of Statoil<sup>9</sup>.

Rather than making business sense, CSR has by some critics been labelled as a disguised form of 'shareholder robbery'. For CEOs to approve expenses targeted at involving and improving the welfare of a broader set of stakeholders is maintained to be illegitimate<sup>10</sup>. Conversely, it has been argued that if CEOs manage companies and overlook the increased importance of non-financial stakeholders, the corporate brand can get tarnished, the valuation of the company reduced and shareholder value decrease. Attention to the environmental and social bottom line is on the contrary argued to further the financial bottom line.

Such disagreements often stem from a difference in the *time horizon* used in determining profitability. What in a short time frame is seen by some as an expense is to others an investment with potential long-term benefits.

<sup>7</sup> Environmental issues are part of CSR, but the novelty of the CSR-concept rests with the focus on inclusion of social performance in business. Human rights and labour aspects have therefore played a key role in the project and will be highlighted the most in the following.

<sup>8</sup> By justifying CSR-activities with both ethical and profitability arguments, situations in which the concern for long-term profitability should require walking away from short-term business opportunities due to e.g. negative social and/or environmental effects on local communities, human rights violations etc. are better handled.

<sup>9</sup> <http://www.un.org/partners/business/gcevent/companies/statoil.htm>

<sup>10</sup> Henderson, David: Misguided Virtue. False notions of Corporate Social Responsibility. New Zealand Business Roundtable.

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There are several hypotheses about how CSR impacts on the economic bottom line. The three most central are:

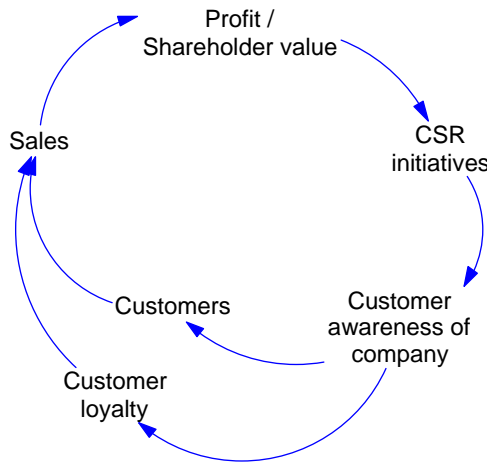
- CSR increases reputation and brand
- CSR increases attractiveness as an employer and strengthens employee loyalty
- CSR increases risk management capabilities

**2.2.1 Reputation and Brand**

Communicated CSR initiatives increase customer awareness of the company and strengthen the corporate brand. A brand infused with value increases sales and customer loyalty. Another result of consistent corporate CSR activities can be that the corporation accrues a pool of ‘integrity capital’ among stakeholders and the general public.

‘Integrity capital’ may help a company weather an individual episode of misconduct or other crisis without lasting damage to its credibility or reputation.

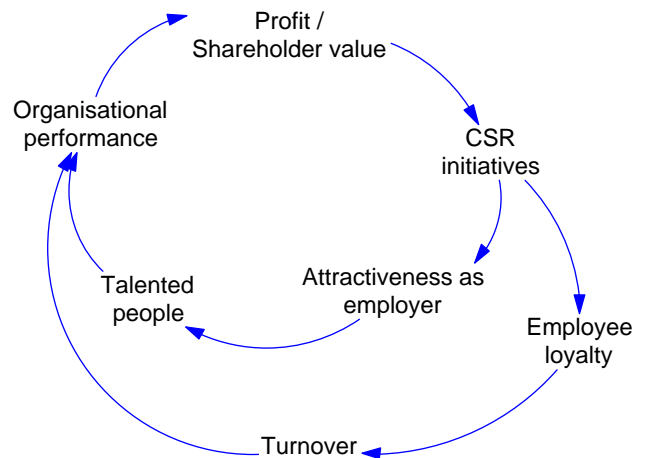
A Burson-Marsteller study on the link between CEOs and corporate reputation reported that a CEO’s ethical reputation enhances a company’s ability to attract investment capital, recruit the best employees, and earn a company the benefit of the doubt in times of crisis<sup>11</sup>.



**2.2.2 Employees: loyalty and attractiveness**

Employee motivation is one of the most commonly stated reasons for CSR initiatives. CSR focus in organisations makes it easier for individuals to identify with the values and goals of the company increasing employee loyalty and reducing turnover and sick leave.

Companies with a CSR profile will also increase its attractiveness as an employer for new employees. This will increase the probability of recruiting the most talented



<sup>11</sup> Opinion Leader Survey on Corporate Social Responsibility, Burton-Marsteller in partnership with The Prince of Wales Business Leaders Forum. Done in France, Germany and UK, April-May-2000

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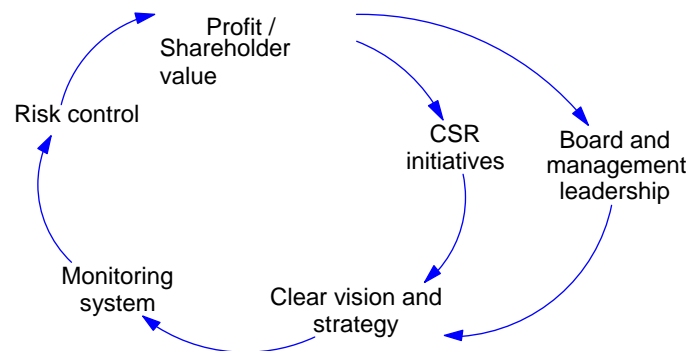
people. Organisational performance will increase because of employees with a long term commitment and with the right competence. Increased organisational performance will in the long term increase profit and shareholder value.

According to a survey carried out by the Aspen Institute<sup>12</sup> of nearly 2,200 MBA students from 13 major international business schools, MBA students anticipate stressful conflicts of values during their careers. Not only that, but because they believe they have no power to change companies' values, they suggest they would choose to leave rather than change the company.

### 2.2.3 Risk management

CSR risks are a relatively new class of risks that attract more attention from management. Traditionally they have not been systematically included in established risk management functions at most companies. When companies initiate CSR initiatives this is increasingly seen as an indicator of good management. The amount of funds with a socially responsible profile is growing and analysts increasingly see CSR awareness as important and a proxy for management capacity<sup>13</sup>.

The clearer the vision and strategy, the better the monitoring systems in the company will be. With increasing control over material and reputational risks follows reduced probability of fines, litigation, criminal charges, negative PR exposure etc. This will over the longer term increase profit and shareholder value.



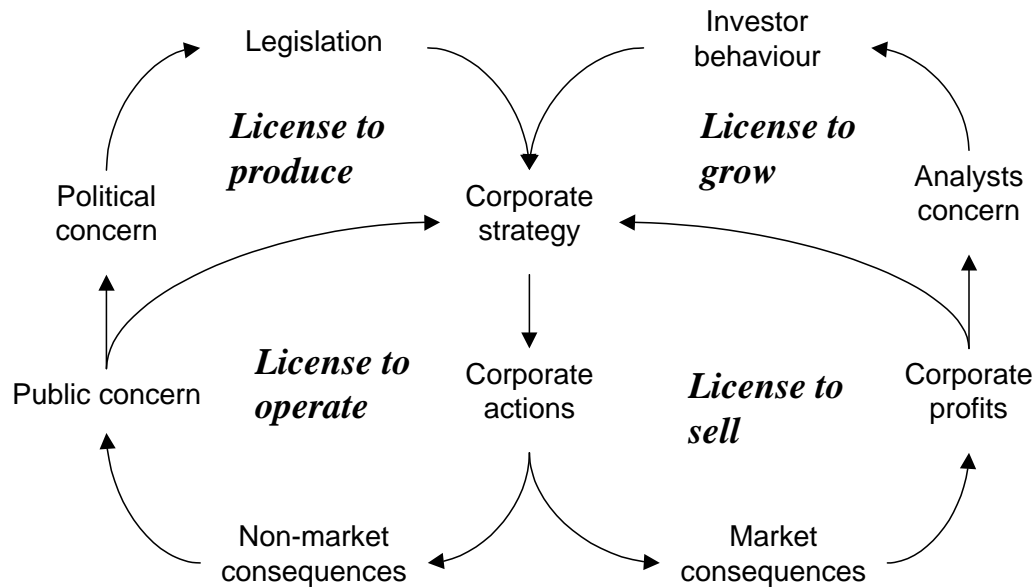
## 2.3 CSR dynamics

Corporate strategy is influenced by four major factors. First of all they need to follow the laws of the country in which they are. For the operation of ships international regulations and conventions are equally important. The laws and regulations may proscribe certain economic, environmental and social standards. Secondly, the strategy must take into consideration the profits the company makes on the market. Thirdly, investor behaviour influences the company strategy. Companies have an obligation to give its lenders and shareholders a return on their investments. Fourthly, corporate strategy must take into consideration public concern, especially when it comes to communicating what they do. These four factors are not static, but change over time. An illustration is given in the figure under.

<sup>12</sup> <http://chronicle.com/free/v49/i04/04a01501.htm>

<sup>13</sup> Roger Cowe (2004), Risk Returns and Responsibility. Association of British Insurers [http://www.abi.org.uk/Display/File/364/Risk\\_rewards\\_and\\_responsibility\\_1204\\_\\_RISKS.pdf](http://www.abi.org.uk/Display/File/364/Risk_rewards_and_responsibility_1204__RISKS.pdf)

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“License to sell” and “License to grow” are loops that companies traditionally have taken into account. With CSR on the agenda the non-market consequences of corporate actions are more relevant.

- First of all through the link to political concern and possible changes in legislation. The increasing environmental regulations over the last 25 years may be an example. Industries operating in a competitive international business environment also rely heavily on the framework conditions created by politicians. Public concern shapes political concerns and influences the company’s ‘license to produce’.
- Secondly, public concern can directly influence the markets in which companies operate. Consumers can change preferences due to a NGO action and purchasers may prefer to work with companies with good reputations.
- Thirdly, analysts are becoming aware of the overall dynamics. In their analysis they increasingly incorporate evaluations of how non-market consequences can affect corporate strategy in the future.

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### 3 RELEVANCE OF CSR IN SHIPPING INDUSTRY

As mentioned, CSR themes such as Safety, Health and Environment and external environment are high on quality shipping companies' agenda. For instance, Eidesvik one of this project's participating case companies, has spearheaded environmental technological innovations such as construction of offshore vessels running on Liquefied Natural Gas and research on Fuel Cell-technology.

#### 3.1 'CSR visibility' of shipping companies

Initiative:	UN Global Compact	Global Reporting Initiative (GRI)	World Business Council for Sustainable Development (WBCSD)
<b>Description</b>	<p>In an address to The World Economic Forum on 31 January 1999, United Nation Secretary-General Kofi Annan challenged business leaders to join an international initiative – the Global Compact – that would bring companies together with UN agencies, labour and civil society to support ten principles in the areas of human rights, labour and the environment.</p> <p>Through the power of collective action, the Global Compact seeks to advance responsible corporate citizenship so that business can be part of the solution to the challenges of globalisation.</p> <p><a href="http://www.unglobalcompact.org">http://www.unglobalcompact.org</a></p>	<p>A multi-stakeholder process and independent institution whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines.</p> <p>These Guidelines are for voluntary use by organisations for reporting on the economic, environmental, and social dimensions of their activities, products, and services.</p> <p><a href="http://www.globalreporting.org">http://www.globalreporting.org</a></p>	<p>A coalition of 170 international companies united by a shared commitment to sustainable development via the three pillars of economic growth, ecological balance and social progress.</p> <p>WBCSD members are drawn from more than 35 countries and 20 major industrial sectors and the initiative also has a global network of 45 national and regional business councils</p> <p><a href="http://www.wbcsd.ch/">http://www.wbcsd.ch/</a></p>
<p><b>Registered shipping or shipping related companies, 1st of September 2004</b></p> <p>(see appendix 2 for company details)</p>	8 of 1798 subscribers	2 of 522 registered reporters	<p>5 of 170 members</p> <p>(1 shipping company: Leif Hoegh &amp; Co and 4 with shipping-related business)</p>

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As illustrated above, global CSR-initiatives are supported and dominated by land-based industries. Participation by shipping companies is limited. As touched upon several questions arise from this:

- has the globalisation process been different for shipping companies?
- does the institutional structure of the industry leave CSR superfluous?
- how much of business practices referred to as ‘quality shipping’ equal CSR in other industries?

## **3.2 Globalisation and shipping**

With ocean-going activities, a shipping company’s business environment typically takes on a cross-border character and the shipping industry is perhaps the most internationally oriented industry of all. For example, a Liberian listed Greek company may manage a Japanese constructed and Bahamian registered vessel, having recently undergone inspections in Rotterdam and Dubai, carrying cargo for a Russian owned Swiss company with British directors to Asia. Geography does not imply the same physical obstacles to business processes as for land-based industries.

### **3.2.1 1970s and industrial changes**

Although the shipping industry long has been international, it was the early 1970s that facilitated an increasing globalisation of the industry. Before the 70ies, ship-owners in ship-owning nations typically also registered their ships in their country of residence, employed ratings and officers from the same country as well as shipped a substantial amount of cargo to and from the same country. With the oil crisis and a strong reduction in world trade, owners needed to drastically reduce operating costs to survive. The solution available was to flag offshore and reduce crew costs by hiring officers and crew from anywhere in the world<sup>14</sup>. The previous link between flag state responsibility and legal, administrative and training schemes for crew was thus removed.

### **3.2.2 ‘Frontrunners of globalisation’**

Whereas a globalisation process affected the shipping industry profoundly in the 70ies, it was the following decades that altered business and production processes in land-based industry. Increasingly corporate functions were outsourced and supply chains extended across borders and continents. The time interval between the impact of the globalisation process in shipping and land-based industries has led shipping representatives to use the expression ‘frontrunners of globalisation’ when describing the role of the industry. Transport and communication infrastructures played an essential role in enabling the changes in land-based industries. Sea transport remains the most cost-effective way to move goods and raw materials around the world and shipping companies serve as key players in the global economy and in global production systems. The maritime transport industry has acted as one of the notable forces in moving the world towards globalization.

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<sup>14</sup> ICONS, Ships, slaves and competition, 3.6, p.38

### **3.2.3 A continuing globalisation process**

Increasingly, shipping companies focus on establishing business in new areas and form joint ventures with local companies. Corporate social responsibility becomes important, as will be illustrated both by the Eidesvik and Jebsens case, in such business processes.

Furthermore, market changes necessitate strategy changes. Whereas, for instance, Norwegian shipping companies' traditional Asian trade have been East-West and/or West-East, an increasing focus on intra-Asia trade is coming about. Companies such as Barber International, Gard, I M Skaugen, Odfjell, Stolt-Nielsen and Skuld have opened Asian offices to serve Asian customers in both ends of the buyer-seller divide. Intra-asia trade constitutes a different competitive environment than East-West trade, and requires not only economical and cultural skills, but also ethical and reputational sensitivity and awareness.

### **3.3 Institutional structure of industry leaves CSR superfluous?**

With globalisation civil society in general and NGOs in particular have raised the question of accountability of corporations with increased frequency. Who, in a global economy, holds corporations accountable for their actions? Human and labour rights are codified in international conventions and declarations, but breaches are often penalized neither by a company's host nor home country. Nation states have a low willingness to transfer power to international organisations. By voluntarily involving stakeholders more and imposing social and environmental minimum standards on own activities, companies have sought to meet the concerns expressed over a business sector perceived to be accountable to few other stakeholder groups than their shareholders<sup>15</sup>. To what extent does this description apply to the shipping industry?

#### **3.3.1 International organisations and regulation of the industry**

The absence of international organisations and enforcement mechanisms is less characteristic for the shipping industry than for land-based industries. With the international nature of shipping, the potential hazards unsafe ships and their cargo may present to local environments have become evident to most nation states. A belief that safety of shipping operations is achieved most effectively at the international level rather than by individual countries acting unilaterally was spread internationally. Thus, there has been a greater willingness to work to ensure global standards in shipping than in other industries.

##### **3.3.1.1 International Maritime Organisation (IMO)**

A demonstration of this willingness came with the formation of the International Maritime Organisation in 1948 entering into force from 1958. IMO is working to ensure safety and environmental standards within the shipping industry globally and has developed international

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<sup>15</sup> Such concerns have been voiced the clearest with regards to multi-national enterprises. They do, however, also represent an expression of an overall call for higher accountability of companies.



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conventions such as Safety of Life at Sea (SOLAS) and the International Convention for the Prevention of Pollution from Ships (MARPOL). The IMO has worked both within a regulatory and a self-regulatory approach towards the industry by developing both regulation becoming binding upon ratification and voluntary codes of conduct.

Traditionally, the IMO standards have concentrated on the technical dimensions of shipping activities such as ship construction, maintenance and operation of equipment. With the increasing recognition of the importance of human factors on safety, the IMO has focused more on developing standards aiming at influencing human behaviour. In 1997, the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers (STCW) came into force. The STCW convention sets global requirements to seafarers' training and competencies and empowers IMO to check governmental follow-up actions. Also, the International Safety Management Code (ISM code) entered into force in 1998. The STCW-convention and the ISM-code are expected to raise standards of management and shipboard personnel leading to improved safety and pollution prevention globally. With the increase of international terrorism, security has been lifted on the IMO-agenda resulting in the International Ship and Port Facility Security (ISPS) Code.

IMO's stronger emphasis of the human element has been increased and justified out of a wish to more effectively ensure safety and pollution prevention and not so much out of a wish to safeguard the welfare of seafarers *per se*. The latter concern has been addressed more forcefully by another UN agency, the International Labour Organisation.

### **3.3.1.2 International Labour Organisation (ILO)**

In addition to conventions outlining general labour rights, the ILO is focusing on the welfare of workers in different sectors. The special nature of the conditions of work and life of seafarers has led ILO to develop a range of conventions and recommendations for the shipping industry. Close to 50 different conventions and recommendations exist pertaining to all phases in a seafarer's career ranging from recruitment practices to repatriation. The instruments, when taken together, constitute a comprehensive set of minimum standards. They are often referred to as the "International Seafarers' Code". For example:

- the minimum age for admission to employment is defined as 15 years
- a medical examination is compulsory prior to employment aboard ship and periodically thereafter
- hiring for shipboard jobs must be conducted with no fee charged to the seafarer
- an indemnity must be paid to a seafarer who loses employment because of a shipwreck
- articles of agreement must contain certain details and they should be signed under certain conditions
- seafarers signed off in a foreign port must be repatriated
- seafarers must enjoy certain social security benefits
- officer competency certificates must be issued under certain conditions
- food, catering and accommodation must meet particular standards

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- ship's cooks and able seamen must have certain qualifications
- vocational training and welfare facilities must conform to set standards
- measures must be taken to help prevent occupational accidents to seafarers and to report, investigate and analyse such accidents
- young seafarers under the age of 18 years must be protected with respect to their health, safety and general welfare.

Both the IMO and the ILO depend on ratification of enough member states to ensure binding international rules. The fact that a wide range of international rules devised by both organisations have entered into force, illustrates the idiosyncratic nature of shipping. National governments have shown a willingness to support defined minimum standards outlining the confines of industry actors' playing field; standards that can be retrieved in national regulation, collective agreements and employment contracts globally. Thus, employment conditions of seafarers are, in many parts of the world, more regulated than those of land-based workers.

### **3.3.2 Enforcement mechanisms**

To be effective, codified rights have to be enforced. As regulatory agencies IMO and ILO are responsible for labour conditions for seafarers, marine environmental protection and safety at sea, but the agencies depend on member states to secure enforcement of rights and standards. The agencies are not empowered to ensure that its member states actually comply with the standards they have approved. The International Commission on Shipping (ICONS) in 2000 performed an extensive global stakeholder dialogue within the maritime industry and concluded that:

“There is a general view that there is a sufficiency of law and regulation, but a lack of uniform enforcement, and in some cases a deliberate intent to avoid enforcement<sup>16</sup>”

#### **3.3.2.1 Flag and Port state control**

International law assigns responsibility for supervision and protection of seafarers' welfare on Flag states. Flag states differ considerably with regard to enforcement. National laws passed often give only theoretical remedies for seafarers and flag state audits may be both infrequent and lax. Some flag states use this latitude as a competitive advantage to attract industrial actors from the sub-standard segment of the shipping market. Flag states also tend to renege more on social responsibilities than security:

“Among all of the flag state responsibilities, the one that is mostly ignored is the requirement to ensure the existence of adequate labour conditions on board vessels flying its flag<sup>17</sup>”

Although the IMO has attempted to take on a stronger compliance role through development of, for instance, the STCW White List and the voluntary Flag State Self-Assessment Form, the *de*

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<sup>16</sup> ICONS, Ships, slaves and competition, 6.21

<sup>17</sup> *Ibid.*5.28

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*facto* inability of both IMO and ILO to secure implementation and to sanction non-compliant flag states was raised by the International Commission on Shipping as a major source of concern<sup>18</sup>.

Latitude shown by flag state administrators, may, however, be countered by port state controls. ILO Convention No 147 empowers a state party to inspect any foreign ship calling at its port on the basis of a complaint or evidence that it does not conform to standards of the convention, regardless of whether the flag state of the ship has ratified it. Some flag states use this latitude as a competitive advantage to attract industrial actors from the sub-standard segment of the shipping market. Flag states also tend to renege more on social responsibilities than security. Vessels are rarely detained solely because of violation of ILO convention No 147 and inspectors will usually try to link deficiencies related to social issues to safety or environmental deficiencies<sup>19</sup>. The port state control system is not an effective mechanism to ensure that the welfare of crew meets international standards and:

“...there were strong calls from several parties for port State control authorities to greatly increase their vigilance with regard to the human elements and to give particular attention to the ILO No. 147 matters during inspections<sup>20</sup>”

### **3.3.2.2 Trade unionism, collective bargaining, detentions**

With the decoupling between flag state and ship-owning country, and with increasing international competition the growing separation between ship-owning countries and labour-supplying countries have presented trade unions with a challenge. The response to this challenge has partly been to oppose one of the perceived root causes of the challenge. The International Federation of Transportation Workers (ITF) has for half a decade worked to remove Flags of Convenience, arguing that when "genuine link" between the ship and the flag is missing, enforcement of seafarers' rights becomes problematic.

Partly, this challenge has been met by development of framework agreements forming the basis for collective bargaining (ITF-agreement, Total Crewing Cost-agreements, ILO agreement). Furthermore, more global alliances between trade unions have been formed. When the Norwegian Shipping Association (representing Norwegian ship-owners and the Norwegian flag NIS) bargain with the most influential Philippine trade union AMOSUP, Norwegian trade unions with which AMOSUP has bilateral agreements, co-sign the collective bargaining agreement, thus adding strength to the agreement. The Philippine Overseas Employment Administration (POEA) acts as arbitration authority.

In a labour supplying country like, for instance, the Philippines, several grievance procedures for crew are in place. If POEA does not support the seafarer's complaint on a principal allegedly renegeing on his responsibilities, the seafarer can call for arbitration by the National Labour Relation Commission or by voluntary arbitrators appointed by the National Conciliation and

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<sup>18</sup> *Ibid.*, 6.24

<sup>19</sup> *Ibid.*, 8.24

<sup>20</sup> *Ibid.*

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Mediation Board. Alternatively (or eventually) a seafarer can resort to the use of formal litigation within the court-system to get his grievance properly addressed.

Seafarers' work being contractual and with an oversupply of seafarers, however, some are reluctant to file formal complaints and grievances. In opposition to land-based overseas workers, an elaborate institutional system as described above (and in Appendix 3) is in place. With regards to protecting seafarers while out at sea, governments in home countries have larger difficulties.

Trade unions and confessional organisations such as Apostleship of the Sea and Stella Maris then play an important role in seeking to secure workers' rights. They perform unannounced ship visits both randomly and upon tips from seafarers. Detection of poor labour conditions and/or violations of seafarers' rights may be brought up with local authorities potentially resulting in costly detentions and negative records for ship-owners. Fear of becoming informally blacklisted may, however, make seafarers' abstain from contacting ITF or Apostleship of the Seas. And unannounced calls can also be paid on just a miniscule segment of visiting ships. Adding the reluctance of both flag and port state administrations to crack down on poor labour conditions, the fact that sub-standard ship-owners can operate their daily business with a constant violation of ILO and IMO-rules as their *modus operandi* is explained.

### **3.3.3 Consolidated ILO-convention**

Basing enforcement of rights of seafarers on the flag state principle has, as pointed out, weaknesses. The ILO is currently working in an extensive process to address decent work deficiencies in the shipping industry. By seeking to create a unified convention on seafarers' rights, including structures by which seafarers can easily raise problems and grievances and have them dealt with fairly, the ILO is aiming to overcome enforcement problems and become equally influential on the industry as the IMO-rules are. The work with the convention is aimed to be finalized in 2005 thereupon awaits ratification by enough ILO-member states to ensure a binding convention. The classification societies have started to prepare for a consolidated convention through a working group in the International Association of Classification Societies. Presently technical ship surveys might in a few years include assessments of working conditions of seafarers onboard.

## **3.4 Is there a need for CSR in shipping?**

CSR for land-based companies does involve defining self-imposed unilateral codes of conducts or development of voluntary industry guidelines and codes. The institutional structure of the shipping industry is different than for land-based industries. Whereas companies and industry associations in land-based industries to a larger extent are lacking international organisations regulating and defining industry-specific performance levels for the industry, the shipping industry has organisations passing global rules and thereby making a potential level-playing field and a more equal competitive situation possible. In this respect, the shipping industry is more progressed than land-based industry and industry associations such as the Norwegian Shipping

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Association have been proactively involved in calling for international regulation on issues such as scrapping of ships and ballast water-treatment etc.

The shipping industry has also come further than most land-based industries in developing a system for industrial relations and wage and contract negotiations in a globalised business environment<sup>21</sup>. The growing practice of collective bargaining is perceived by many as a quite effective means to protect workers and a useful supplement to regulation. Trade unions typically see constructive industrial relations, building on the premise of partly conflicting interests between workers and employers with regards to wage levels etc<sup>22</sup>, and direct negotiation of agreements with trade unions as one of the most solid indicators of social responsibility<sup>23</sup>.

Still there is a need for a higher concern for labour rights and social issues in shipping. It has been argued that many of the initiatives introduced in shipping have mostly been motivated out of concerns for damage to local environment over welfare of crew:

Compared to the improvements in construction, equipment and environmental ship standards, much more remains to be done to address the human side of shipping, to prevent loss of life, injury, injustices and the inhuman treatment of seafarers<sup>24</sup>

Despite the existence of international organisations regulating the industry as well as developed industrial relations and global alliances between trade unions organising seafarers, implementation and enforcement problems still remain. A consolidated ILO-convention may repair some of these problems within the industry. A ratified and binding consolidated ILO-convention is, nonetheless, several years ahead and voluntary initiatives by business necessary for a number of reasons.

### **3.5 CSR arguments for shipping companies**

- Governmental failure to secure enforcement of shipping rules and regulations, increases expectations' to shipping companies' ability to **self-regulate**.
- International regulation is a compromise between a wide range of actors and thus often takes on a **least common denominator**-character. Shipping companies situated in societies with higher expectations will benefit from proactively defining higher performance levels and communicating them

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<sup>21</sup> Whether this is caused by the time-lag between shipping and land-based industries on the globalisation process, a stronger push by trade unions or a more obvious need for global arrangements given that work takes place at sea, is not possible to ascertain.

<sup>22</sup> It has been argued by CSR-critics that CSR is based on a harmony model, obscuring the natural conflicts of interests between owners and employers to motivate owners to develop unilateral codes of conducts and define high self-imposed performance levels.

<sup>23</sup> <http://www.oecd.org/dataoecd/57/62/1898226.pdf>

<sup>24</sup> ICONS, Ships, slaves and competition, 1.4.

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- Land-based companies are increasingly solving challenges raised by globalisation by working with CSR. Their suppliers and business associates are more and more expected to demonstrate a commitment to social responsibility. Shipping companies increasingly need to be able to **communicate with customers** using CSR-terminology and to demonstrate supply chain responsibility.

<b>Offshore</b>	Oil and gas is a leading industry on CSR. Increasingly working to ensure suppliers meet the same performance requirements as defined by the industry itself. Descriptions of policies and systems in place to handle social responsibility frequently included in tenders and vetting schemes as prequalification criteria
<b>Bulk</b>	An internal project in Norsk Hydro focusing on supplier relations in 2002 revealed concerns over limited knowledge of CSR and supply chain ethics for suppliers, herein shipping companies. A project finding was also concerns over labour conditions and ship safety in the dry bulk segment. Increasing focus on supplier issues forecasted <sup>25</sup> .
<b>Reefers</b>	Food and beverage and the retail industry are working to ensure transparency and traceability and work increasingly with social responsibility. Supply chain involvement is central.
<b>Cruise</b>	The competition in the industry is fierce and the recruitment practices and labour conditions among crew are often described as poor <sup>26</sup> . The cruise industry is one of the few segments within the industry with individual customers and corresponding brand sensitivity thus making this industry segment particularly vulnerable to exposure of poor social performance

- Expectations to companies have changed, as illustrated by the Millennium Poll described in 1.1. The shipping industry has played a central role in bringing about many of these new expectations. By enabling global transport of goods the industry has helped give momentum to the globalisation process, a process that has altered notions of the extent of responsibility in all industries. Social and environmental dimensions of the full **life-cycle** of products as well as **co-responsibility** for business associates' performance through '*guilt by association*' are today business realities. Although the shipping industry is a more regulated industry than others, the IMO and ILO-regulations do not effectively cover these **new notions** that CSR seeks to address.
- Globalisation blurs the traditional divide between business and government. **Public and private roles** become less clear in a globalised world. Considerations that previously could be left for governmental agencies to solve, today is becoming an integral business process in companies. Oil and gas-companies have long been challenged for negative consequences such as corruption and destabilisation of developing countries that revenue from corporate activities brings about. A related situation is criticism of revenue going from shipping companies to ship registries and strengthening the power base of oppressive regimes etc. CSR offers both an explanation for why corporations increasingly are challenged on such consequences as well as a prescription for how companies can work to forestall criticism.
- Further **internationalisation** of the shipping industry through, for example, increasing use of non-OECD officers, intra-Asia trade and a growing formation of joint ventures with

<sup>25</sup> Presented at by vice president Sverre Bjerkomp at a TRENDS Conference (EU thematic network for the oil and gas-sector) May 27 2003

<sup>26</sup> ICONS, Ships, slaves and competition, 2.16

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companies in the developing world, makes cultural sensitivity, values and ethical awareness key to success.

- In the developed world, the **image and reputation** of the shipping industry is not as strong as previously<sup>27</sup>. It has been argued that quality shipping is too often silent and not communicating positive contributions from the industry. Engaging in CSR forms a good basis for working with social and environmental performance, and also gives guidance on how to engage with stakeholders and undertake activities influencing the perception of the industry positively (ref. 2.3).
- Work with CSR creates '**brand capital**' which helps the company sustain its reputation in time of crisis or accidents etc (see 4.2.2.2).
- Lastly, CSR is per definition a **voluntary** undertaking. Quality shipping companies wishing to excel further by addressing social responsibility will benefit from CSR.

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<sup>27</sup> ICONS, Ships, slaves and competition, 3.23

## 4 CSR IN SHIPPING – CASE DESCRIPTIONS

### 4.1 Eidesvik

Eidesvik is a company providing offshore supply-services and is headquartered on Bømlo, an island on the west-coast of Norway. The company is employing approximately 400 and has a local profile. Eidesvik's corporate social responsibility-activities are focus around Safety, Health and Environment, local community involvement and environmental performance. The company is actively engaged in spearheading environmentally friendly technologies and making them a reality. Eidesvik has built offshore vessels running on Liquefied Natural Gas and is working with Fuel Cells. Eidesvik has also established a company health service focusing proactively on research and development of the health and living conditions for seafarers.

Eidesvik has conducted an extensive survey of the company's most important stakeholders namely employees, employees' families and residents in the local and regional community. 1600 representatives were drawn to participate and 26% participated in the survey. In addition, Eidesvik has surveyed 63 of its local and national suppliers.

#### 4.1.1 Local community involvement

Eidesvik is strongly involved in the local community. The company is one of the largest private employers in Bømlo and is also perceived as such by a large majority of those surveyed. A majority thinks of Eidesvik as a cornerstone company and hold corresponding expectations to involvement of the company in the local community. A majority of those surveyed believe that the responsibility towards the local community consist of more than running profitable operations and securing employment.

The expectations to Eidesvik are partly created by the company itself. Eidesvik has a long-standing tradition of involvement in the local community. The remote location of Eidesvik's headquarter creates a natural incentive to work to ensure a high quality of life and a vibrant local community to attract and retain employees and their families. There is a strong sentiment in Eidesvik that the success of the company is related to the strength of the local community and this is apparent in several ways.

Local recruitment profile	<ul style="list-style-type: none"> <li>Eidesvik has a long-standing policy on employing Norwegian seafarers and is seeking to continue this policy as long as possible.</li> <li>The company also has a tradition of prioritizing members of the local community when offering employment (and a willingness to give necessary training).</li> </ul>
Local business development	<ul style="list-style-type: none"> <li>Eidesvik has a tradition of local procurement and seeks to source as much as possible from local suppliers.</li> <li>The company has also formed a venture fund to invest in Langevåg, the local community in which the headquarter is located (Langevåg Utvikling).</li> </ul>



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Infrastructure	<ul style="list-style-type: none"> <li>Eidesvik has worked actively towards local and national authorities to secure bridges connecting the islands to the mainland (Trekant-sambandet).</li> <li>The company has also worked proactively to secure broadband-connections for all local inhabitants on the island (Vikom/Bømlogrind)</li> </ul>
Local community support	<ul style="list-style-type: none"> <li>Eidesvik has built housing for young people, a local community center with recreational facilities and is supporting voluntary organisations through sponsoring activities.</li> </ul>

Eidesvik's involvement with the local community has been noticed by local stakeholders. A large majority of those surveyed see the company as socially responsible and as a positive force in the local community. The long-term horizon of the company and its local profile are stated by a majority of the employees surveyed as the explanation for why they have a high feeling of job security and feel pride working for the company.

The extensive local community involvement illustrates that CSR-thinking has been a long tradition in Eidesvik long before the recent CSR-terminology occurred. Eidesvik as a case is also illustrative for the role performed by a range of shipping companies in local communities along the coast of Norway.

#### 4.1.2 Community involvement abroad?

The Oil and Gas-industry is increasingly shifting its focus from the North Sea to areas such as for example West Africa. The Offshore supply-industry is following and Eidesvik has formed a joint venture company OMAK with a Nigerian partner and with offices in Port Hartcourt. The ambition for OMAK is to become one of the three best actors within offshore supply-services and OMAK's strategy is to meet this ambition through a focus on:

- Quality
- Transparency
- Honesty and dedication
- Use of new technology
- High Safety, Health and Environment-performance

With Eidesvik's tradition of strong local community involvement in Norway, the company has considered which role it should take towards the local community in Nigeria. Eidesvik has deliberately established the OMAK-office outside of the compound in which western companies open offices and seeks to exercise cultural sensitivity both in its relation to employees, their families and local authorities. Cultural sensitivity is, for example, necessary in choice of employees. Different communities have interests and ownerships in different sectors of the shelf outside the Nigerian coast and typically claim that ships operating in their sector are manned with employees from the community. To serve customers operating in different sectors it becomes essential to have a culturally conscious employment practice securing commercial flexibility through a diverse crew without creating tension on-board.

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Unlike oil and gas-companies that run extensive local community programs, Eidesvik and its Nigerian business partner have decided to have a limited approach to local community development. CSR-programs targeting the local community are demanding to run and often complicated by the intricate ethnic structure in Nigeria. OMAK has therefore defined its social responsibility as consisting of investing in training and competence building in local employees. Furthermore, to ensure a high level of Safety, Health and Environment as well as environmental performance is prioritized.

A majority of the surveyed believes that the same business performance and ethical principles should guide Eidesvik's operations out of Nigeria as out of Norway. A majority of Eidesvik's own employees hold this opinion, but less intensely than local community representatives. This difference may probably be explained by the fact that Eidesvik's own employees are closer to situations involving business dilemmas. The standing Eidesvik enjoys in the local community may be weakened if examples of poor social performance or detachment from the company's values and policy on corruption took place and were brought to the attention of the local community.

## **4.2 Jebsens**

### **4.2.1 Jebsens on Svalbard**

Jebsens has shipped both coal and goods on Svalbard since the 1960ies. Today only coal is shipped out of the island. With the remote location of the coal mine and Jebsens' limited land-based presence on the island, the expectations to local community involvement are low. A majority of local stakeholders' interviewed perceive the most essential part of the company's social responsibility to be to run environmentally friendly and safe operations.

In a CSR-perspective, the most interesting about Jebsens' activities out of Svalbard is that it illustrates well the tensions inherent in the relation between companies and non-governmental organisations. Furthermore, it illustrates some of the challenges involved with stakeholder dialogues. Bellona, a Norwegian environmental NGO working with climate change-issues has actively opposed the extraction of coal from Svalbard. Also, Jebsens' decision to use panamax-vessels to efficiently handle the increased output from the mining company has been problematized by Bellona. With the sensitivity of the local environment and safety-issues involved with passing a narrow strait with a strong current, a partly antagonistic process between Bellona and Jebsens evolved with governmental agencies as audience. The outcome of the process was that Jebsens was allowed to use panamax-vessels given that the company made special precautionary safety- and environmental arrangements.

### **4.2.2 Jebsens in Manila - Abojeb**

Jebsens has a diverse business in the Philippines and entered into a partnership with the Philippine conglomerate Aboitiz in 1982. Abojeb was formed as a joint venture between the two

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companies and performs a range of roles within the maritime industry. Abojob acts as a manning agency with a pool of more than 4500 seafarers of which about 2500 is in active duty. These seafarers serve on more than 132 vessels of different types belonging to approximately 30 principals of which Jebsens self is one. Abojob is also moving into the field of providing manpower-services and has recently assembled a pool of about 250 nurses and caregivers. 99% of the individuals in Abojob's system are men with the average age of 36.

Abojob also provides shipping and cargo handling-services by Jebsens-owned as well as chartered ships. About 8-10 ships currently operate in the Pacific. Furthermore, Abojob provides technical and ship management services. Domestically, Abojob handles the ship management of the Superferries owned by the leading passenger and freight company Aboitiz Transport Solutions (former WG&A). Abojob is also carrying out most of the office support-functions such as accounting and IT-services for Jebsens' other offices. Abojob's land-based staff is counting 157 people of which half work with crewing and ship management and the remaining work with shipping and in support functions.

#### **4.2.2.1 Abojob and social responsibility**

The joint venture Abojob is perceived and presented as the company's most successful both by Aboitiz and Jebsens. That the success of this co-operation has manifested itself in other ways than just the profit margins is confirmed in the stakeholder dialogue and interviews performed in Manila. Abojob-staff uphold that Abojob is well-respected and has a strong reputation and brand. They personally find it rewarding working for a reputable company, a feeling refound in the wife of seafarer with a long-standing relation to Abojob as a manning agent:

*"When somebody asks about the company my husband works for and I get the reply "nice company" I feel pride"*

External interviewees share the perception of Abojob as a professional and well-run company with a clear focus on safety, environment and the welfare of employees and crew. Several of the interviewed explain that Abojob entailed a merger of 'the best of two worlds'. That the company culture has become a mix of Norwegians' goal orientation, straight forwardness and concern with timeliness and the Philippine work ethic and ability to laugh and use humour to cope with stress and crises is seen as an important explanation for why the company has been successful.

Both the Philippine Coast Guard and the Philippine Port Authority refer to Abojob as a safety leader in the domestic industry. The company's focus on the ISM-code has not gone unnoticed. That Abojob also has been strongly engaged in the work on the ISPS-code even though it is not required for ports with only domestic operations is also emphasised by several institutions.

Interviewees explain their view of Abojob as a socially responsible company by referring to the company's active role in repatriation of seafarers, that few complaints are filed against the company from seafarers and awards of excellence frequently granted the company from the government. That there are no outstanding claims or pending cases is also often emphasised.

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Abojeb has codes and policies in place outlining both acceptable and desired behaviour by employees, have initiated environmental improvement steps and have some involvement with the local community. The company's social responsibility efforts are, however, by and large focused on crew and families of crew.

Crew	<ul style="list-style-type: none"> <li>• A full-time P&amp;I manager</li> <li>• Crew and family assistance unit</li> <li>• Proactive use of communication technology towards crew and families</li> <li>• Loyalty awards</li> <li>• Officers' conference and officers' night</li> <li>• Seafarers and families Christmas party</li> <li>• Budgeting seminar for families</li> <li>• Assertiveness and cultural awareness training (in co-operation with principals)</li> <li>• Retirement fund for seafarers</li> <li>• Participation and support to research projects on cardio-vascular diseases</li> <li>• Facilitation of video on physical and psychological challenges for overseas foreign workers.</li> </ul>
Local community involvement	<ul style="list-style-type: none"> <li>• Membership and support to Philippine Business for Social Progress</li> <li>• Purchasing of boiler suits from local humanitarian organisation</li> </ul>
Environmental foci in domestic operations	<ul style="list-style-type: none"> <li>• Disposal of garbage in the ports</li> <li>• Cleansing of oil</li> <li>• Use of separators</li> <li>• Sewage systems onboard the ships</li> </ul>
Codes and policies	<ul style="list-style-type: none"> <li>• Code of ethics</li> <li>• Policy on kinship</li> <li>• Mission and values</li> <li>• Quality policy</li> </ul>

That the company is well-respected and the activities towards welfare of the crew and their families increase loyalty is reflected statistically. Abojeb has a retention rate of 96% on crew and 850 seafarers have been with the company for more than 10 years.

On the question of social responsibility many of the interviewees, on their own initiative, bring up Abojeb and Jebsens' conduct when crises and accidents happen. The Rocknes and Superferry 14 accidents were particularly in focus.

#### 4.2.2.2 Rocknes and Superferry 14

In 2004 Aboitiz Transport System's vessel Superferry 14 of which Abojeb is the ship manager had an explosion on-board causing fatalities and injuries among passengers as well as intense speculations over whether the explosions were due to terrorism or cause by technical reasons. The same year Jebsens' own ship Rocknes capsized in Norwegian waters killing 18 seafarers.

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Regretting the accidents the interviewees nonetheless praise the company for how these accidents were handled. Several of the interviewees used the term ‘*acid test*’ in the sense that a company or manning agent’s commitment to being socially responsible was revealed with accidents and crises. “*A good state of readiness*” and “*compassionate treatment*” are among the descriptions used also by the trade unions and non-governmental organisations interviewed, one stating: “*They handled Rocknes very, very well and showed a genuine and helping attitude towards the families*”. That relatives were sent to Norway and that Jebsens in dialogue with the P&I club, through ‘extraordinary decisions’, ensured quick and satisfactory compensation were noticed by the representatives in the Philippine maritime cluster<sup>28</sup>. One of the informants felt that when all relatives were set up in hotels and long-distance phone calls were paid for etc, it illustrated how concerned Abojeb and ATS were about losing the reputation they enjoy in the Philippines. Another of the informants maintained that the handling of the accidents was exemplary and added to the reputation desired by Norwegian ship-owners as world-leading in handling incidents and accidents.

No interviewees believe that either the Abojeb or Jebsens brand were harmed by these accidents, illustrating that social responsibility activities building a strong corporate reputation create brand capital that helps companies sustain crisis. In addition to safeguarding the brand, the company’s conduct in a crisis directly impacts on the loyalty of other crew and employees vigilantly following the treatment of affected crew and relatives. An interviewed seafarer said he felt the company handled the accidents nicely: “*When you already have a name and a good reputation, you want to keep it*”. Seeing how the company handled the accidents had an effect for his feeling of loyalty to the company:

*“Then I know I won’t be neglected in a similar situation and that my family will be taken proper care of.”*

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<sup>28</sup> Appendix 1 lists institutions in the Philippine maritime cluster interviewed

## 5 CSR ISSUES FOR SHIPPING COMPANIES

### 5.1 What is a socially responsible shipping company?

Whether a company is known to be socially responsible or not, ultimately rests with how the company is perceived by its stakeholders. It is, however, possible to say that a socially responsible shipping company is a company working actively to integrate social and environmental concerns in their running business operations. And a company that manages to find a sound balance between the need for operational efficiency, shareholder value and attention to the interests of non-financial stakeholders.

CSR can be approached from both an *upside* and a *downside*-perspective. Companies may engage in CSR to avoid exposure of poor performance, unethical business practices or potential negative impacts on local communities etc. Companies also seek to get a competitive advantage from choosing to go beyond rules and regulations, working proactively to strengthen a brand or increase employee pride and loyalty. There are also certain organisational processes/activities that typically are performed by a socially responsible company.

A good approach to CSR requires focus along all three dimensions and a socially responsible shipping company therefore seeks to:

#### Avoid negative impact by:

- Ensuring international rules and regulations are respected
- Working to continuously improve environmental performance
- Upholding high ethical business standards
- Safeguarding crew against abuse onboard
- Safeguarding crew against abuse by others
  - \*relationship with manning agent
  - \*when acting as a charterer
- Taking on broader societal considerations regarding:
  - \*choice of flags
  - \*effects of products transported to sensitive regions
- Seeking to increase transparency on issues such as:
  - \*business transactions
  - \*ownership
  - \*performance records of vessels
- Striving for sound corporate governance
- Engaging to combat corruption and minimize facilitation payments

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<b>Have positive impact by:</b>	
<ul style="list-style-type: none"> <li>• Going <u>beyond</u> international rules and regulations</li> <li>• Working to optimize the welfare of crew and family                             <ul style="list-style-type: none"> <li>*Training</li> <li>*Safety, Health and Environment</li> <li>*Proactive family involvement</li> <li>*Proper emergency preparedness and treatment of crew and families in case of accidents</li> </ul> </li> <li>• Seeking to secure diversity (gender, age, ethnicity) in general staff, management and on boards</li> <li>• Taking a life-cycle approach to ships (construction, operation, disposal)</li> <li>• Choosing joint venture-model that ensures technology transfer and local development</li> <li>• Proactive local community involvement</li> </ul>	

<b>Conduct CSR activities:</b>	
<b>Determines responsibility</b>	<ul style="list-style-type: none"> <li>• Codifies code of conduct, social policy, anti-corruption guideline etc</li> <li>• Decides what the company sees as its responsibility</li> <li>• Defines goals for improvement in selected CSR areas (CSR action plan)</li> <li>• Brings progress up as part of management review-meetings</li> <li>• Communicates progress on achieving these to internal and external stakeholders</li> </ul>
<b>Engages with stakeholders</b>	<ul style="list-style-type: none"> <li>• Identifies company’s most important stakeholders</li> <li>• Seeks input and dialogue (partnership) with non-financial stakeholders                             <ul style="list-style-type: none"> <li>*trade unions</li> <li>*local community organisations</li> <li>*non-governmental organisations</li> </ul> </li> <li>• Strives to use input from stakeholders actively in formation of own strategies etc.</li> </ul>
<b>Value formation/ dilemma training</b>	<ul style="list-style-type: none"> <li>• Involves employees in defining values and corporate policies on proper business conduct</li> <li>• Empowers employees to understand business dilemmas involved with e.g. anti-corruption guidelines through training etc.</li> </ul>
<b>Performs supply chain-management</b>	<ul style="list-style-type: none"> <li>• Communicates own policies to suppliers                             <ul style="list-style-type: none"> <li>*inquire about social and environmental performance in calls for tenders</li> <li>*prequalification criteria</li> <li>*give social and environmental performance weight in final decision</li> </ul> </li> <li>• Communicates own policies to business associates</li> </ul>
<b>Works with sustainability reporting</b>	<ul style="list-style-type: none"> <li>• Defines social and environmental indicators relevant to business processes</li> <li>• Integrates indicators in reporting and management systems</li> <li>• Sets targets and communicates on performance</li> </ul>

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There is **no one way** for a company to address its social responsibility. What foci and activities are important and appropriate will differ between shipping companies depending on what type of services the company delivers and where it is present geographically<sup>29</sup>.

Shipping companies all have **on- and offshore** activities. Much of the same expectations apply to shipping companies' onshore-activities as to other purely land-based companies. However, as the core business activities of shipping companies take place at sea, much of the materiality and core elements of shipping companies' potential CSR-foci rest here. Shipping companies need to consider both dimensions and decide on the right balance.

In addition, with the international character of most shipping companies, a balance needs to be found between the company's activities in **home and host-country**. Expectations regarding local community involvement may differ between developed and developing countries. The same is the case for appropriate steps to address the welfare of crew from developed countries and labour-supplying countries in the developing world.

## 5.2 Employees and social responsibility

Employees constitute a shipping company's most important stakeholder group but this group is far from a homogenous one. There are considerable differences between land-based employees and crew as well as between crew from labour supplying-countries and crew from ship-owning companies.

### 5.2.1 Land-based employees

Land-based employees in the **developed world** typically have a set of labour laws and regulations protecting their rights and outlining employee-employer relations and agencies securing enforcement. Working with social responsibility and land-based employees therefore often implies going beyond social performance levels specified by governments.

Training	<ul style="list-style-type: none"> <li>• Are employees offered courses, in-service training, further education, career planning?</li> </ul>
Employee involvement	<ul style="list-style-type: none"> <li>• Are employees involved in management processes/strategies?</li> <li>• Are there employee representatives on the board?</li> <li>• How are relations structured with trade unions?</li> </ul>
Diversity	<ul style="list-style-type: none"> <li>• Is the staff diverse with regards to gender, age, ethnicity?</li> <li>• What is the level of female managers? Are there programs to promote management diversity?</li> <li>• Is the company involved with employing marginalised groups in the labour market (long-term unemployed, employees with disabilities)?</li> </ul>

<sup>29</sup> Some companies also look to what competitors have done/have not done and tailor their CSR-strategies accordingly to differentiate the company and gain competitive advantage



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Responsible downsizing	<ul style="list-style-type: none"> <li>In a situation with downsizing/relocation/closure, are employees properly informed in the process and assisted in finding new jobs?</li> </ul>
Employee volunteering	<ul style="list-style-type: none"> <li>Are there employee volunteering schemes in the company/employees participating in humanitarian work with corporate backing?</li> </ul>

In terms of proactive work on social performance towards land-based employees, Eidesvik's survey revealed that if the land-based employees were to give guidance on the direction of proactive work, the top three topics would be:

1. Increased contact between land-based employees and crew
2. More arrangements involving family
3. More opportunities for further education

The same foci are important for land-based employees in shipping companies in **the developing world** or in branches of western-based and –owned companies. However, formalized protection and enforcement of labour rights such as, for example, *the right to association* may here also be low or lacking. The social responsibilities of the company then increases.

Corporate steps to prevent attempts by land-based workers to unionize may go unpunished by governments but is typically viewed as socially irresponsible conduct. Media or NGO-focus on this can draw considerable negative attention to the company and thus involves reputation and brand risks. In countries like for instance China, in which unions are prohibited, companies are increasingly expected to proactively provide employees with alternative forums for raising concerns and grievances. The importance of a highly capable and attentive HR-department also grows in regions where trade unionism is rare or lacking.

### 5.2.2 Crew from developed/ship-owning country

'Western crew' typically embark for shorter periods than crew from labour supplying-countries. The strain on crew also varies between the various segments of the shipping industry. Some hardship may, however, apply to all seafarers irrespective of country of origin and industry segment. Seafarers experience isolation from families for long periods and on-board ships with mixed crews some seafarers may experience social isolation.

Charterers' push for lower freight rates, the need for low operational costs, the growing tendency of locating ports in remote areas away from sources of recreation, commerce and social interaction and the increased pace of the shipping processes in general, have resulted in fatigue due to reduced manning and shorter port stays (with reduced time for rest and recreation)<sup>30</sup>.

Quality shipping companies are, however, working with social responsibility initiatives towards crew seeking to maximize welfare on-board and ensure well-motivated and productive crew.

Such initiatives typically include:

<sup>30</sup> ICONS, Ships, slaves and competition, 3.22

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- Work with Safety, Health and Environment
- Ensure optimal communication-opportunities with family/manning agent
- Provision of welfare services and entertainment material on-board
- Cultural awareness-training

### 5.2.2.1 Crew versus land-based employees

Eidesvik's survey showed some differences of opinion between land-based personnel and crew.

- Both land-based personnel and crew feel a high **sense of pride** working for Eidesvik. Land-based employees have a tendency for a higher sense of pride than crew. One potential explanation for this may be that Eidesvik's local community involvement is most apparent to land-based employees living more closely to the corporate head-quarter than many seafarers.
- A **feeling of job security** is relatively high both with land-based personnel and crew. Land-based workers have, however, a higher sense of job security than crew. This may indicate that crew are unsure whether Eidesvik will manage to preserve its policy on crewing Norwegian seafarers.
- Both crew and land-based personnel agree that Eidesvik has **values** in place, but whereas land-based employees feel these are strong and well-known, a majority of the crew feel that the values can be made clearer and addressed more explicitly. An explanation for this difference of opinion may be that crew are closer to situations involving business dilemmas than land-based personnel based in Norway.
- Land-based employees feel a higher degree of **involvement and co-determination** than crew. Land-based employees typically also have a higher physical proximity to decision makers than crew.

From this it can be transpired that initiatives towards employees may benefit from:

- Seeking to tie crew more closely to corporate activities and give say/co-determination in corporate decision processes
- Avoid making a focus on business ethics and values an activity mostly for the corporate headquarter

When asked to give guidance on the direction of proactive work towards employees, the top three topics according to Eidesvik-crew were:

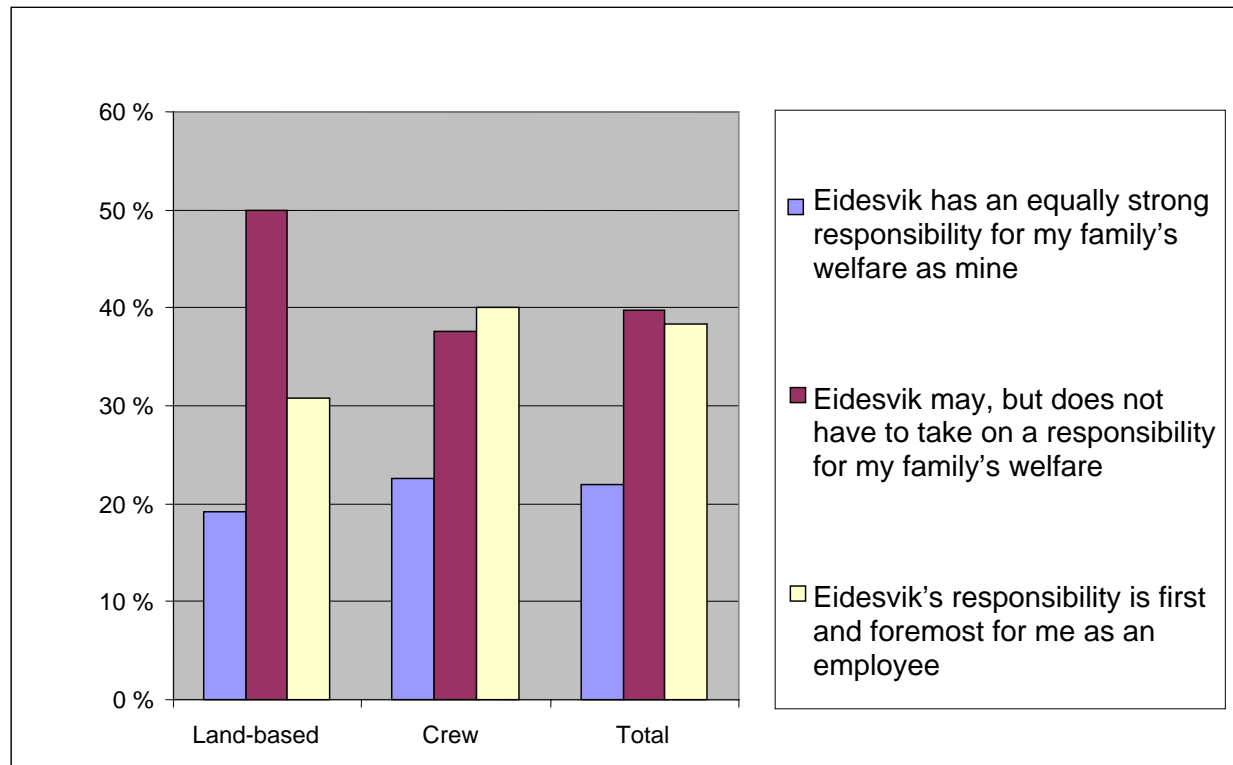
1. Continuation of work to heighten welfare services on-board
2. More training on new equipment
3. Increased contact between land-based employees and crew

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**5.2.2.2 Responsibility for family members of crew?**

Family members of crew are affected by the remoteness of their relatives' workplace. Efforts by shipping companies to alleviate this are good examples of social responsibility initiatives.

Eidesvik's survey revealed that a majority of the employees do not see family involvement and initiatives to secure family welfare as something the company has to do. It is, however, perceived as positive if the company chooses to do so.



Potential initiatives towards families of crew from developed countries may be:

- Direct involvement and communication concerning company activities and strategies
- Ensurance of optimal communication technology between crew and relatives
- High quality on planning process of work rotations
- Few unexpected changes of work periods away
- Family arrangements helping family members envision life on-board
- Create meeting points for family members
- Flexibility and support in situation with difficult family situation/family crisis

**5.2.3 Crew from labour-supplying country/developing country**

Shipping companies increasingly rely on crew from the Far East, The Indian sub-continent and Eastern Europe. In 2000 OECD-countries supplied less than one third of the global marine workforce and the figure is steadily decreasing<sup>31</sup>. The Philippines has grown to become the

<sup>31</sup> ICONS, Ships, slaves and competition; 3.18

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world's dominant labour supplying-country supplying the world's merchant fleet with close to a quarter of a million seafarers, most of whom are ratings but also a significant number of officers.

The percentage of non-OECD officers is increasing. This is positive from a CSR-perspective because it implies that ratings from developing countries have been invested in and given opportunities for advancement and career-developments. It does, however, also increase the importance and timeliness of **work with values formation** of ratings and officers. To ensure that crew live by corporate standards that are compatible with universal rights and values upheld in the ship-owning country value formation becomes key. Officers often have very little time to make decisions and to have corporate values in place thus becomes crucial, as was illustrated with the Tampa-case.

Even though the percentage of non-OECD officers is increasing, the demand for competent and experienced officers is higher than the supply causing a wage spiral set off from shipping companies' competition. In addition, ship owners face higher costs as a result of increasing litigation over contractual matters. With institutionalized rights and enforcement capacity in place, together with growing wages, other labour supplying countries become more interesting. The Philippines today face strong competition from other Far Eastern countries and in particular from China (see appendix 3 for a more detailed description of the industrial outlook for the Philippine maritime industry)

Provided that seafarers are given decent wages and rules and regulations are respected, it is nothing socially irresponsible about the fact that wages differ between crew from different countries. Labour supplying-countries stand in a competitive relationship to one another and the revenue brought into the country by seafarers constitute an important source of hard currency and national income. That shipping companies' look to new countries as labour supplying-countries is a consequence of the workings of the international economy. Shipping companies must, however, also factor in that **focusing on a new developing country with little or no enforcement of seafarers' human and labour rights raises the demand for socially responsible conduct and awareness of the company.**

**Tampa case:**

The Oslo-based Wilh Wilhelmsen, August 2001 rescued more than 400 refugees from their sinking boat, only to be refused permission to set them on land in an Australian territory.

Australian authorities, led by Prime Minister John Howard, refused to let the *Tampa* enter port at Christmas Island. He didn't want Australia to assume responsibility for the refugees. They ultimately were taken to the island nation of Nauru, where they were detained until the UN could place them in host countries.

### 5.2.3.1 Quality shipping and social responsibility

When companies in land-based industries establish business in the developing world CSR-activities typically focus on training and steps to ensure decent pay and working conditions. Quality shipping companies seek to crew their vessels with well-trained and motivated personnel and believe that by making life at sea and welfare of family at home as best as possible, productivity and loyalty to the company will follow. Important foci within quality shipping are to ensure that seafarers are:

- recruited properly

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- trained well
- given decent pay and working conditions
- working reasonable hours
- enjoy recreation and welfare facilities at sea and in port
- provided with a career path.

The overlap illustrates that much of what land-based industries refer to as ‘social responsible’ is captured in the quality shipping-terminology.

### **5.2.3.2 Ethical and reputational challenges**

The stakeholder dialogue in the Philippines revealed some reputational challenges that socially responsible shipping companies/quality operators must have a high awareness of and also help prevent.

About 250 000 Filipino seafarers serve on ships but more than 520 000 hold a seaman’s book. Between 25000 and 30000 graduate from maritime schools every year often having spent more than 3 years in college with high fees, carrying the sacrifices and high hopes of their families with them. A certain strata of these graduates serve as seafarers many years, a lower strata never finds employment thus causing the practice of ‘**errand boys**’/‘**utility boys**’ (i.e. seafarers that offer their services for free for manning agents or act as unpaid assistance for crewing managers). This practice does still occur in the lower tier of the manning agencies, but was more common earlier when the crewing manager was a powerful gatekeeper. Today professional manning agents like ABOJEB/JMI have a younger set of crewing managers working in more standardized and digitalized ways and frequently subjected to audits from the HR-department.

**Placement fees** are not uncommon. For workers seeking contracts for land-based work, it is the rule. A land-based OFW typically pays 1 months salary for placement. Seafarers are also frequently asked for placement fees. Manning agents like Abojeb/JMI which do not ask for placement fees, typically get the best seafarers and can charge fees accordingly from principals (instead of crew). ‘**Double contracts**’ was a practice mostly prevalent in the 80ies in the Philippines. The seafarers signed one contract with the manning agent and another one with the captain when bordering the ship. Today this can still be a problem in other parts of Asia but it has become less frequent in the Philippines. In the case of accidents and injuries previously reported problems with **stalling of settlements** by P&I clubs and attempts to exhaust plaintiffs are now also less frequent. With the increased importance of brand and reputation ship owners rather want quick settlements which can be positive given that settlements are not **coerced** and the plaintiff gets what he or she is entitled to. The various stakeholders interviewed were divided over the question whether the common practice of principals demanding **release documents/quit claims** after settlements to protect against additional claims was legitimate.

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Contractual work is a given characteristic of the shipping industry and the focus on productivity entails that the search for the most capable and able-bodied seafarers is key. Concerns were raised by interviewees over **invisible age limits** for seafarers; after a seafarer turns 35 it is hard to get a new contract (this is the case for ratings – officers’ popularity increase with age as their experience grows). Discrimination of pregnant women is an issue increasingly being fought on the international arena. Companies e.g. in the textile industry practicing mandatory pregnancy testing are blacklisted from Social Responsible Investment-funds and get their reputation severely damaged through negative press. Admittedly, there is a difference between local factory workers and overseas contract-workers – suffice to say that the practice of **pregnancy testing** is increasingly contentious.

As previously highlighted, the practice of blacklisting and particularly **informal blacklisting** is seen as problematic by many preventing use of formal grievance procedures and obstructing the flow of important information to principals.

Stakeholders interviewed feel that Filipino seafarers in total have a good level of rights and protection in place (see appendix 3 for a more in-dept discussion on Filipino seafarers’ rights). But whereas the Philippines has made important steps in lifting standards and reducing several of the practices as highlighted above (informal blacklisting still remains a problem though), they are more prevalent in other parts of Asia. **A socially responsible shipping company thus takes own steps to ensure welfare of crew in its relationship with manning agents and towards owners of chartered vessels (see section 6.8.1).**

### 5.2.3.3 Proactive steps to further ensure welfare of crew from labour supplying-country

Internationally, opinion is divided over whether training of seafarers is a governmental or industry responsibility<sup>32</sup>. Norwegian shipping companies have chosen to engage extensively in ensuring the competence on crew from labour supplying-countries. Such involvement takes place both as initiatives by the shipping companies themselves and through institutions such as The Norwegian Training Center in Manila.

- Investment in training not only increases productivity, but also empowers and serves as a safeguard of seafarers’ rights. Competent and experienced seafarers can better withstand attempts to attract facilitation payments and bribes etc.
- Investment in training makes a seafarer more desirable to others, but building loyalty helps safeguard the investment. A sense of loyalty may also result in fewer grievances and claims filed against a company
- Loyalty is built by exercising social responsibility. By proper crisis management, correct handling of allotments and claims, proactive family assistance and involvement, agents and principals are able to retain qualified crew by more than wages

The Norwegian Training Center-Manila (NTC-M) was established in 1990 by the Norwegian Shipowners' Association in order to provide relevant upgrading training for Filipino seafarers serving on the ships of its members.

<sup>32</sup> ICONS, 3.24

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The stakeholder dialogue conducted within the maritime cluster in the Philippines revealed that the maritime industry, including seafarers and seafarers’ organisations, did not see increased wages and contractual benefits as an important area of improvement. On the contrary, a concern for the competitiveness of Filipino crew was widespread. Other forms of proactive initiatives were, however, seen as positive as these may give significant welfare improvements both for crew and families without necessarily involving the same costs for shipping companies.

Topic	Suggestions for improvement/ social responsibility initiatives
Welfare of crew	<ul style="list-style-type: none"> <li>• <u>Improve quality of Pre Departure Seminar (PDS)</u> <ul style="list-style-type: none"> <li>-stronger emphasis on <b>HIV</b></li> <li>-more focus on implications of <b>being away</b> (on family, monotony onboard etc), not just technical and contractual matters</li> <li>-improve focus on rights and <b>terms of contracts</b> in PDS (also to reduce litigation)</li> </ul> </li>   <li>• <u>Contracts</u> <ul style="list-style-type: none"> <li>-focus on <b>reorientation</b> of rights and terms of contract on-board (by masters/owners)</li> <li>-<b>copy</b> of the contract readily available on board</li> <li>-careful with <b>extension</b> of contracts (although often wanted by seafarers); emphasise good corporate <b>forward/contingency planning</b></li> <li>-both principals and manning agents should have <b>corporate policies</b> on maximum extensions of contracts (based both on considerations of productivity and welfare of seafarer/family)</li> </ul> </li>   <li>• <u>Health insurance</u> <ul style="list-style-type: none"> <li>-principals or manning agents use ‘scale of economics’ to <b>negotiate health insurance schemes</b> covering vacation (possible to extend more than two months into vacation).</li> </ul> </li>   <li>• <u>Training</u> <ul style="list-style-type: none"> <li>-arrange <b>absentee parenting</b> courses</li> <li>-<b>reintegration</b> courses</li> <li>-cultural awareness and <b>assertiveness training</b> of crew</li> <li>-assistance in <b>retirement planning</b> (to seafarer and to ensure a joint effort of worker and family to avoid/alleviate over-dependency of OFW)</li> <li>-training of cooks in <b>nutrion/healthy cooking</b></li> <li>-overall awareness raising on nutrition, hypertension w/ professional and health consequences (important for higher rank not to ‘harass’ healthy cook)</li> <li>-support <b>female cadets</b> with placements and engagement</li> </ul> </li>   <li>• <u>Communication</u> <ul style="list-style-type: none"> <li>-ensure <b>optimal communication services</b> both with family and crewing manager (use latest technology: internet, bluetooth, SMS etc)</li> <li>-ensure good communication between principal’s <b>land-based organisation</b> and seafarers and strive to make seafarer feel part of company</li> <li>-company should communicate all <b>accidents/incidents</b> on board to relevant trade union and seaman’s physician</li> </ul> </li> </ul>



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<b>Rights of crew</b>	<ul style="list-style-type: none"> <li>• <u>Recreation/welfare on board</u> <ul style="list-style-type: none"> <li>- principals careful with cutting in <b>crew compliments</b> as cost-saving measure<sup>33</sup></li> <li>-<b>guidance counselling</b> desk onboard</li> <li>-strive to ensure <b>shore leave</b><sup>34</sup></li> <li>-give room for the <b>spiritual life</b> of the seafarers on board</li> <li>-provide <b>entertainment material</b></li> <li>-karaoke, grill parties on deck, 6 meals a day (instead of western 'rule' of 3)</li> </ul> </li> <li>• <u>Sense of importance</u> <ul style="list-style-type: none"> <li>-principal and manning agent make sure seafarer feels <b>appreciation</b> and a sense of importance with his work/role on board (awards etc)</li> </ul> </li> <li>• <u>Illegal dismissal.</u> <ul style="list-style-type: none"> <li>-companies give more attention to the "<b>2 notice-rule</b>" even though 'just cause' (not if safety is seriously threaten, but in all other cases - considerable room for improvement here). Train officers more on this.</li> </ul> </li> <li>• <u>Openness</u> <ul style="list-style-type: none"> <li>-principals and manning agents strive to create a <b>culture on-board</b> that encourages constructive feedback without fear of reprisals or informal blacklisting.</li> </ul> </li> <li>• <u>Trade unions</u> <ul style="list-style-type: none"> <li>-do principals' choices of flag have implications for <b>required union memberships</b> of seafarers? Are unions protecting individual seafarers' rights and giving real value for membership fee?<sup>35</sup></li> </ul> </li> </ul>
<b>Family welfare</b>	<ul style="list-style-type: none"> <li>• <u>Family training</u> <ul style="list-style-type: none"> <li>-support in budgeting skills and development of <b>entrepreneurship</b> (would counter passivity among allottees and take pressure of seaman; increase his productivity)</li> <li>-<b>training of children</b> in understanding OFWs situation, children's own rights and responsibilities (often just money coming in substituting for a father figure, drug problems etc). 'Familyday on ship' etc.</li> </ul> </li> <li>• <u>Relation with manning agent</u> <ul style="list-style-type: none"> <li>-manning agents should strive to establish '<b>family-relation</b>' with seafarer's family. Remember to honour wives on Mother's day (and the entire family at Xmas). Have family help-line/family center.</li> <li>-make more <b>home visits</b> (to detect problems). Avoid always summoning the family to them</li> <li>-facilitate more <b>contact between wives/families</b> (families of seafarers have communalities and they should guide each other/peer group counselling in lady's associations/family circles (meaningful for the experienced spouses and useful for newer ones).</li> </ul> </li> </ul>
<b>Transparency /Openness</b>	<ul style="list-style-type: none"> <li>• <u>Contract flexibility</u> <ul style="list-style-type: none"> <li>-make it easier to <b>go home in the middle of the contract</b> for certain occasions without breaking off contract (wife giving birth, illness in immediate family)</li> </ul> </li> <li>• Always admit Apostleship of the Sea representatives on board the ship when requested</li> <li>• Encourage <b>open and honest feedback</b> from seafarers without fear of reprisals or informal blacklisting</li> </ul>

<sup>33</sup> Several interviewees rather wanted ILO-contract with crew compliments intact than ITF with reductions in crew compliments

<sup>34</sup> With reduced crew compliments and higher overall business pace crew often have to stay on board ship in ports. Reported as a significant source of frustration among seafarers. The ISPS-code is, as an unintended side effect, causing similar situations for seafarers.

<sup>35</sup> See Appendix 3 for opinions from stakeholders in the maritime cluster on the role of seafarers' unions in the Philippines



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<b>Statistics</b>	<ul style="list-style-type: none"> <li>Principals and manning agents could benefit on more collaboration with e.g. health clinics on prevention (rather than treatment). Increased efforts on <b>providing statistics, joint analyses</b> and issuing of corrective measures could be beneficial.</li> </ul>
<b>Education/ Information</b>	<ul style="list-style-type: none"> <li>Principals and manning agents could make <b>audits/queries to maritime schools</b> (would benefit the quality segment, possibly eliminate some of the unprofessional institutions and reduce manning agents' need for performing own testing)</li> <li>Principals <b>provide information</b> about the international maritime industry to seafarers (also direct information to Philippine maritime agencies to keep them updated about best practice, regulations and other countries' activities etc. Would secure quality of the Philippines as a flag state)</li> </ul>

#### 5.2.3.4 Whistleblowing and a culture of openness

That employment at sea is contractual and that seafarers are in constant rotation are given characteristics of shipping and helps secure efficiency. A consequence of this, as in other industries such as the aviation industry, is a set of highly specialised roles and a strict hierarchy on-board.

Hierarchical organisations with strong chains of command are often conducive to operational efficiency, but do bring along a risk of oppressing bottom-up information and/or grievances etc. Land-based organisations are increasingly recognizing the importance of creating an organisational culture that accepts and encourages problem-raising. Although seeking to respect the line-principle, companies also recognize the importance of providing employees with ethical safety-valve options like, for instance, a neutral ombudsman arrangement. Whistleblowing, like it for instance happened in the Enron-case, occurs when employees find it impossible to raise concerns of corporate activities within the organisation. Companies working proactively with organisational cultures and to establish internal mechanisms for voicing concern are less prone to experience external whistleblowing.

Seafarers' contracts typically outline a formal grievance machinery on-board. Seafarers' work being contractual and informal blacklisting among manning agents not uncommon, are however factors complicating active use of formal grievance procedures. In addition, seafarers often refrain from involving governmental organisations over grievances both in home-land and ports of call for fear of retribution. Anonymous calls on trade unions such as ITF and faith-based organisations such as Apostleship of the Seas and Stella Maris with information on safety and welfare concerns are often seen as the only viable option by seafarers.

Some seafarers are troublemakers. Others are labelled troublemakers while trying to address problematic aspects regarding conditions on board ships etc. Several of the interviewees in the maritime cluster in the Philippines stressed that **it is the responsibility of manning agents to bring up a culture of fairness and encourage honest feedback from seafarers**. Some of the interviewees felt that manning agents were too closely connected to principals to manage this in a satisfactory manner and that they were in fact doing the principals a disservice when holding back unpleasanties. It is the **responsibility of principals to encourage a culture on board that allows grievances being raised and to emphasise to the manning agents that also difficult**

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**feedback is desired.** Good examples of what manning agents can do to obtain and encourage feedback are Abojeb's assertiveness training and emphasis on proper debriefing of crew. A seafarer with Abojeb felt that it was accepted to bring up grievances with Abojeb. He also felt that the company acted on legitimate grievances both towards domestic and foreign principals. Furthermore, he stressed that **it is the responsibility of seamen to convey their grievances in a constructive way.**

Cultures that discourage open communication and divergent opinion are problematic in that they can both lead to violation of rights and increase risk of accidents. Socially responsible manning agents and principals should (and to some extent do), recognize the **importance of genuine feedback** regarding working conditions and potential difficulties/abuse on board. Without this, productivity on board can be lowered ('unhappy ships' can develop without warning signs being detected), principals' reputation harmed, and the propensity among seafarers to file time-consuming and potentially costly claims against a shipping company may increase.

#### A socially responsible shipping company:

<b>Training</b>	<ul style="list-style-type: none"> <li>• Stresses the wish for open communication on-board through Pre-departure seminars and other training</li> <li>• Gives e.g. cultural awareness and assertiveness training</li> <li>• Gives public recognition to crew that have brought up difficult issues constructively e.g. at officers' events etc.</li> </ul>
<b>Manning agents</b>	<ul style="list-style-type: none"> <li>• Communicates clearly to manning agents that informal blacklisting is considered unacceptable (despite concerns for efficiency and flexibility of crew)</li> <li>• Reserves a contractual right to terminate business relationship with manning agent if found practicing informal blacklisting.</li> <li>• Exercises this right when appropriate</li> </ul>

#### 5.2.3.5 China and rights of seafarers

As maintained previously, social responsibilities for shipping companies grow when focusing on new labour supplying countries. With poor institutional protection and governmental capacity seafarers' rights require particular attention from the business sector. Shipping companies are increasingly employing Chinese crew and the Norwegian Shipowners' Association has initiated a cadet training program in Shanghai similar to the activities once initiated at the Norwegian Training Center in the Philippines. This trend necessitates a particularly high corporate awareness and sensitivity regarding human and labour rights.

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Unlike many other Far Eastern neighbouring countries, the ‘problem’ with China is not simply a low level of rules and regulation in place and or poor governmental capacity. As an absolutist state, human rights such as freedom of speech and the right to unionize are not present and often opposed directly by government. Trade-unionism in China is by and large a governmental activity and all trade-unionist activities are gathered under the umbrella of the governmentally controlled All-Chinese Federation of Trade Unions (ACFTU).

The Chinese governmentally run manning agencies and international shipping companies have had a long-standing discussion over a principal’s right to form its’ own relations with seafarers. Considerable ethical and reputational concerns also exist with regards to payment of crew allotments that have been expected to be channelled through the manning agent. There have been several instances of seafarers’ giving information to the ITF on how much they are paid revealing that the governmental manning agent retain a considerable amount of the seafarers’ allotment. This does not represent just a violation of a seafarer’s contractual rights, but also a considerable brand risk for the shipping company. Even though it is the manning agent that withholds parts of the allotment, the shipping company may be held responsible by the public at large.

Furthermore, seafarers that have given information to human rights activist or international trade union representatives have been prosecuted by the Chinese government and accused of leaking state secrets. NGO-attention from for example Amnesty has been considerable in these situations, illustrating the fact that along with the plentiful business opportunities arising in China presently are potential reputational pitfalls.

Norwegian shipping companies have, to a large degree, taken these CSR-risks into consideration and have been somewhat apprehensive with regards to entering the Chinese market<sup>36</sup>. Recently, Chinese governments have made what has been described as a necessary market adjustment opening for international shipping companies forming their own manning agencies in China. This may repair some of the dilemmas concerning, for example, correct handling of allotments. Vigilance concerning human and labour rights is still imperative and NGOs and corporate watchdogs’ monitor corporate behaviour in China closely. With the lacking trade unionism, shipping companies, like land-based companies, should strive to provide both on- and offshore employees with alternative fora for grievances and redress. Furthermore, building strong and competent Human Resource-departments becomes essential.

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<sup>36</sup> This is also, of course, caused also by commercial motivations with regards to choosing the right entrance-strategy

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**A socially responsible shipping company focusing on China should:**

<b>Codes/values</b>	<ul style="list-style-type: none"> <li>• Have a corporate policy outlining clear support to human and labour rights in place</li> <li>• Consult with relevant NGOs and trade unions over human and labour rights issues (Amnesty, ITF etc)</li> </ul>
<b>Special steps</b>	<ul style="list-style-type: none"> <li>• Avoid paying allotments to government owned manning agencies without reserving the right to audit</li> <li>• Proceed with caution when forming joint ventures</li> <li>• Develop strong HR-function for land-based employees as well as crew</li> <li>• Consider providing employees and crew with alternative means of redress etc.</li> </ul>

**5.2.4 Reporting on employees and social responsibility**

Shipping companies' reporting is progressed with regards to financial and environmental performance. Many shipping companies work and report on Safety, Health and Environment, but there is still considerable room for improvement on corporate reporting of social performance.

The Global Reporting Initiative, in its guidelines to corporations seeking to report according to a triple bottom-line outlines the following indicators on employees and social responsibility.

Shipping companies should look to these guidelines and indicators, identify those that are meaningful in a shipping context and seek to broaden the content of the annual report, expand environmental reporting or devise sustainability/CSR reports.

	Core indicator	Additional indicator
<b>Employment</b>	<p>LA1: Breakdown of workforce, where possible, by region/country, status (employee/non-employee), employment type (full time/part time), and by employment contract (indefinite or permanent/fixed term or temporary).</p> <p>Also identify workforce retained in conjunction with other employers (temporary agency workers or workers in co-employment relationships), segmented by region/country</p> <p>LA2: Net employment creation and average turnover segmented by region/country.</p>	<p>LA12: Employee benefits beyond those legally mandated. (e.g., contributions to health care, disability, maternity, education, and retirement).</p>
<b>Labour/management relations</b>	<p>LA3: Percentage of employees represented by independent trade union organisations or other bona fide employee representatives broken down geographically OR percentage</p>	<p>LA13: Provision for formal worker representation in decision making or management, including corporate governance.</p>

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	of employees covered by collective bargaining agreements broken down by region/country.	
	LA4: Policy and procedures involving information, consultation, and negotiation with employees over changes in the reporting organisation's operations (e.g., restructuring).	
<b>Health and Safety</b>	LA5: Practices on recording and notification of occupational accidents and diseases, and how they relate to the ILO Code of Practice on Recording and Notification of Occupational Accidents and Diseases.	LA14: Evidence of substantial compliance with the ILO Guidelines for Occupational Health Management Systems.
	LA6: Description of formal joint health and safety committees comprising management and worker representatives and proportion of workforce covered by any such committees.	LA15: Description of formal agreements with trade unions or other bona fide employee representatives covering health and safety at work and proportion of the workforce covered by any such agreements.
	LA7: Standard injury, lost day, and absentee rates and number of work-related fatalities (including subcontracted workers).	
	LA8: Description of policies or programmes (for the workplace and beyond) on HIV/AIDS.	
<b>Training and Education</b>	LA9: Average hours of training per year per employee by category of employee. (e.g., senior management, middle management, professional, technical, administrative, production, and maintenance).	LA16: Description of programmes to support the continued employability of employees and to manage career endings.
		LA17: Specific policies and programmes for skills management or for lifelong learning.
<b>Diversity and opportunity</b>	LA10: Description of equal opportunity policies or programmes, as well as monitoring systems to ensure compliance and results of monitoring.  Equal opportunity policies may address workplace harassment and affirmative action relative to historical patterns of discrimination.	
	LA11: Composition of senior management and corporate governance bodies (including the board of directors), including female/male ratio and other indicators of diversity as culturally appropriate.	

### 5.3 Security and social responsibility

The safety-focus within the industry has been complemented recently with a strong focus on security. The growth in global insecurity has resulted in a call for all sectors of society to contribute in preventing and combating terrorism. Not only do ships, particularly ferries and cruise-liners, represent potentially vulnerable targets for terrorists. The hijacking of planes in the 9/11 attacks, also resulted in a renewed fear that ships may not only be targets of terrorist acts, but also serve as *means* of terrorist attacks. Thus, to address fears over what containers may hold by working with supply chain-security has also grown in importance. Piracy and acts of armed robbery against ships are also realities in several parts of the world that shipping companies are seeking to tackle to protect crew as well as assets.

The ISPS-code contains mandatory requirements for how shipping companies should address ship and port security issues. To work proactively through, for example, scenario work to identify security threats, by issuing security plans and giving proper training to crew are significant activities a socially responsible shipping company may perform both to secure the welfare of crew and towards society at large. With tighter security measures in place, however, trade-offs with regards to individual freedoms and rights sometimes occur. Although one of the primary motivations for the ISPS-code is to protect seafarers, one unintended side-effect has been reported as more frequent limitations on shore leaves for seafarers.

**A socially responsible shipping company seeks to engage proactively to ensure security, while remaining conscious on potential implications security measures may have on individuals seafarers' welfare.**

### 5.4 Choice of flags

How issues related to the flag state-institute and choice of flag are handled are important in a discussion on social responsibility for shipping companies. There are several reasons for this:

- Choice of flag is influencing on the rights and welfare of seafarers
- The separation between flag-state and ship-owning country is hard to fathom for the general public
- Flags of convenience attract trade union and NGO-attention
- Revenue from ship registries can impact both positively and negatively in flag-state
- Questions companies traditionally have seen as political are increasingly perceived as business responsibilities by stakeholders (as previously illustrated by the Millennium Poll).

Flag-states differ with regards to the extent to which they have ratified IMO and ILO-conventions. The zeal and frequency with which flag-state inspections are performed and/or the quality of organisations holding delegated flag-state authority (Responsible Organisation) also vary. **Thus, whereas corporations in land-based industries seek to self-impose social and environmental performance levels by devising codes of conducts and social policies etc. shipping companies make similar decisions when deciding upon flags.**

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Quality operators choose quality flags belonging to flag-states that are conducting their operations in accordance with international convention requirements, administered by well-run registries and with inspections performed by quality Responsible Organisations (classification societies) in the instances where flag-state authority has been delegated.

#### 5.4.1 Use of flag-state revenue

Flag state-revenue constitutes an important source of income for developing countries. However, in cases where revenue consolidates oppressive governments' powerbase or indirectly add to destabilisation of regions, corporations in the 'giving end' of the of revenue stream often find themselves attributed guilt by media and civil society. The oil and gas-industry has in particular experienced this, but the shipping industry has also been attributed blame for actions of governments in the 'receiving end'. This was particularly evident with the UN revelation that revenue from the Liberian registry had been paid to accounts in Sierra Leone as payments for weapons used in the civil war in Liberia. Quality operators that had chosen a flag with strong safety and quality statistics administered by a registry known to be well-run found themselves under pressure to reflag and were criticised for not assuming responsibility for the effects of the revenue stream<sup>37</sup> (see appendix 4 for a more in-depth description of the controversy over the Liberian flag).

The example of the Liberian flag is interesting because it illustrates well challenges corporations in all sectors increasingly are faced with. How far does a corporation's responsibility extend and where should the line between politics and commercial decisions be drawn?

As illustrated previously, brand and reputation have increasing weight and commercial implications should be broadened to include these considerations. Oil and gas-corporations have increasingly come to recognize a responsibility for effects of revenue streams into developing countries, working with promoting good governance and seeking transparency of payments to minimize corruption.

Shipping companies' often have no local presence in flag-states and the revenue streams from shipping companies are also considerably smaller than from oil and gas-industry. Choice of flag remains a decision for individual shipping companies. However, **shipping companies should seek to include broader considerations on effects of revenue and extend profitability considerations to include likelihood of brand tarnishing.** Change of flag is not a too complicated procedure, but uncertainty over whether competitors may get a commercial benefit from not changing flag often prevents shipping companies from making a decision to reflag.

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<sup>37</sup> Part of this criticism also sprang out of other actors' frustration over shipping companies not utilizing a potential to impact positively.

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	<b>Choice of flag</b>	<b>Reflag?</b>
<b>Traditional foci</b>	<ul style="list-style-type: none"> <li>• coverage of ILO/IMO-requirements</li> <li>• tonnage loss ratio of flag</li> <li>• port state control detention records</li> <li>• reputation of registry</li> </ul>	<ul style="list-style-type: none"> <li>• quality and safety records of flag weakening?</li> <li>• profitability considerations</li> <li>• accusations of 'flag-hopping' likely?</li> </ul>
<b>CSR foci</b>	<ul style="list-style-type: none"> <li>• is the flag-state politically stable?</li> <li>• are there UN sanctions/embargos on other goods from country?</li> <li>• how transparent are payments from registry?</li> <li>• may revenue increase recipient's powerbase and impact negatively on civil society?</li> </ul>	<ul style="list-style-type: none"> <li>• have there been calls to reflag by NGOs/industry association etc?</li> <li>• may a change of flag:                             <ul style="list-style-type: none"> <li>*help minimize negative influence on country?</li> <li>*reduce corporate brand risk?</li> </ul> </li> </ul>

<b>Other foci</b>	
<b>Communication</b>	<ul style="list-style-type: none"> <li>• Shipping companies have an improvement potential in communicating more openly with surroundings on dilemmas surrounding flag states and revenue</li> </ul>
<b>Transparency</b>	<ul style="list-style-type: none"> <li>• Increased transparency from shipping companies over payments to registry increases accountability</li> <li>• Shipping companies may influence registries to be more open and accountable regarding payments</li> </ul>



## 5.5 Corruption

Whereas bribery and corruption traditionally have been seen as an inescapable part of the international business process, the efforts to address and counter the problems in their wake have intensified considerably the last decade. Corruption prevents well-functioning business processes and curbs development in countries. Both the international community, NGOs, national governments and the business community are more involved than ever in work against corruption. The UN has issued declarations against corruption and bribery in international commercial transactions, the OECD has issued a convention on combating bribery and Transparency International as an international non-governmental organisation devoted to combating corruption brings civil society, business, and governments together in a powerful global coalition. National governments are also increasingly passing regulations that hold companies accountable for business practices not only in their home-country but also in host-countries. For example, the US has passed the Foreign Corrupt Practices Act and Norwegian companies are also regulated in a similar practice, a fact that stands in stark contrast to the previous practice of making bribes given in international business tax deductible.

Corruption is a challenge for all internationally oriented industries, the shipping industry being no exemption. With the high pace of the business process in shipping, the many points of contact with governmental gatekeepers and presence in developing countries the industry have to constantly tackle questions of corruption, bribery and facilitation payments. With growing global attention on corporate behaviour in general and corruption in particular, companies increasingly have to factor in potential reputation and brand impairments into decisions whether to secure expedite business transactions etc.

As a topic corruption is among the most sensitive. All interviewees during the course of this project state the same opinion that corruption awareness is highly relevant within shipping. With regards to how to deal with corruption informants, however, differ considerably in comments given. Whereas some interviewees from the industry advocate a zero-tolerance approach to corruption, others have, for example, stated that "*everyone pays off in Asia and if they say they don't then they are lying*". All the stakeholders in the maritime cluster in Manila also support the view that corruption is widespread and that bribing-situations in labour supplying-countries in particular are numerous.

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	<b>Bribing situation</b>	<b>Preventive measures</b>
<b>Seafarers</b>	<ul style="list-style-type: none"> <li>• Bribing of medical examiner to pass medical examination</li> <li>• Purchasing of illegitimate training certificates from training centres</li> <li>• Bribing of crewing manager to get contract/hide problems for principal</li> </ul>	<ul style="list-style-type: none"> <li>• Quality manning agents perform: <ul style="list-style-type: none"> <li>- extensive qualification check</li> <li>- auditing of medical clinic ('anonymous seafarer' etc)</li> <li>-internal auditing</li> </ul> </li> </ul>
<b>Manning agents</b>	<ul style="list-style-type: none"> <li>• Reported instances of crewing agents obtaining commissions from training centres (also as advances)</li> <li>• Placement fees from seafarers not uncommon among manning agents</li> </ul>	<ul style="list-style-type: none"> <li>• Policy of kinship</li> <li>• Policy on gifts</li> <li>• Internal auditing, attentive HR-department (performing spot-check in accounting)</li> <li>• Pre-departure seminar and investigation of crewing manager's conduct during debriefing of crew</li> </ul>
<b>Shipping companies</b>	<ul style="list-style-type: none"> <li>• Kick-backs received from people placing cargo</li> <li>• Use of bribery/corruption to get client contract</li> <li>• Port Handling authorities frequently use operational excuses (limited cargo space, ships in the way delaying dispatchment or turn-around). <i>Quick dispatchment agreement</i>/payments by shipping company often used to get priority. Paid by intermediaries/ port agents (not invoiced, but implicit in the fee paid to agent).</li> <li>• Sometimes there are strong financial incentives to avoid dispatchment fees etc (if vessel is time-chartered). Agent will typically turn to cargo owner and inquire about use of dispatchment fees</li> </ul>	<ul style="list-style-type: none"> <li>• Codes, awareness raising and auditing (internal and of suppliers etc)</li> <li>• Rotation of employees</li> <li>• Philippine governmental agencies wished for companies to: <ol style="list-style-type: none"> <li>1. Forget about short cuts. Accept standard processing time.</li> <li>2. Focus on planning own operations properly and refraining from resorting to bribing when things become urgent.</li> <li>3. Talk more directly to government regarding what is problematic/should be improved (instead of just referring to government as corrupt and incapable).</li> </ol> </li> </ul>
<b>Government</b>	<ul style="list-style-type: none"> <li>• Red-tape, low governmental efficiency and discretionary freedom create opportunity for bribery and corruption (particularly in labour supplying countries)</li> </ul>	<ul style="list-style-type: none"> <li>• minimization of discretionary documents</li> <li>• increased standardisation, digitalization and simplification of processing</li> <li>• standard processing time</li> <li>• introduction of expedite processing fee to government (instead of clerk)</li> </ul>

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Although advocacy of business processes free from bribery and facilitation payments is seen as naïve and as wishful thinking by some, there are examples of industry actors seeking to maintain its quality profile and run successful operations without resorting to use of bribery or facilitation payments. Eidesvik representatives believe it not to be impossible to run ‘clean operations’ in West-Africa. They do, however, argue that it takes both more careful planning as well as acceptance of the fact that it may take more time to get things through customs etc. Seeing competitors win contracts by use of unethical methods constitutes a strong source of frustration (as well as test of patience) for companies. It also takes stamina to await a customer willing to pay for quality and ‘clean operations’.

### A socially responsible shipping company addresses the topic of corruption in several ways:

<b>Standards and codes</b>	<ul style="list-style-type: none"> <li>• Does the company have a code of conduct, anti-corruption policy indicating the company’s stance on corruption, bribery, facilitation payments?</li> <li>• Is the code/policy in line with:               <ul style="list-style-type: none"> <li>-relevant national regulations</li> <li>- UN convention against corruption</li> <li>-Transparency International’s guidelines</li> </ul> </li> <li>• Does the code/policy address both ‘receiving and giving’/’supply and demand’- aspects of bribery and corruption?</li> </ul>
<b>Education and training</b>	<ul style="list-style-type: none"> <li>• Are codes/policy communicated clearly to employees?</li> <li>• Are they given training on handling business dilemmas involved with following code?               <ul style="list-style-type: none"> <li>-difference between gift and a bribe?</li> <li>-boundary between relationship building and bribing?</li> </ul> </li> </ul>
<b>Due diligence</b>	<ul style="list-style-type: none"> <li>• Is corruption and bribery an integral part of internal audits etc?</li> <li>• Do identified breaches of code get consequences?</li> <li>• Is attitude to acceptable work methods investigated upon formation of joint ventures and other involvement with business associates?</li> <li>• Is the scope of work and accepted methods for involved agents/intermediaries used regulated well?</li> <li>• Is reputation of agent checked with other companies?</li> <li>• Are agents used adding real value?</li> <li>• Are personnel situated in sensitive areas rotated after a given period?</li> </ul>
<b>Communication and advocacy</b>	<ul style="list-style-type: none"> <li>• Is the company’s stance on corruption and bribes communicated to business associates, clients, suppliers?</li> </ul>
<b>Joint industry cooperation</b>	<ul style="list-style-type: none"> <li>• Are shipping companies sharing best-practice with regards to successful ways of dealing with demand-situations of bribery etc?</li> <li>• Are industry associations working proactively to assist member companies in questions on corruption?</li> </ul>

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Companies increasingly report on their efforts in combating corruption. The Global reporting initiative has proposed that companies report on the following indicators to increase transparency and prevent corruption.

Global Reporting initiative	Core indicator	Additional indicator
<b>Bribery and corruption</b>	<p><b>SO2.</b> Description of the policy, procedures/management systems, and compliance mechanisms for organisations and employees addressing bribery and corruption.</p> <p>Include a description of how the organisation meets the requirements of the OECD Convention on Combating Bribery.</p>	
<b>Political contributions</b>	<p><b>SO3.</b> Description of policy, procedures/management systems, and compliance mechanisms for managing political lobbying and contributions.</p>	<p><b>SO5.</b> Amount of money paid to political parties and institutions whose prime function is to fund political parties or their candidates.</p>

## 5.6 Transparency

The overall call for increased openness by corporations with regards to corporate activities and their environmental and social effects has, as previously highlighted, grown with the globalisation process. The international and global nature of the shipping industry makes for complex organisational constellations. With a large number of actors involved in the operation of a ship, typically geographically dispersed and each with own concerns over commercial confidentiality, the shipping industry is perceived by many stakeholders as non-transparent and by some as dominated by a *'culture of secrecy'*<sup>38</sup>.

By helping to make the industry more transparent and communicating more openly with stakeholders, shipping companies can demonstrate social responsibility. Increased efforts by quality operators towards transparency, eliminations of non-transparent industrial practices and somewhat lifting corporate veils are important for a number of reasons:

- Better informed markets (increased opportunities for clients to reward or punish performance of suppliers from shipping industry)
- Port state control authorities can target sub-standard operators more effectively (making quality shipping more commercially beneficial)
- Improves overall reputation and trust in industry

<sup>38</sup> ICONS, Ships, slaves and competition; 9.1

**A socially responsible shipping company seeks to work with transparency by:**

<b>Ownership structures</b>	<ul style="list-style-type: none"> <li>Increasing visibility of: <ul style="list-style-type: none"> <li>-operational control</li> <li>-beneficial owners</li> </ul> </li> <li>Seeking to avoid partaking in deliberately designed ship owning structures enabling evasion of potential responsibility</li> </ul>
<b>Ship operation and performance data</b>	<ul style="list-style-type: none"> <li>Seeking full disclosure of information regarding: <ul style="list-style-type: none"> <li>-Class transfers</li> <li>-Registry transfers</li> <li>-Charterers</li> <li>-Cargo owners</li> </ul> </li> <li>Publishing information regarding: <ul style="list-style-type: none"> <li>-Injuries and casualties</li> <li>-Port state control detention history</li> </ul> </li> <li>Reporting on environmental and social indicators</li> </ul>
<b>Revenue streams</b>	<ul style="list-style-type: none"> <li>Increasing visibility of flag state payments</li> <li>Increasing visibility regarding donations (to parties and/or governmental institutions in particular)</li> </ul>
<b>Advocacy</b>	<ul style="list-style-type: none"> <li>Encourage Protection and Indemnity clubs to provide consolidated industry information</li> <li>Encourage transparency of flag state registries</li> </ul>
<b>Joint industry cooperation</b>	<ul style="list-style-type: none"> <li>Support and share information through initiatives such as the Equices database etc.</li> <li>Joint industry-initiative regarding flag state payments</li> </ul>

Transparency is often hindered by corporations' fear of first-mover disadvantages. The Oil and Gas-industry has been challenged by a broad coalition of NGOs in a *publishwhatyoupay-campaign* to increase transparency over sign-on fees, taxes etc. paid to national governments. Only transparent business operations can enable civil society to monitor revenue streams and hold own governments accountable. The *Extractive industry Transparency-initiative* is a response to the *publishwhatyoupay-campaign* and implies significant steps towards more transparency over payments. This initiative has interesting learning points for how the shipping industry may tackle some of the criticism over flag-state revenue. **Increased transparency over flag-state payments is most likely best achieved by a coalition of quality shipping companies making joint efforts.**

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<b>Publishwhatyoupay-campaign</b>	<p>The campaign aims to help citizens of resource-rich developing countries hold their governments accountable for the management of revenues from the oil, gas and mining industries</p> <p>The coalition of over 200 NGOs worldwide calls for the mandatory disclosure of the payments made by oil, gas and mining companies' to all governments for the extraction of natural resources</p> <p><a href="http://www.publishwhatyoupay.org">http://www.publishwhatyoupay.org</a></p>
<b>Extractive industry-initiative</b>	<p>Announced by UK Prime Minister Tony Blair at the World Summit on Sustainable Development in Johannesburg, September 2002 with an aim to increase transparency over payments by companies to governments and government-linked entities, as well as transparency over revenues by those host country governments.</p> <p>Revenues from oil, gas and mining companies, in the form of taxes, royalties, signature bonuses and other payments should be an important engine for economic growth and social development in developing and transition countries. However, the lack of accountability and transparency in these revenues can exacerbate poor governance and lead to corruption, conflict and poverty.</p> <p><a href="http://www2.dfid.gov.uk/news/files/extractiveindustries.asp">http://www2.dfid.gov.uk/news/files/extractiveindustries.asp</a></p>

## 5.7 Local community involvement

To be perceived as a good 'corporate citizen' is increasingly on companies' agenda. Minimizing negative environmental impact and also proactively engaging with the local community are corporate means to assume a corporate citizenship-role. Corporations within land-based industries typically have strong noticeable presence in local communities.

- Consultations with local governments/local community organisations
- Employee volunteering schemes
- Sponsoring of voluntary/idealistic organisations
- Local recruitment and use of local suppliers

Shipping companies' administrations are land-based and shipping companies also perform many of these example activities towards their local communities. For example, Abojeb in Manila is purchasing boiler suits produced by an idealistic organisation and supports the foundation Philippine Business for Social Progress. Eidesvik with its local recruitment profile, its efforts to promote local business development and its sponsoring of voluntary organisations etc is strongly intertwined with the local community.

Shipping companies' core business process does, however, take place at sea. Thus, expectations to the extent to which shipping companies focus CSR-efforts at local community involvement may differ from expectations to land-based industries.

### **5.7.1 Expectations to local community involvement of shipping companies**

Expectations to shipping companies' involvement with local communities are lower than expectations to entirely land-based companies. Interviewees on Svalbard where Jebsens has a long tradition of operating but a limited land-based presence believe the company should keep the focus on securing high level of environmental and social performance at sea. The same opinion is held by a large majority of the interviewees in the maritime cluster in Manila. The company's responsibility is perceived to be associated with operations at sea and proactive initiatives by the company should be associated with life at sea.

In the case of Eidesvik, however, the company faces considerably higher expectations to local community involvement; expectations perhaps also brought about by the company itself and its history of involvement. The Eidesvik-example is, however, illustrative of a trend that shipping companies located and/or sprung out of communities in which the company plays a cornerstone role or is among the most significant employers both of maritime and land-based personnel are faced with higher expectations to land-based community involvement.

### **5.7.2 From sponsoring to strategic local community investment**

Corporations and local communities are interdependent. Corporations rely on the health, stability and prosperity of communities in which they operate and local communities rely on companies to provide jobs, wages and benefits, and tax revenues. In addition, many companies have a tradition of sponsoring or donating money to causes or community-based voluntary organisations.

Land-based companies working with CSR are increasingly moving from giving donations and sponsoring to making more focused investments in local communities in which they operate. By looking at how business assets may positively impact communities, companies increasingly investigate opportunities for:

- Sourcing from local businesses
- Hiring and training candidates from local community
- Investing in local banks and financial vehicles impacting communities
- Locating offices and sites in ways contributing to local economic development (e.g. clusters)
- Participating positively in local policy debates

Several of these activities are performed by shipping companies such as Eidesvik. Overall, however, the impression is that activities within the industry towards local communities are focused around philanthropy and sponsoring and to some extent employee volunteerism.

Progressed local community investment strategies are perhaps most relevant for shipping companies with a dominant position in the local community. The trend within land-based industries should, however, be noted and also has relevance with regards to shipping companies' potential to influence positively when establishing themselves in developing countries.

### 5.7.3 International operations and joint ventures

Shipping companies establishing themselves in host-countries with very different competitive environments need to consider what performance levels should be normative for their operations.

- Should the same performance levels and business principles apply in a host country in the developing world (with little attention to environmental performance, labour rights and with wide-spread corruption) as in a western home-country?
- Does operating with different performance levels constitute a potential problem?
- What business principles and social and environmental aspects must be respected globally?

Shipping companies establishing themselves in new countries may influence the development of the country and the national shipping industry positively. Joint ventures between western based shipping companies and local companies are often formed both because national legislation requires foreign investors to co-operate with local partner as well as out of commercial and feasibility arguments. To explicitly address issues of appropriate performance levels and business methods becomes important components in deliberations over forming a joint venture.

Furthermore, levels of community involvement should be discussed at an early stage. Eidesvik's co-operation with Nigerian partners in forming OMAK resulted in an early decision that despite the company's tradition of strong local community involvement, it wanted to focus its social responsibility-efforts on business related activities by investing in high-quality training of crew and promoting high Safety, Health- and Environmental standards. Eidesvik also aims at maintaining its quality profile and promote environmentally friendly operations.

How shipping companies approach the question of standards/performance levels when establishing themselves abroad and/or entering into joint ventures, is important for more reasons than the company specific ones. It was consensus between the interviewees in the Philippine maritime cluster that the Norwegian shipping companies that had established themselves with operations out of the Philippines represented quality shipping. Norwegian companies' were perceived as having brought higher standards to the country's maritime industry and thereby constituted an upper benchmark within the industry. Several also maintained that the successful shipping companies characterised by quality operations in the Philippine were the ones that had tie-ups with foreign companies. Abojeb, Jebsens' joint venture with Aboitiz, was described like this by one of the interviewees:

*“Through ABOJEB Jebsens has ‘philippinezed’ itself entirely and lifted its Philippine partners to its own level. Jebsens has in many ways helped introduce quality shipping in the Philippines and was successful in doing so because it found a recipient who saw the benefit”.*

Establishing new operations or creating new companies in a developing world-context requires cultural sensitivity and respect for foreign practices and business traditions. However, shipping companies must balance this sensitivity and respect with loyalty to own business principles and universal rights. Albeit challenging in a competitive situation, companies managing to uphold higher environmental and social standards not only ensure a higher quality of own operations but help lift the overall level of the industry.



**A socially responsible shipping company forming a joint venture:**

<b>Joint venture model</b>	<ul style="list-style-type: none"> <li>• Chooses a model that enables and maximises: <ul style="list-style-type: none"> <li>-knowledge and technology transfer</li> <li>-development of local know-how</li> <li>-re-investment of dividend in company</li> </ul> </li> </ul>
<b>Partner search, co-operation</b>	<ul style="list-style-type: none"> <li>• Investigates potential partner's: <ul style="list-style-type: none"> <li>-solvency</li> <li>-corporate culture and reputation</li> <li>-views on acceptable work methods</li> </ul> </li> <li>• In negotiation phase incorporates discussion on: <ul style="list-style-type: none"> <li>-wages and benefits</li> <li>-environmental standards</li> <li>-safety, health and environment</li> <li>-levels and forms of local community involvement</li> </ul> </li> <li>• Abstains from manipulating transfer prices to relieve international tax-burden (particularly if causing damage to joint venture and/or host country)</li> </ul>

**5.8 How far do corporate responsibilities extend?**

There has been an overall change in notion of responsibilities. Globally, corporations are held to account for a wider set of responsibility and poor performance of others. The increasing attribution of co-responsibility and 'guilt by association' requires that companies consider extending what the company sees as its responsibility and/or changes its relation with business associates and suppliers.

**5.8.1 What's onboard?**

Shipping companies are increasingly challenged on what they are transporting. Single cause-organisations and NGOs may hold shipping companies co-responsible for effects of cargo transported.

That shipping companies carrying contentious energy sources for example may be held co-responsible on issues such as global warming was evident in the Svalbard-case with Jebsens. Bellona, an environmental NGO working with promotion of new energy sources, worked actively to reduce extraction of coal from Svalbard by the company Store Norske Spitsbergen and shipped by Jebsens. The focus on the safety of passing a narrow strait, was in addition to concern for the local environment motivated by an attempt to stop shipment of coal from the area.

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Cargo transporters have cargo-exclusions and trading exclusions to which they are expected to adhere. There are also warranty limits set by insurance companies and underwriters regarding hazardous material and transport in war-ridden areas.

Cargo transporters typically focus on:

- 1) What the contract with the charterer/cargo owner dictates
- 2) Whether the port is safe
- 3) Whether the cargo is lawful and non-dangerous (regulated in IMO-conventions)

These principles outlined above are important. As is traditional practice in business, they look to **legality as a line of demarcation for business**. However, they do to a too little extent encompass the importance of reputation and brand. Land-based corporations are increasingly challenged by NGOs on e.g. production of components to weapons. Similarly, cargo transporters may be seen as enabling oppression by authoritarian regimes and helping to extend periods of civil unrest and war. For example, a shipping company transporting weapons to Myanmar and shipping endangered tropical wood out may not run any risks from a legalistic point of view. Reputation-wise it can, however, have strong negative consequences if the practice is subjected to public scrutiny.

In an increasingly reputation and brand-sensitive world cargo transporters need an higher awareness of **what is going where to whom and when?** When some actors refrain from transporting certain cargos for example to sensitive or war-ridden areas, profit margins may grow for others. It is a decision individual companies have to make whether short term loss is believed compensated by long-term brand effects or whether the company has defined values that in themselves dictate the company to refraining from certain business opportunities.

### **5.8.2 Responsibility for crew on chartered vessels?**

Shipping companies charter in and out vessels according to commercial needs and considerations. When considering to charter in a vessel shipping companies typically investigate terms influencing quality and safety of the ship and trustworthiness of the owner. Which flag the ship flies is not often considered unless contracts with cargo owners' have clauses excluding certain flags.

Most shipping companies chartering vessels see the responsibility of the welfare of the crew on the chartered ship as the responsibility of the ship owner. If abusive labour practices and poor wages and conditions occur, few wish to know about it or see it as their role to intercept, perhaps with the exception of situations in which safety and commercial performance may be jeopardized.

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The main responsibility of welfare of the crew of a chartered ship does rest with the owner. Land-based industries are, however, increasingly held to account and attributed co-responsibility for their suppliers' treatment of their workers. Supply-chain management focusing on social responsibility is today an integral business process in many industries. The same notions of co-responsibility/guilt by association are likely to be attributed to a shipping company chartering ships by the public and/or media. In addition to brand-considerations, it can be argued that shipping companies have both a potential and a moral responsibility to influence positively.

Furthermore, there has been a growing call from within the shipping industry itself for more effective means of placing responsibility and liability on owners and charterers for commercial decisions they take that affect ship safety and crew welfare<sup>39</sup>. Charterers will increasingly be called to public account for the ships they use<sup>40</sup>.

	Consideration to charter vessel
<b>Traditional foci</b>	<ul style="list-style-type: none"> <li>• when was the ship last in dry dock?</li> <li>• which class and safety certificates apply?</li> <li>• what kind of crew is operating the ship?</li> <li>• previous accidents, detentions etc</li> <li>• pending claims</li> <li>• reputation of owner</li> </ul>
<b>CSR foci</b>	<ul style="list-style-type: none"> <li>• what flag is the ship flying?</li> <li>• what terms and conditions are the crew given?</li> <li>• which manning agents are used by owner (reputation)?</li> <li>• how is training and welfare of crew secured by owner?</li> </ul>

<sup>39</sup> *Ibid.*, 2.22

<sup>40</sup> *Ibid.*7.12

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### 5.8.3 Ship scrapping

Whereas Shell was heavily criticised for planning to sink the Brent Spar platform and not take proper responsibility for the full life cycle of its production factors, shipping companies have been subjected to related criticism over scrapping of ships.

When a ship is technically outdated or no longer conducive for profitable operations, it is sent to scrapping and recycling. Ship scrapping is a labour intensive-process and most ships are sold to ship-breaking yards in developing countries with low labour costs and where the use of recycled materials is high.

Ships contain environmentally hazardous substances such as asbestos, heavy metals, hydrocarbons and ozone depleting substances<sup>41</sup>. In addition, the scrapping processes involves occupational health and safety-dangers related to intoxication, falling steel components and explosions caused by sparks igniting residues of gas or oil in the ship.

More than 80 % of ship scrapping takes place in the developing world and constitutes an important source of national income. India, Pakistan, Bangladesh, China and the Philippines are the dominant ship-scrapping countries. With the exception of waste with a commercial value, organised waste treatment is virtually non-existent. Training of local employees as well as both corporate and governmental efforts to secure safe working conditions are scarce.

Ship-breaking companies and national governments have a responsibility for satisfactory waste treatment and decent labour conditions. A co-responsibility is also attributed to other stakeholders. NGOs, with Greenpeace in the lead, have worked for a two-fold purpose:

- to ensure that more equal environmental and worker standards apply at ship-breaking yards around the world
- to make ship-owners assume a larger responsibility for their ships throughout their life-span.

Disposal of ships to ship-breaking yards with little regard for waste treatment and working conditions and without owners taking responsibility for thorough preparation of the ship for recycling (removal of dangerous materials), has been argued by NGOs to go against the *polluter pays-principle*. Allegations of '*toxic waste dumping*' have also been made against the shipping industry.

NGOs have claimed that selling ships to Asian countries for scrapping is in violation of the Basel Convention controlling trans-boundary movements of hazardous wastes and their disposal. As long as ships are in domestic waters of countries having ratified the convention the convention applies, but can, however, easily be circumvented by changing the location of the ship.

The Norwegian Shipping Association has been proactively engaged together with Norwegian governments to put scrapping on IMO's agenda and has called both for guidelines and international rules regulating the scrapping process. There have been developed guidelines for

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41 See <http://research.dnv.com/marmil/scrapping/results.htm> for an overview of ship scrapping practices. An inventory of hazardous materials on-board ships are found at: <http://www.marisec.org/resources/shiprecycling-inv-hazardous.pdf>

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ship-scraping both by the industry and IMO<sup>42</sup>. The IMO guidelines call for ships to carry a Green Passport specifying hazardous substances on board, for environmental improvements in design of ships and for development of programmes for clean ship recycling.

## 5.9 Responsibility for suppliers?

A central tenant in CSR is to utilise the potential for positive influence in one's own supply chain. The oil and gas-industry has been the industry leading the development of a CSR-discipline. Increasingly, these companies are expected and pushed by NGOs to roll out their defined environmental and social performance levels in their supply chain of which many shipping companies are part. Similarly, it is part of shipping companies' social responsibility to leverage social and environmental improvements with their own suppliers. Some examples are:

- Ship builders and suppliers of components/materials for ships
- Ship operation services
- Security providers for vessel/port security<sup>43</sup>
- Owners of chartered vessels
- Manning agents

Socially responsible shipping companies should:

- Make sure own codes of conducts/ethics, social and environmental policies are properly communicated to existent and potential suppliers
- Inquire about suppliers' work with social and environmental performance
- Make decent social and environmental performance a pre-qualification criteria
- Give weight to social and environmental performance when choosing supplier

By actively inquiring about corporate steps to ensure environmental and social performance, shipping companies help make expenses made on performance improvements feel worthwhile as well as creating internal leverage for employees with such assigned responsibilities.

### 5.9.1 Relation to manning agent

With regards to social responsibility manning agents are the most important group of suppliers. As previously highlighted, the quality of the manning agency is importance with regards to respect for the rights of seafarers. With an increasing amount of the world's seafarers being recruited from developing countries, the growth of manning agencies is strong. As within shipping where one finds a distinct quality segment and a substandard segment, manning agents differ widely.

Quality manning agents typically boast:

- a pool of skilled and motivated seafarers
- a high retention rate on crew

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<sup>42</sup> <http://www.marisec.org/resources/shiprecyclingcode.pdf>

[http://www.imo.org/Environment/mainframe.asp?topic\\_id=874](http://www.imo.org/Environment/mainframe.asp?topic_id=874)

<sup>43</sup> Land-based industries have been attributed co-responsibility for instances where contracted in security forces have been found to use illegitimate or disproportionate force towards local stakeholders or in other ways to exploit their powerful position.

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- good internal control mechanism with regards to validity of certificates and quality of medical exams
- policies and codes in place to prevent bribery
- proactive attitude towards communication with crew, welfare-services and family involvement

Quality shipping companies typically emphasise building alliances and forming long-lasting business relationships with quality manning agents. Such relationships establish trust and help reduce principal-agent problems over loyalty of crew etc.

There are wide variations in the quality of performance of manning agents<sup>44</sup>. Interviewed representatives from shipping companies have stated that with regards to the relation to manning agents companies typically struggle with the question of whether to “*take full control or know as little as possible*”. In an increasingly brand-sensitive world a strategy to avoid investigating and intercepting may prove short-sighted. There are also efficiency arguments for companies to investigate actively the conduct of manning agents. With poor social performance by manning agents, crew may become de-motivated and ‘unhappy ships’ may form without principals’ knowledge. Furthermore, to address one’s social responsibility involves active use of opportunities to influence positively.

*Why should shipping companies choose a socially responsible manning agent?*

- loyalty built on wage levels alone is expensive and fragile
- loyalty built on fairness and family involvement is strong
  - assured family welfare increases productivity
  - loyalty reduces the likelihood of claims filed

In addition, the importance of principals’ taking on an active auditing role has to do with governments’ often limited ability to do the same. For example, Philippine governments have some opportunities for regulating the manning agent-industry, but to access actual payrolls and see whether seafarers’ rights are respected by manning agents is a privilege enjoyed only by the customers. With the amount of seafarers recruited from developing countries growing steadfastly, this becomes increasingly important. With lower governmental capacity to secure rights of crew through regulation of the manning agent industry, ship owners’ social responsibilities increase.

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<sup>44</sup> ICONS, 3.26

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<i>A socially responsible shipping company needs to:</i>	
<b>Have high awareness of effects of pushing for low manning agent-fees for seafarers</b>	Several interviewees in the Philippines expressed that the harder shipping companies' push for low fees, the larger the risk of seafarers paying placement fees etc
<b>Perform broad investigations when selecting manning agents</b>	<p><i>management capacity:</i></p> <ul style="list-style-type: none"> <li>• who are existing customer groups?</li> <li>• does the manning agent have a functioning management system?</li> <li>• are proper testing of medical services and training certificates performed?</li> <li>• how centralised and standardized is the processing procedures<sup>45</sup>?</li> <li>• does the agency have a functioning HR-department?</li> </ul> <p><i>corruption and bribery:</i></p> <ul style="list-style-type: none"> <li>• does the agency have a code of ethics, a policy on kinship, on gifts etc?</li> <li>• does internal auditing and control of crewing managers etc take place?</li> <li>• how is the quality of pre-departure seminars and debriefing?</li> <li>• is the manning agency auditing/checking for quality of medical service providers?</li> </ul> <p><i>welfare of crew and family:</i></p> <ul style="list-style-type: none"> <li>• what is the retention rate of crew?</li> <li>• are there complaints over manning agent filed to governments or trade union?</li> <li>• how is the manning agency working to ensure welfare of crew and families?</li> </ul>
<b>Audit manning agents</b>	<p><i>wages and benefits:</i></p> <ul style="list-style-type: none"> <li>• principals should talk directly to crew (ask about actual terms and conditions)</li> <li>• compare home allotment paid by manning agent with contractual obligations (+ time of payment, currency conversion used etc)</li> </ul>

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45 Centralised and standardized processing procedures help counter the traditional power role of individual crewing managers

## 5.10 HIV as a corporate responsibility

HIV and AIDS impact the business sectors profoundly. That work with HIV/AIDS primarily is a governmental responsibility is a view increasingly becoming outdated within the business sector. Corporations are increasingly responding proactively to the epidemic because of the direct impact of AIDS on business through increased costs and loss of productivity. Coalitions such as the Global Business Coalition on HIV/AIDS are also a result of this corporate engagement.

Work with HIV and AIDS is a central part of shipping companies' social responsibility both towards employees, families and local communities. Overall, the impression from interviews in this project is that there is considerable room for increased focus on HIV both with regards to:

- how the HIV/AIDS are handled in running business operations
- as an area of proactive involvement/CSR initiatives

### 5.10.1 HIV in the Philippines

The Philippines is presently suffering from a very low infection rate of HIV. Formal statistics indicate that some 2000 Filipinos are HIV positive, but the quality of statistics is poor and testing is relatively uncommon. UNAIDS in 2002 estimated that around 9,400 people are living with HIV or AIDS in the Philippines which is still not a higher prevalence rate among the adult population (15-49) than 0,1 %<sup>46</sup>. Many, however, argue that this is also a conservative estimate and that the numbers in reality are likely to be ten or hundred times bigger<sup>47</sup>. UNAIDS has recently issued a prognosis warning that Asia has a potential in the future to surpass Sub-Saharan Africa with regards to the extent of an HIV pandemic. The Philippines has one of the lowest rates of condom usage in Asia. With between half a million to 2 million sex workers, a good majority of whom never require their customers to wear condoms, more than 7 million Overseas Foreign Workers separated from partners and spouses for long periods and sometimes engaging in risky sexual activities and a low propensity in general for talking openly about sex, many rightfully maintain that **the Philippines is sitting on a time bomb with regards to HIV/AIDS**. The same is the case with many of the other developing countries increasingly supplying the world's merchant marine with seafarers.

In 2001, UNICEF estimated that 20,1% of the total population in South Africa were living with HIV/AIDS. The country was in the 90ies preoccupied with mending the wounds after apartheid, creating an inclusive democracy and addressing the population's aspirations of increased welfare. The country also had a very poor readiness with regards to family planning and

The Global Business Coalition on HIV/AIDS (GBC) is the pre-eminent organization leading the business fight against HIV/AIDS.

The rapidly-expanding alliance of international companies is dedicated to combating the AIDS epidemic through the business sector's unique skills and expertise

Per 1<sup>st</sup> of November 2004 the coalition is global and cross-sectoral in outreach. It consists of more than 170 companies of which none are presently from the maritime industry.

<http://www.businessfightsaids.org/>

<sup>46</sup><http://www.abconids.org/ABC/asp/view.asp?PageID=31&SiteID=3&LangID=0&MenuID=5&SubMenuID=36&SponsorID=0>

<sup>47</sup> [http://www.atimes.com/atimes/Southeast\\_Asia/ED03Ae04.html](http://www.atimes.com/atimes/Southeast_Asia/ED03Ae04.html)



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prevention. Juxtaposed with uneasiness for publicly addressing sexual behaviour, the warning signs regarding HIV detected in the late 80ies and early 90ies went largely unaddressed. Today, many South African companies provide employees with antiretroviral drugs to avoid losing investments made in their competencies as well as their acquired skills. Companies typically have to negotiate with employees regarding attendance of colleagues’ funerals and the larger companies have shuttle buses driving employees continuously back and forth to funerals of colleagues and relatives etc. **An urban legend and popular belief in South Africa is that HIV was brought to the country primarily by transportation workers.**

In a developing country, there are no difficulties whatsoever in finding other and seemingly more pertinent social challenges to address. Several of the interviewees in this stakeholder dialogue were, however, concerned about both the government and the companies’ awareness and readiness to deal with the question of HIV. **It was a widespread opinion that shipping companies and manning agents have a responsibility both towards crew and their families in engaging proactively in fighting HIV (as well as an economic self-interest).**

**5.10.2 Corporate steps to counter/properly deal with HIV**

<b>Minimum steps</b>	<b>Pre-departure seminar Provision of prevention</b>	Manning agents are required to address HIV in PDS. Should be given proper attention.
<b>Proactive steps</b>	<b>Posters readily available Awareness raising onboard Testing Reversing test cycle Anonymity HIV-policy</b>	<p>Consensus among interviewees that both manning agent and principals should ensure prevention is available onboard (also supported by AOS stating that they left this to the conscience of each seafarer). Abojeb has encountered some opposition over religious matters – now given ‘silently’.</p> <p>Posters addressing how HIV spreads should be visible onboard, e.g: <a href="http://www.businessfightsaids.org/pdf/Poster.pdf">http://www.businessfightsaids.org/pdf/Poster.pdf</a></p> <p>HIV awareness should be repeated onboard. ISM-responsible should remind at safety meetings and before shore leave (done by interviewed Abojeb-crew with ISM responsibility)</p> <p>Mandatory testing could be positive to get proper statistics and overview of disease (as well enhancing awareness). Principals and/or manning agents should then, however, not make HIV + an automatic disqualifier</p> <p>Principals/manning agents should offer testing upon arrival home instead of prior to embarking</p> <p>Principals/manning agents should consider offering anonymous testing or alternatively get aggregated statistics allowing monitoring of infection levels among crew and implementation of appropriate steps</p> <p>Principals and manning agents should formulate an HIV-policy. It should state the organisation’s stance on HIV + -infected workers and be communicated to administrative staff, business partners and crew. Can help counter stigma and is a clear indication of social responsibility.</p>

### **5.10.3 HIV positive seafarers**

The need for corporate policies on HIV by principals and manning agents were evident in the stakeholder dialogues in Manila. Whereas some interviewees put most emphasis on getting proper statistics and a correct view of a potential pandemic, others were concerned about the effects of disclosure for affected seaman and family, but admitting that knowledge about infection would be important to protect the families.

Companies have a role to play in provision of testing. Companies should, however, also reconsider the dominant current practice of not allowing seafarers' with diagnosed HIV onboard. The reasons for this are the same as for crew with cardio vascular diseases sometimes still are allowed to sail by the principal. The seafarer's competencies and experience can be hard to replace, the investment in training and education done by the principal will not be lost and good crew and particular officers are in general a precious commodity. Furthermore, HIV is almost impossible to contract by a co-worker and does not affect work performance unless opportunistic infections develop. With the allotment, the seafarer can purchase anti-retro virals which can effectively keep opportunistic infections at bay. In the case of an infection like pneumonia still developing, changes have been made in the standard contract (POEA-contract) for Philippine seafarers that would limit the principals' responsibility. A principal would not be responsible for treatment or sick money, but only for repatriation.

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## 6 WORKING WITH CSR AS A PROCESS

Addressing corporate social responsibility implies (as outlined in the previous) to seek to integrate social and environmental foci in **core business processes** such as

- choice of flag
- relation to manning agent
- chartering of ships etc

CSR also involves some **specific activities** as touched upon in 6.1. Shipping companies addressing CSR should seek to build a consensus within their company behind a vision of:

- what they wish to be responsible for
- to whom
- how they wish to measure and report on their performance against the vision

In this processes, shipping companies should consider what may constitute their most significant reputational challenges and what the company's unique competences are (and determine how they can be leveraged most effectively). In addition, it is important to get input on what the expectations of the company's stakeholders are.

### 6.1 Determine responsibility and devise codes/social policy

'Values' is a multi-faceted concept. Many shipping companies have values in place, but these sometimes serve more as means of internal culture building than as a foundation for the company with regards to respect for human and labour rights.

Shipping companies addressing CSR should critically assess:

- whether values are in place
- whether due attention throughout the organisation is given to these
- whether the values are descriptions of a desired internal company culture or give explicit support to human and labour rights (and guidance with regards to business dilemmas)

*Codes of conduct* and *codes of ethics* aim to give employees guidance on how to handle business dilemmas arising from situations in which the company's values and profitability may be in opposition. Shipping companies should critically assess whether they have codes in place that give employees guidance on how to handle corruption, gifts, the company's view on the rights to associate etc.

"Our vision is to be a long-term partner for our customers, a home for our people and to make a difference in the wider community. We don't see any contradiction in running a healthy business but at the same time being socially responsible. We want to improve people's lives. In the countries where we work, we are a provider for our employees, their families and the local society. We also help young people to get an education and secure a better future. OSM is one big family".

[http://www.osm.no/core\\_values.asp](http://www.osm.no/core_values.asp)

Some shipping companies, like for instance Orient Ship Management, outline their view on social responsibility specifically in their *corporate vision*. Others such as P&O Ferries have devised a *social policy* describing how the company has defined their responsibility (see appendix 5).

A code of conduct and social policy should be clearly communicated to employees, business associates, suppliers and emphasised by top-management continuously.

## **6.2 Involvement of stakeholders**

Stakeholder involvement is a central CSR activity. In addition to commercial stakeholders such as customers, partners, suppliers etc., companies increasingly seek to identify and consult with non-financial stakeholders such as non-governmental organisations, trade unions and local community organisations etc.

Stakeholder involvement takes place because companies increasingly see that having a dialogue with stakeholders directly rather than through, for example, the media is helpful. Dialogue and direct involvement helps companies register expectations and gather alternative views on social and environmental dimensions of business processes. Stakeholder dialogues are therefore frequently argued to increase a company's:

- ability to determine responsibility
- risk management capacity
- ability to innovate

Companies use different methods for gathering stakeholder input ranging from:

- meetings with stakeholder representatives
- personal interviews<sup>48</sup>
- surveys<sup>49</sup> (e.g. employee satisfaction surveys, local community survey)
- roundtable dialogue sessions with several stakeholder groups present<sup>50</sup>
- industry stakeholder dialogues (performed by industry associations, for example to gather shipping companies in similar market segments and relevant NGO-representatives etc)

### **6.2.1 From dialogue to NGO-partnership?**

It is a central notion in CSR that the traditional sponsoring role of companies towards NGOs and single-cause organisations should be replaced with more genuine dialogue. Some companies settle with dialogues whereas others move to form partnership agreements with the NGOs.

A partnership between a company and an NGO is typically characterised by a long-term intention to assist one another. Assistance is not only financial donations from the company to the NGO, but may also involve initiation of joint projects drawing on competencies and employees from both organisations. Such projects typically have a humanitarian profile. Companies typically also use NGOs with which they have formed partnerships to train employees for example on environmental awareness or human and labour rights-issues.

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<sup>48</sup> Personal interviews were used throughout the Jepsens-case

<sup>49</sup> Surveying has been used in the Eidesvik-case as well as personal interviews.

<sup>50</sup> Roundtable dialogue sessions typically benefit from

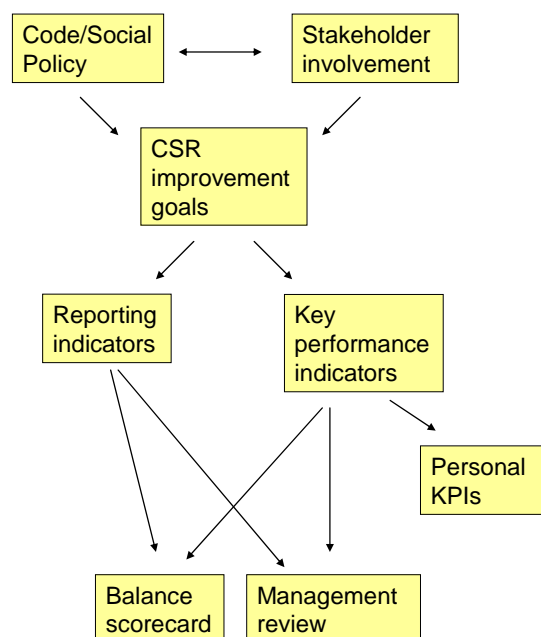
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Eidesvik has formed a partnership with the environmental NGO Bellona. Eidesvik pays a partnership fee to Bellona and uses the environmental expertise in the organisation for example in new-building projects with an environmental profile. Eidesvik also consults Bellona for improvements suggestions etc. on the company's environmental and Safety Health and Environment-reporting.

NGOs reserve the right to criticise companies with which they have formed partnerships and argue that co-operation is possible without sacrificing the traditional watchdog-function NGOs play. Several have, however, argued that the idea of partnerships is naïve and rests on a too harmonious idea of relations between civil society and corporations. NGOs have to compete with each other for members and fraternizing too much with corporations may pose a risk towards the loyalty of members. Whereas Eidesvik has formed a partnership with Bellona, Jebsens has, with the Svalbard-case, more experience with Bellona acting as a watchdog. The company consequently expresses more scepticism towards the idea of dialogue and partnerships with NGOs.

### 6.3 Implementation in organisation

Shipping companies that have conducted stakeholder dialogues and have relevant codes/policies in place as well as defined CSR improvement goals should focus on implementation of these CSR foci in the company. Through formulating CSR indicators and performance indicators that feed into balanced scorecards and give input to management review-meetings, top management will be better equipped to manage the company.



## **6.4 CSR reporting**

Communicating with stakeholders on social and environmental performance is key. As mentioned, companies in land-based industries are leading the trend with work with triple bottom-line reporting. Shipping companies report on economic and environmental performance and reporting on Safety, Health and Environment is also growing. Few shipping companies, however, have reporting systems in place for social performance.

When reporting on social performance shipping companies should seek to focus on:

- progress with CSR work (towards employees, local community involvement etc)
- give attention to sector-specific business dilemmas (flag-states, corruption etc) and how they are sought handled by the company
- reporting on GRI indicators of relevance for the industry (some of these have been highlighted in the previous)
- focus particularly on issues related to core business processes

### **6.4.1 Communication form**

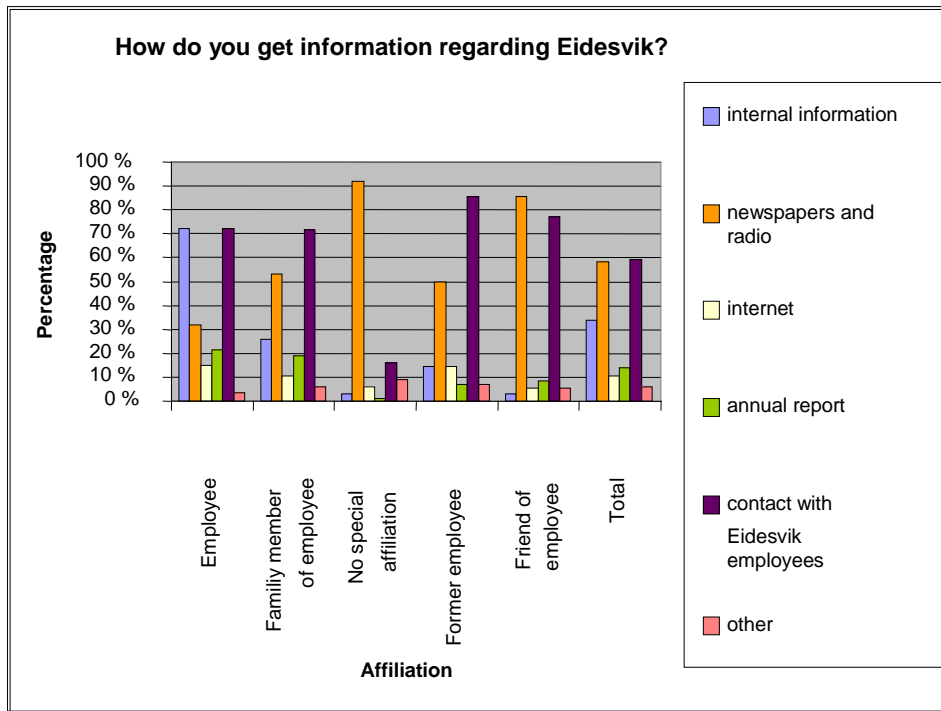
Shipping companies can communicate on social performance and CSR efforts by:

- Broadening the content of the company's annual report (and webpages)
- Expanding environmental or SHE-report to include social performance
- Issuing CSR/Sustainability report

The report should be clearly rooted in the company's top management and may target several stakeholders (employees, customers, suppliers, owners/investors, society at large). Clear guidance should, however, be given each stakeholder on what parts of the report are of potential relevance for them. To issue a report that is perceived as credible by stakeholders it is essential to touch on the issues that are material and sensitive to the company, to openly exercise self-criticism and to include critical comments from stakeholders in the report and/or external verification of reported data.

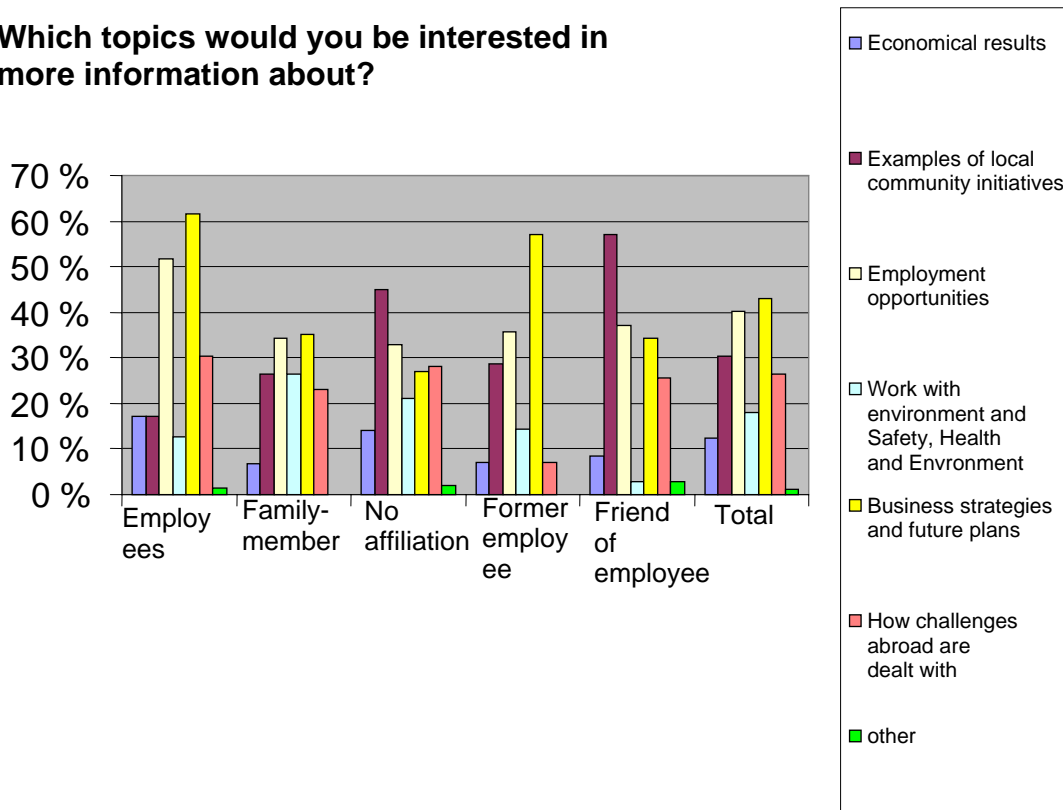
Reports are, however, not always the most effective means to communicate with all stakeholders. As illustrated by Eidesvik's survey, newspapers and radio as well as encounters with Eidesvik employees are the most effective means of communicating with most local stakeholders. Consequently, to secure internal information and a proactive relation with local media may prove more effective than working extensively with the annual report or a sustainability report given that the company's main communication strategy centers around local stakeholders.

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The survey performed by Eidesvik also illustrates that local stakeholders are interested in a relatively broad specter of information and hold different views on what constitutes the most interesting information.

### Which topics would you be interested in more information about?



## 6.5 Putting the CSR activities together

There are several ways of organizing the work with CSR. Some focus on work with an action plan whereas others emphasize a management system-approach or a combination of these two approaches.

### 6.5.1 Establishing a CSR action plan

Companies that use an action plan-approach typically go through different stages.

In the *establishment phase* a mandate is issued and a project manager and project members identified (typically drawn from all levels of the organisation and preferably diverse with regards to job functions, age, gender and background). In a *phase of analysis* status in the organisation with regards to CSR activities are compared with expectations from stakeholders and industrial best-practice and potential gaps/improvement areas identified. In the *scoping of the action plan* short and long-term goals and activities should be identified that are *followed up* through reporting and evaluation.

## CSR process/action plan



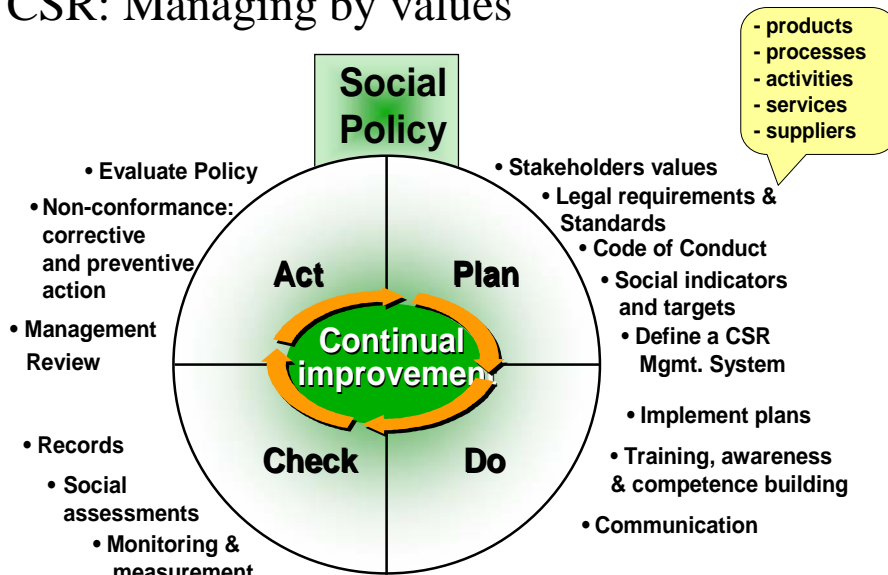


### 6.5.2 CSR work with a management system approach

Like work with quality or environment, work with social responsibility can be approached within a *plan do check act*-management system systematic as illustrated below (see appendix 5 for a more detailed pdca-approach to establishing a CSR management system)<sup>51</sup>.

Shipping companies addressing their social responsibility that have environmental indicators and an environmental management system in place should seek to broaden the existing management system rather than creating a new one for social indicators.

### CSR: Managing by values



<sup>51</sup> For an extensive analysis of CSR management systems, see: [http://research.dnv.com/csr/PW\\_Tools/PWD/3/01/D/3-01-D-2002-01-1/3-01-D-2002-01-1.pdf](http://research.dnv.com/csr/PW_Tools/PWD/3/01/D/3-01-D-2002-01-1/3-01-D-2002-01-1.pdf)

## 7 CONCLUSIONS

### 7.1 How much of CSR is actually quality shipping?

This report has shown that a parts of what land-based companies refer to as social responsibility-initiatives is captured by the quality shipping-terminology. Quality shipping companies strive to obtain the best crew and choose quality flags, emphasize proper recruiting, investment in training and provide good terms and working conditions for crew. Quality operators also work proactively with crew welfare and family involvement both alone and with manning agents. Formation of long-term relations with suppliers is a CSR-ideal and frequently takes place between quality operators and manning agents.

Consequently, shipping companies may, if desired, participate more actively in the CSR-field and highlight much of their quality efforts under a social responsibility-umbrella. Nonetheless, a project conclusion is that there is considerable room for shipping companies to extend their commercial considerations and relation with business associates to include broader social considerations. To engage more directly with stakeholders, broaden training given to employees and to communicate and report more openly with the surroundings on social and environmental responsibility are also timely activities.

### 7.2 A business case for CSR in shipping?

It is not possible to conclude that a focus on social responsibility always will have a positive effect on the bottom-line. Elements of a business case for social responsibility have, however, been highlighted in this report. Ability to sustain a reputation and retain business through a crisis and the effects loyalty of crew and families has on productivity and business continuity are among the business case-arguments given. Companies *caught* behaving socially irresponsible by violating the rights of crew etc. may weaken its brand and suffer negative economic consequences. However, few companies are caught by governments or in customers' audits and even fewer are subjected to NGO and/or media-attention.

There are substantial potential economic benefits accruing to ship owners who do not observe international rules and regulations. The frustration that is found among socially responsible land-based companies over socially irresponsible competitors is re-found in quality shipping companies' frustration with substandard operators. The business case for CSR in shipping is linked to the responsibility resting with clients. It is part of the social responsibility of companies in other industries to refrain from chartering sub-standard ships to gain commercial advantage. Furthermore, governments' can give preference and/or create commercial advantages for socially responsible companies through for instance reduced inspections and smaller port fees.

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All the while, as with quality the decision to strive for socially responsible operations seems largely to be a question of top managers' values and belief in long-term profitability. A survey of CSR in the Greek shipping industry concluded that CSR is limited to a small number of short sea shipping providers, which are either subsidiaries of international conglomerates or are controlled by entrepreneurs that are personally aware of and committed to CSR. Eventually, it all seemingly boils down to the fundamental question of personal commitment and what kind of company one wants to run.

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## **APPENDIX 1**

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### **LIST OF INTERVIEWED ORGANISATIONS/STAKEHOLDERS**

WG&A Supercommerce  
Aboitiz Transport System (Freight)  
Philippine Coast Guard (PCG)  
Supercare Medical Services  
Philippine Port Authority (PPA)  
Maritime Industry Authority (MARINA)  
Apostleship of the Sea  
Asian Terminals Inc.  
Pandiman Philippines  
Associated Marine Officers' and Seamen's Union of the Philippines (AMOSUP)  
Norwegian Training Center (NTC)  
Overseas Workers and Welfare Administration (OWWA)  
Philippine Maritime Institute (PMI)  
Del Rosario & Del Rosario Law Offices  
Philippine Overseas Employment Administration (POEA)  
Philippine Business for Social Progress (POEA)  
De La Salle University – Graduate School of Business (Business Ethics unit)  
United Filipino Seafarers (UFS)  
Abojeb crew w/family  
Abojeb-staff

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**APPENDIX 2**

Registered per 1st September, 2004:	Company	Comment	Website (Link to shipping company's shipping activity/reference)
<b>Subscribers under The UN Global Compact</b>  (of total of 1798 subscribers)	Bollore (France)	International Logistics, apparently ship owner	<a href="http://www.bollore.com/activites/en/transportsNord.html">www.bollore.com/activites/en/transportsNord.html</a>
	Braz Logistica International Ltda (Brazil)	Logistics Provider, ship owner (?)	<a href="http://www.expeditors.com/services/Ocean.asp">www.expeditors.com/services/Ocean.asp</a>
	Cebu Ferries Corporation (Philippines)	Passenger and cargo transportations	<a href="http://www.cebuferries.com/about.htm">www.cebuferries.com/about.htm</a>
	Dredging Corporation of India (India)	Ensure availability of dept in shipping channels, has own specialised fleet	<a href="http://www.dredge-india.com/Fleet.html">www.dredge-india.com/Fleet.html</a>
	Ghana Ports and Harbours Authority	Active in transport, storage and shipping	<a href="http://www.mbendi.co.za/orgs/clsb.htm">www.mbendi.co.za/orgs/clsb.htm</a>
	Panama Canal Authority		<a href="http://www.pancanal.com/eng/index.html">www.pancanal.com/eng/index.html</a>
	The Shipping Corporation of India Ltd.	Active in different shipping segments	<a href="http://www.shipindia.com/">www.shipindia.com/</a>
	Unimasters Logistics Group Ltd. (Bulgaria)	Logistics Provider, ocean freights, ship owner (or only charter)	<a href="http://www.unimasters.com/services.html">www.unimasters.com/services.html</a>
<b>Organizations using the GRI reporting guidelines</b>  (of total of 522 registered reporters)	Kawasaki Kisen (Japan)		<a href="http://www.kline.co.jp/index_e.html">www.kline.co.jp/index_e.html</a>
	Nippon Yusen (Japan)	World's largest shipping company	<a href="http://www.nykline.co.jp/english/about/business/index.htm">www.nykline.co.jp/english/about/business/index.htm</a>
<b>WBCSD members</b>  (of 170 member companies)	Sonatrach (France)	Among other activities shipping of petrol/gas products.	<a href="http://www.sonatrach-dz.com/activites-commerc.htm">www.sonatrach-dz.com/activites-commerc.htm</a> , (english version under construction)
	Royal Haskoning (Netherlands)	Planning, design and operation of ports and maritime installations	<a href="http://www.royalhaskoning.nl">www.royalhaskoning.nl</a>
	The Panama Canal		see above
	CH2M (USA)	Supportive services for shipping companies	<a href="http://www.ch2m.com/flash/services/Services_frame.htm">www.ch2m.com/flash/services/Services_frame.htm</a>
	Leif Hoegh & Co. (Norway)		<a href="http://www.hoegh.no">www.hoegh.no</a>

## APPENDIX 3

### Rights of seafarers in the Philippines

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#### **Codified rights and institutional protection**

All together, the interviewees feel that the Filipino seafarers' rights are well-protected through codified rules and governmental institutions working to protect and enforce these rules. That breaches of these rights occur and actual enforcement sometimes can be problematic is, however, also an opinion stated by some. Concerns regarding lacking legislation or governmental attention to seafarers' welfare are, however, few compared to concerns expressed over the rights and protection of land-based OFWs. That other Asian countries are 'importing' Philippine laws and regulation is seen by several as an indication that good legislation is in place for the protection of the Filipino seafarer. With regards to governmental agencies dealing with the maritime sector in the Philippines, worries were rather raised over the sheer number of them. With 15 governmental maritime agencies several expressed views on numerous problems related to lack of coordination and time consuming processes and bureaucracy.

The POEA-contract regulates the rights of the seafarers and outlines a grievance machinery. Alleged breaches of the POEA-contract can be filed with POEA. If POEA does not support the seafarer's complaint on a principal allegedly renegeing on his responsibilities, the seafarer will typically call for arbitration by the NLRC or by voluntary arbitrators appointed by the National Conciliation and Mediation Board. Alternatively (or eventually) a seafarer can resort to the use of formal litigation within the court-system to get his grievance properly addressed. With the POEA-contract, its grievance machinery, the growing practice of negotiation of collective bargaining agreements and the means of arbitration and litigation, the seafarers' have formal rights well documented and means of enforcement at their disposal when in their own country. Seafarers' work being contractual and informal blacklisting among manning agents not uncommon, are however factors complicating active use of formal grievance procedures. Good manning agents and principals should (and to some extent do), recognize the importance of genuine feedback regarding working conditions and potential difficulties/abuse on board. Without this, productivity on board can be lowered ('unhappy ships' can develop without warning signs being detected), principals' reputation harmed, and the propensity among seafarer's to file time-consuming and potentially costly claims against a shipping company may increase.

#### **Change of the POEA-contract**

The revised POEA-contract devised with a tripartite consensus in 2000 was a subject frequently addressed in the interviews. The contract was temporarily suspended until 2002 when the Philippine Supreme Court dismissed the case made against it; a case filed among others by Apostleship of the Seas. The contentious issue was the inclusion of 'work related-injury' limiting the principals responsibility that previously was more of an objective responsibility – while in a contract, a shipowner carried the overall responsibility for a seafarer's health and well-being. The work to introduce this change of the contract was initiated by the Filipino Association for Mariners' Employment (FAME) to reduce what was increasingly becoming a competitive

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disadvantage for Filipino seafarers. Shipowners' frustration were growing by cases involving responsibility for seafarers getting diagnosis of HIV, diabetes etc. a few months after boarding.

With the exception of Apostleship of the Sea, the interviewees - the trade unions included - see this change as a necessary market adjustment to ensure the future of the Philippines as a labour-supplying country to the maritime industry. Opinions are, however, divided over what "work related illness or injury" actually entails. Does the new criterion exclude injury happening while onshore in a foreign harbour or damage obtained during a collision while a seafarer is sleeping? Does the inclusion of an obligation for crew to 'inform in advance of any illness' mean that not having reported ones condition of mild osteoporosis can transfer the medical expenses for an arm broken while working and the cost of repatriation to a seafarer? Lawyers, POEA/OWWA and physicians do not agree on the answer to these questions, thereby illustrating the need for court rulings on the subject as well as pointing to a question principals (and partly manning agents) will have to face. Before court rulings are in place, the question illustrates well the often conflicting interest between short-term oriented competitive/financial considerations and long-term oriented notions of social responsibility that have to be solved.

### **Protection of seafarers by trade unions**

Compared to western seafarers, Filipino seafarers do not have the same representation or protection by labour unions. There are several trade unions organising Filipino crew, two of which were interviewed in this stakeholder dialogue (AMOSUP and UFS). Both AMOSUP and UFS supported the change in the POEA-contract illustrating that concerns regarding the competitiveness of the Filipino seafarer are also high on the trade unions' agenda. Representatives of the unions believed the prior loopholes were hurting the honest seamen and the industry in the Philippines.

AMOSUP, being by far the strongest and most dominating union, negotiates collective bargaining agreements with ship-owners' organisations as well as other national trade unions. It also provides a wide range of welfare services to seafarers such as education, training, hospitals, seaman's village, dormitories, welfare funds, arrangement of legal assistance etc. These welfare initiatives are partly lauded by interviewees, one stating that "*Amosup has in reality done much more for the seafarers' welfare than government*". Others are quick to point out that since AMOSUP has the ITF-connection seafarers' serving on ships carrying international flags in reality have no choice but to join and that often either the seafarers or principals have to pay additional service fees for many of the welfare services. Several of the interviewees pose the question whether AMOSUP is a union or in reality a business and one is asserting: "*It calls itself a union under the pretension of delivering welfare services, but a union would have elected members and not cultivate such a close relationship with manning agents and principals*"

Several of the interviewees perceived that the trade unions did not perform the role that western unions typically perform when standing up and fighting for individual seafarers (UFS was, however, perceived to be more prone to 'cause commotion' over seafarers' rights than AMOSUP). Whereas western unions typically provide union members with legal assistance and representation through the court system if necessary, the Filipino unions only give legal counselling. Both UFS and AMOSUP do have in-house or affiliated lawyers, but these are

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independent lawyers not employed by the unions. In court they appear as private lawyers and charge seafarers accordingly (often on a 'no cure no pay'-basis).

In conversations with seafarers AMOSUP-membership is confirmed to be obtained primarily because it is a requirement from the company. Furthermore, that the trade union does not typically serve as an appeal body in a difficult situation with abuse onboard etc is confirmed. Apostleship of the Seas or Stella Maris would be the institutions top which seamen would turn (who again would call on the ship and/or ITF).

One of the interviewees from the business side of the industry maintained that **if ITF accredited other unions than AMOSUP it would minimize the monopoly situation of the union**. This would help facilitate competition on more equal terms between unions, quite likely resulting in a more genuine focus on protection of rights. Several of the interviewees believed that if the trade unions became better at assisting individual seafarers and increasingly addressed the real challenges of the industry such as blacklisting etc, it could reduce the amount of business for 'ambulance chasers'. Furthermore, the amounts principals had to pay as a result of court rulings could be brought down.

Some of the interviewees think that **principals have a responsibility in improving this dead-locked situation by challenging ITF and/or AMOSUP** directly. No one does, however, seem to believe that this will be done as the relationship between principals and AMOSUP is perceived as symbiotic and since AMOSUP itself constitutes a very powerful institution both in the Philippines and Asia.

### **Industrial outlook**

The future of the Philippines as a dominant labour-supplying country within the maritime industry is a point of concern for all the interviewees. Eastern European countries and other Asian countries like Vietnam, Cambodia and China are in many ways where the Philippines were 10-15 years ago with regards to wage levels and are growing as labour-supplying countries. One of the informants believes that the global focus on the STCW-convention has levelled the playing field and brought other countries to the Philippine levels. The increasing litigation in the Philippines and its corresponding 'ambulance chasers' is a source of worry for many. Their fear is that Filipinos will '*sue themselves out of the market*' by making principals think of the Philippines as too costly and troublesome. The increased focus on arbitration is hoped by many to improve the Filipino seafarers' competitiveness and the efforts to establishing a system of voluntary arbitration is a way of transferring some of the costs of grievances from principals to government. Some interviewees worry over the arbitration authority being transferred from POEA to the NLRC and argue that the latter has a slant towards the seamen and is also open for corruption. A more frequent worry is, however, the quality of the maritime education in the Philippines, the lacking regulation of the training industry and the weakening of Filipinos' proficiency in English.

The stakeholders interviewed expressed a positive attitude to an increased focus on social responsibility among principals and manning agents. As national competitiveness is on everyone's agenda, increased wages are seen as both unlikely and by some also as unfortunate. Proactive initiatives are therefore all the more welcome. Although many of the previously



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suggested improvements would not entail the same expenses as overall wage increases, they can be effective at enhancing seafarers' and families' welfare.

## APPENDIX 4 THE LIBERIAN FLAG

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50 years ago the West African country Liberia opened its doors to the world's shipping community. The Liberian flag of convenience became popular and its registry grew quickly. Today Liberia is the world's second-largest flag state only surpassed in size by Panama. On the 01.01.2002 the Liberian Registry included nearly 2000 ships – almost 10 percent of the world's ocean going fleet. 35 % of all the world's oil tankers, as well as bulk carriers and some cruise ships fly the Liberian flag of convenience.

Liberia has recognised the classification societies represented in the International Association of Classification Societies (IACS) and delegated flag state authority to these. The Liberian registry has a reputation for quality, efficiency, safety, and service. It is rated among the lowest in vessel losses by the International Underwriting Association. The fleet's detention and casualty rates are well below average and among the lowest in published Port State Control reports.

However, the region of West Africa - the country of Liberia being no exception - has been plagued by long-standing civil wars. Rivalling warlords have repeatedly caused severe human rights breaches and dreadful atrocities on the civil society have been documented. The situation in the region has resulted in the UN Security council issuing sanctions on the sale of diamonds, flights and travels by senior officials as well as placing an arms embargo on Liberia.

Transparency into the Liberian government's expenditure has long been a key issue. Liberian governments have repeatedly engaged in sanction-busting activities making illegal payments to circumvent the arms embargo. The sanctions placed on the diamond-trade industry created suspicions that other sources of revenue might be attempted used for purchasing weapons.

These suspicions were confirmed November 2001 when a UN-report revealed that Liberian authorities had used maritime revenue for buying weapons.

The Liberian government annually collects approximately \$18M from its US-based registry manager, Liberian International Ship and Corporate Registry (LISCR). The CEO of LISCR 24.10.2001 admitted to *the Wall Street Journal* that payments, totalling some \$ 925000, had been made to non-governmental accounts (shady airline accounts in reality operated by gun-runners in Sierra Leone), also stating that LISCR “never knowingly made a payment to an arms dealer,” but added: “It's not our job to conduct any due diligence as to whom we pay money – it's the government's money”.

The revelation raised demands for stronger control over the government's use of the revenue and the Liberian finance minister moved swiftly mid-November to ensure independent monitoring will take place. *Fairplay – The International Shipping Weekly* November 29<sup>th</sup> did, however, accuse the Liberian governments of simply paying lip service.

The situation in Liberia resulted in the Norwegian Shipowners' Association end of November issuing a warning about the flag state and advising its members to leave the West African register.

## APPENDIX 5 CSR MANAGEMENT SYSTEM

### Typical Elements connected to the PDCA-Circle for a CSR Management System

Phase	Typical Elements
PLAN	<p><b>Policy and Planning:</b> (Define a Social Management program, structure and responsibility that goes hand in hand with the corporate Core Values, Vision and Mission)</p> <p>Identify and evaluate relevant national and/or international authoritative documents</p> <p>Identify stakeholders</p> <p>Identify the stakeholders' values, norms and principles through dialog</p> <p>Check stakeholders' values, norms and principles with own values, norms and principles (formal or informal).</p> <p>Evaluate social aspects, legal and other aspects with regard to products, processes, activities, services and suppliers. Plan how to keep this information up to date.</p> <p>Top Management to</p> <ul style="list-style-type: none"> <li>• establish (or evaluate) corporate Value Statement that is synchronised with existing Vision and Mission Statement.</li> <li>• establish high level goals for CSR based on the Value Statement.</li> <li>• establish Code of Conduct.</li> <li>• identify and select indicators</li> <li>• set targets for the indicators</li> </ul> <p>Plan how to implement the CSR Management System in the organisation</p> <p>Develop routines for collecting, converting and assessing data</p> <p>Develop routines for evaluation and corrective actions Plan how to incorporate the CSR perspective in the work with business partners</p> <p>Develop routines for internal communication</p> <p>Develop routines for external communication</p> <p>Develop routines for evaluation of the CSR Management System</p> <p>Develop routines for emergency preparedness and response</p> <p>Appoint one CSR responsible in the top management and in the Executive Board.</p>

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DO	Implementation and operation
	<p>Communicate corporate Value Statement, CSR goals and Code of Conduct.</p> <p>Perform training, awareness &amp; competence building</p> <p>Implement the plans described above</p> <p>If appropriate form a Partnership with a NGO</p>
CHECK	Performance assessment
	<p>Collect baseline data (first turn in the PDCA-cycle)</p> <p>Measure performance according to targets. Systemise findings and prepare records.</p> <p>Perform social and ethical assessments (internal or external audits).</p> <p>Prepare social and ethical reports.</p> <p>Communicate report(s) and obtain feedback from stakeholders.</p> <p>Include CSR in Management Reports and Annual Reports</p> <p>Perform case studies</p> <p>Perform Benchmarking with comparable companies</p> <p>Evaluate performance against Value Statement and the indicator targets.</p>
ACT	Improvement and Management review
	<p>Act upon non-conformance, initiate corrective and preventive actions</p> <p>Perform Management Review, which includes evaluation and update of the CSR management system, the indicators and the corresponding targets.</p> <p>Evaluate corporate Value Statement, Code of Conduct and high level CSR goals.</p>

## **APPENDIX 6 P&O FERRIES SOCIAL POLICY**

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### **P&O Ferries**

#### **Social Responsibility Policy**

P&O Ferries recognises that its business must be conducted in a socially responsible way. We are committed to the achievement and maintenance of the highest standards in all aspects of our activities.

The Human Resources Director is responsible for maintaining an overview of areas of social responsibility. He will periodically issue a report to the Executive Board and Holdings Board on such matters.

Our staff in all countries are reminded that achieving and successfully maintaining the highest standards relies on everyone sharing responsibility for the commitments set out in this policy.

P&O Ferries is committed to:

- Abiding by the laws of the countries in which it operates.
- Creating and maintaining a working environment in which the capabilities of all employees are developed and to providing competitive terms and conditions.
- Recognising and respecting the human rights, dignity and needs of all employees.
- Conducting its business with honesty and integrity and applying the highest ethical standards.
- Seeking to contribute to the well being and development of the communities in which it operates.
- Protecting and enhancing the health, safety and welfare of its staff and seeking to avoid or minimise any adverse environmental impacts.
- Building and maintaining open and effective two way communications on environment and community involvement.

In implementing this policy, P&O Ferries will:

- Develop an understanding amongst staff of the issues of social responsibility through information and training.
- Ensure that the social, ethical and environmental implications of all investment decisions are considered.
- Develop systems to monitor implementation of this policy.

P&O Ferries will ensure that its subsidiary companies implement policy in these areas and, where appropriate, encourage the adoption of similar policies by major contractors and suppliers.

**P&O FERRIES RECOGNISES THAT CHANGE CAN OCCUR QUICKLY AND THIS POLICY WILL BE REVIEWED AT LEAST ANNUALLY IN ORDER TO ENSURE THAT OUR STATED INTENTIONS REMAIN APPROPRIATE TO THE CONDITIONS WITHIN THE COMMUNITIES IN WHICH WE OPERATE**

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## APPENDIX

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### A

#### QUESTIONS FOR EXTERNAL INSTITUTIONS/STAKEHOLDERS

##### **Your own organization**

- Within the Philippine maritime cluster, what is your organisations' role?
  - A brief history of your org.
  - What goals are you working to uphold or promote?
- What is your relationship with ABOJEB (how do you typically interact)?

##### **General perception of ABOJEB**

- What is your general perception of ABOJEB as a shipping company?
- Do you have an impression of ABOJEB's:
  - safety culture?
  - attentiveness to customers?
  - environmental performance?
  - social performance (Safety, Health, Environment, general treatment of employees and families, local community engagement?)
  - transparent business practice, business ethics?
- What do you think is the general perception of ABOJEB as a shipping company?
- How would you assess ABOJEB's performance in relation to similar companies? Do you have statistics etc. that can illustrate?

##### **Concrete expectations to ABOJEB**

- Do you have suggestions for how ABOJEB can work to further improve the aspects of its' performance that are important for:
  - fulfillment of your organization's objectives
  - increased welfare of stakeholders such as:
    - seafarers
    - families
    - land-based personnel
    - local community

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- the environment
- Are there aspects of ABOJEB's operations/activities you would like more information/data about?

**General view on shipping companies' role and responsibilities**

- Of what do you think shipping companies' corporate responsibilities consist?
- Do you have input/ideas on how shipping companies can improve their
  - Environmental performance
  - Social performance (employees, families, local community etc)
- Do you have any concrete best-practice examples of shipping companies addressing their environmental and/or social performance?
- Do any of the objectives your organization works to uphold have cost-saving or revenue generating/long-term profitability arguments involved?
- In your opinion, what are the biggest reputational hazards for shipping companies?
- Do you think that shipping companies' responsibility mainly revolves around operations at sea or also have a land-based component (local community development etc?)
- Do you think that it is possible to promote performance improvements (safety, environment, social) on a *voluntary basis*, or do you believe that regulation by governments and international bodies is what shipping companies respond to.
- Is it possible to combine higher standards (or more regulation) with ability to compete internationally?

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