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ASIAN DEVELOPMENT BANK
TA 4004-RMI

Improving the Delivery of Sea and Air Transport Services in the Marshall Islands

Final Report

APPENDICES

SHIPPING SERIES

Appendix 3

Working Paper No. S3:	**Corporate Strategy for Domestic Shipping**
Working Paper No. S3a:	**Plan for Acquisition, Redeployment & Disposal of Ships**
Working Paper No. S3b:	**Annual Statement of Intent (SOI) & Statement of Service Performance (SSP)**
Working Paper No. S3c:	**Guidelines for Hull & Machinery Insurance of MOTC's Ships**

9 November 2005

McKay Shipping Ltd, trading as
Pacific Marine Management
Auckland, New Zealand

Appendix 3

Working Paper S3: Corporate Strategy for Domestic Shipping

- **Working Paper S3a:** Plan for Acquisition, Redeployment, & Disposal of Ships
- **Working Paper S3b:** Annual Statement of Intent (SOI) & Statement of Service Performance (SSP)
- **Working Paper S3c:** Guidelines for Hull & Machinery Insurance of MOTC's Ships

ASIAN DEVELOPMENT BANK
TA 4004-RMI

Improving the Delivery of Sea and Air Transport Services in the Marshall Islands

Working Paper No. S3:

Ministry of Transportation & Communications: Corporate Strategy for Domestic Shipping

October 2004

McKay Shipping Ltd, trading as
Pacific Marine Management
Auckland, New Zealand

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Ministry of Transportation and Communication Corporate Strategy for Domestic Shipping

Friday, Fri, 15 October 2004
Planning Team: Jorelik Tibon, Betwel Lekka, Mark Oxley, Michael Murray

Corporate Objective

We have noted that it is very important for the corporate objectives to identify the intended beneficiaries, the intended benefit and what is considered to be a satisfactory performance. For the Ministry of Transportation and Communications (MoTC), the body dealing with shipping policy, development and safety regulation):

- the intended beneficiaries are both the people of the outer islands and those living on Majuro and Ebeye, the main atolls - in other words the intended beneficiaries are the people of the Republic of the Marshall Islands(RMI);
- the intended benefit is an increase in their social and economic well being; and
- a satisfactory level of performance would be access to an affordable, reliable and safe sea transport system.

The overall corporate purpose for the MoTC in terms of its sea transport obligations may therefore be expressed in a single statement thus:

> ***To foster an accessible, affordable, reliable, safe and efficient sea transport system to enhance the economic and social well-being of the people of the RMI.***

A key performance indicator (KPI) is needed to indicate whether the sea transport system is accessible, affordable, reliable, safe and efficient, and that it contributes to the economic and social benefit of the people of the RMI.

The number of ship calls to each outer island is a good indication as to whether the sea transport system is accessible and reliable. The safety of the system can probably be implied from its accessibility and reliability but there are more direct ways of doing this that are related to the MoTC's other (safety regulatory) obligations. An indication of the affordability could be whether more cargo and more passengers are using the service (it is recognised that patronage is also a function of regularity and accessibility). The cost of operating the service is an indicator of the efficiency.

A KPI to indicate whether the shipping service is contributing to the economic and social well-being of the people of the RMI (and outer islanders in particular) is more problematic. A (verifiable) measure or indicator is needed. It is considered that if there are no (reasonable) complaints about the shipping service (and from the outer island communities in particular) then it can be assumed that the shipping service would be contributing to the economic and social benefit of the people of the RMI. It is probably unrealistic to expect that there will never be complaints (even reasonable ones) about the shipping service and so such a performance indicator needs to be viewed advisedly.

Corporate Conduct

Adopting the 'no harm principle' a corporate conduct statement for the MoTC would be:

> ***"In pursuing its aims the MoTC should take into account the reasonable wishes and concerns of its stakeholders provided that in so doing, it doesn't cause significant harm to any other stakeholder or third party.***

Corporate Targets

As noted there can be some confusion between corporate objectives and corporate targets. The targets are what level of performance, related to the objectives, the organisation wishes to achieve at a certain point in time – they are the key performance indicators (KPIs) indicated by T_{min} and T_{sat}.[1] So targets relate to both corporate objectives and corporate conduct. KPIs should be strategy neutral and essentially be a restatement of the corporate purpose.

Targets for Corporate Objectives

Accessibility, Reliability & Safety

T_{min}: ***"Four annual ship calls per year"***

T_{sat}: ***"Eight annual ship calls per year"***

Affordability

T_{min}: ***"no reduction in cargo and passenger volumes"***

[1] At most two key performance indicators should be all that is needed but one is sufficient, however, if the objective having been carefully considered requires three or four KPIs to verify its overall performance then so be it (provided the objective meets the appropriate criteria). It must also be absolutely clear from the KPI when an organisation fails and when it has performed satisfactorily.

T_{sat}: ***"growth in cargo and passenger volumes that is no less than the growth in GDP"***

Efficiency

T_{min}: ***"no increase in the annual cost"***

T_{sat}: ***"[10%] decrease in the annual cost***

Enhancing Economic & Social Wellbeing

T_{min}: ***"no more than10 reasonable complaints per year about the shipping service"***

T_{sat}: ***"the absence of reasonable complaints about the shipping service"***

T_{min} represents failure, the level at which senior management would be embarrassed and would be replaced. T_{sat} represents a satisfactory level of performance.

Targets for Corporate Conduct

T_{min} ***"To*** **consider** ***the reasonable wishes of MoTC's stakeholders and in doing so we shall go out of our way not to cause harm to other stakeholders and third parties."***

T_{sat} ***"To*** **meet** ***the reasonable wishes of MoTC's stakeholders and in doing so we shall go out of our way not to cause harm to other stakeholders and third parties."***

In this context "stakeholders" means the outer islanders, Majuro and Ebeye residents, passengers, shippers, employees, industry participants, legitimate pressure groups, and the government.

Strategic Analysis

Internal Appraisal

Strengths

- MoTC are providing a scheduled sea transport service achieving at least 6 voyages for outer island per year
- MoTC own 8 ships, which amongst other things, enables peaks in demand to be met
- MoTC and its shipping services has political support
- MoTC has considerable authority in the provision of shipping services – "it has the final say"
- Nitijela approves the shipping subsidy an annual basis
- Marshallese are good sailors and have a sailing tradition
- There are a number a people in the MoTC and RMI with the required knowledge, skill and experience to provide the domestic shipping services required by the RMI
- Public service employment terms and conditions may be attractive (eg job security)

Weaknesses

- The MoTC does not have complete autonomy over the control and management of shipping services – the services are subject to stakeholder intervention
- A number of ships owned and operated by the MoTC are in poor condition
- Manpower deficiencies:
  - ⇒ There is a shortage of qualified crew to the extent that the sailing schedule is affected (ie schedule reliability)
  - ⇒ There is a low level of clerical skill within the MoTC sea transport division (STD)
  - ⇒ Some senior managers lack management experience
  - ⇒ There is a shortage of professional people (eg CPAs) in the RMI
  - ⇒ Public service employment terms and conditions can be a deterrent to hiring (eg lack of flexibility, worse than public corporations)
- The shipping subsidy and other funds relating to the provision of shipping services are controlled by the Ministry of Finance (MoF) and, as a result of cash flow shortages, these funds are not always made available in a timely fashion to MoTC, with the result that the management and operation of shipping services can be adversely affected.
- The shipping schedule is sometimes disrupted by lack of cash for copra purchasing being provided by Tobolar to the on-board merchant.

- MoTC have poor management information systems (MIS) for the shipping operation (division)

External Appraisal

Opportunities

- Technology developments such as GIS – allowing safe navigation through lagoons 24 hours per day
- The new build ship will enable the fleet to be rationalised in a way that will reduce fixed and voyage costs without any detriment to shipping services
- There is private sector interest and participation in the provision of domestic RMI shipping (eg Arno's small craft - Arno is biggest copra producer; *Mercy K* and *Angelina Likto*)
- Increasing the revenue
  - Increasing the volumes – cargo and passengers
  - Increasing the rates
  - Taking advantage of one-off charter opportunities
- Decreasing the costs
  - Improving maintenance procedures
  - Monitoring and improving fuel consumption
  - Improving debtor collection
- Decreasing the assets used
  - Reducing the round voyage time
    - Day/night entry and departure
    - 24 hr cargo operations
  - Reducing time in Majuro
    - less idle time
    - 24 hr cargo operations
    - Improving access to Government funds allocated for copra purchase
- In long term – optimizing the size and number of ships in the fleet

Threats

- A reduction in the subsidy
- Loss of a vessel
- RMI domestic seaborne trade is very thin indeed

Key Strategic Issues

The Marketplace

Small volumes, combined with relatively low income per capita in outer islands means 'full cost recovery' pricing would be beyond reach of users to pay. But Government has a policy of assisting outer island development, so that migration to Majuro is reduced. Ship services are seen as an essential requirement for this development to take place. As a result, the Government subsidises outer island shipping services. In turn this results in non-subsidised operators being unable to compete with subsidized operators on most routes. Unsubsidized operators do, however, operate on short routes, eg Majuro to Arno.

The Government provides subsidies to:

- its own services (MoTC operation); and
- other services.

Subsidies to private sector operators have been offered by way of tender although these have not been very actively pursued, except by PII (Mercy K owners). This provides an element of competition that amounts to competition "for the market" rather than competition "within the market". Nevertheless the result is very little price competition and tends to encourage non market or off-market arrangements that have the effect of reducing competition whereby non shipping market arrangements are tied to shipping market arrangements.

The issue therefore is the continuation of shipping services in a market that has neither the traffic (cargo and passenger) nor revenue density to support a financially self sufficient operation.

Government Participation in Domestic Shipping

The MoTC's shipping operation experiences the difficulties that state operated services often have to face:

- withholding of operating funds, which adversely affects cash flow;
- intervention in scheduling and routing;
- ships that are old, difficult to maintain, and not necessarily suitable for the task; and
- a shortage of people with the necessary knowledge, skill and experience.

Altogether then, because of low cargo and passenger densities, adequate shipping services would not be provided and maintained without Government involvement, at least by the provision of a subsidy.

Corporate Strategies

Number	*Strategy Name*	*Description*	*Priority*	*Action by:*
1	Governance	To minimise ad hoc intervention in the control and management of shipping arrangements	High	MoTC
2	Funding	To secure the collection and receipt of funds for the operation of the shipping services by way of the government subsidy and trading.	High	MoTC
3	Copra Purchase Funding	To determine how best to ensure that the funding of copra purchasing does not disrupt shipping services and in particular the schedule.	High	MoTC
4	Service	To determine the level of service to be provided by shipping services.	High/ Medium	MoTC
5	Ship Operating	To determine the most advantageous method of operating the shipping services to meet the required service levels, including the future use of the scheduled services, tanker, landing craft, routes and hub.	High/ Medium	STD
6	Fleet Requirement & Configuration	To determine the number and type of ships to meet the required service levels at a level of utilisation that minimises fixed costs and cash requirements and a long term fleet disposal and replacement program, based on the outcomes of Strategies 4 & 5.	Medium	STD
7	Ship Maintenance	To determine and implement a maintenance plan that maintains the fleet in accordance with safety (seaworthiness) requirements and decide on the question (costs and benefits) of maintaining ships in Class, and the question of insurance.	Medium	STD
8	Management Information	To establish a management information system (MIS) for the control and management of the government shipping services.	Medium	STD
9	Manpower Plan	To determine the shore administrative and seafarer manpower required to properly	Medium	STD

Number	*Strategy Name*	*Description*	*Priority*	*Action by:*
		control, manage and operate a government shipping service in accordance with sound commercial practice, which will also include training requirements.		
10	Pricing Policy	To review current pricing (passenger fare and freight rate) policies for government shipping services and to determine the most effective level of subsidy in terms of the corporate objectives, including the question of the ability to control its own prices without the requirement for parliamentary approval.	Medium-Low	MoTC
11	Privatisation (Implementation)	To determine a plan to privatise the provision of all domestic shipping services within RMI over the next 5-10 years.	Low	MoTC

Strategic Action Plans

Strategic Action Plan No 1: Governance — Priority: High

1. *Name of the Project*	Minimizing ad hoc intervention in the control and management of shipping arrangements
2. *Targets*[2]	T_{sat} = Develop and obtain approval for guidelines for stakeholder requests by October 31, 2004 T_{min} = Develop guidelines by October 31, obtain approval by November 30
3. *Project Manager*	Jorelik Tibon, Secretary of Transportation & Communications
4. *Description*	From time to time, MoTC receives requests for changes to the published schedules and routes. Agreeing to changes can introduce costs that are not recovered, and an inability to perform satisfactorily the intended program for the shipping service, sometimes to the detriment of other stakeholders. • Develop guidelines for stakeholder requests for variations to published schedules and routes • Develop the criteria by which a change to services can be justified or agreed to • Obtain Ministerial [Cabinet?] approval for guidelines and criteria
5. *Resources allocated*	The project manager will have access to the full resources of the Ministry and will access outside resources (viz information and data) as required. No specific Ministry funds are required for the project
6. *Manhours required*	3 days
7. *Start date*	Immediately
8. *Completion date*	October 31, 2004
9. *Review date*	Weekly
10. *Future criteria*	The project will be deemed a failure if T_{min} is not met by November 30, 2004.

[2] T_{sat} = satisfactory target representing success
T_{min} = minimum target below which represents failure

Strategic Action Plan No 2: Funding — Priority: High

1. *Name of the Project*	Securing the collection and receipt of funds for the operation of the shipping services by way of the government subsidy and trading
2. *Targets*[3]	T sat = obtain approval for a system by November 30, 2004 T min = Reach agreement with MoF for a workable method by December 31, 2004, and obtain approval by January 31, 2005.
3. *Project Manager*	Betwel Lekka, Deputy Secretary
4. *Description*	The Ministry collects freight and fares from its shipping operation, but is not able to retain the monies and apply them to the ship operations. The Ministry is also allocated funds by the Nitijela which are to be made available monthly, but cashflow shortages can result in the funds not being made available in a timely fashion. This affects the ability to manage the operation of the ships. This project will: • Develop ideas for the collection of freight and fares by the Ministry • Develop ideas for the timely transfer of subsidy monies • Discuss the ideas with MoF, and reach a consensus on a workable method • Place the concept before Cabinet for approval
5. *Resources allocated*	The project manager will have access to the full resources of the Ministry and will access outside resources (viz information and data) as required. No specific Ministry funds are required for the project
6. *Manhours required*	3 days
7. *Start date*	Immediately
8. *Completion date*	November 30, 2004
9. *Review date*	Weekly
10. *Future criteria*	The project will be deemed a failure if Tmin is not met by January 31, 2005.

[3] T_{sat} = satisfactory target representing success
T_{min} = minimum target below which represents failure

Strategic Action Plan No 3: Copra Purchase Funding — Priority: High

1. *Name of the Project*	A method to ensure that funding of copra purchasing does not disrupt shipping services, and in particular, departure from Majuro
2. *Targets*[4]	T_{sat} = obtain approval for a system by November 30, 2004 T_{min} = Reach agreement with MoF for a workable method by December 31, 2004, and obtain approval by January 31, 2005.
3. *Project Manager*	Betwel Lekka, Deputy Secretary
4. *Description*	Departure of ships from Majuro can sometimes be delayed because Tobolar does not pass on to the on-board merchants, Government monies provided to subsidize the purchase of copra. Without cash, the merchants is unable to obtain copra as cargo for the return voyage to Majuro. This project will: • Develop ideas for the timely funding of merchants, including the idea of the Government funds for purchases being routed thru MoTC instead of Tobolar • Discuss the ideas with MoF, and reach a consensus on a workable method • Place the concept before Cabinet for approval
5. *Resources allocated*	The project manager will have access to the full resources of the Ministry and will access outside resources (viz information and data) as required. No specific Ministry funds are required for the project
6. *Manhours required*	2 days
7. *Start date*	Immediately
8. *Completion date*	November 30, 2004
9. *Review date*	Weekly
10. *Future criteria*	The project will be deemed a failure if T_{min} is not met by January 31, 2004.

[4] T_{sat} = satisfactory target representing success
T_{min} = minimum target below which represents failure

Strategic Action Plan No 4: Outer Island Shipping Services — Priority: High

1. Name of the Project	Determining the level of shipping services to be provided to the Outer Islands
2. Targets[5]	T_{sat} & T_{min} = Completion of the project by end of ADB TA 4004
3. Project Manager	Betwel Lekka, Deputy Secretary
4. Description	Some services to the outer islands may be provided by private sector participants, with the 'gap' services being provided by the Sea Transport Division of MoTC. Some service standards need to be developed so that the delivery of services can be monitored for their adequacy. Some work on this has already been done in an ADB TA associated with the OITIP Loan. This earlier work may provide a good starting point for this project. The project will: • Establish the criteria by which services will be measured • Develop the level of standards for each criterion • Publish the standards • Develop and implement a method of monitoring the performance of STD and any subsidized private sector participants • Develop a system of accountability for STD and the subsidized participants
5. Resources allocated	The project manager will have access to the full resources of the Ministry and will access outside resources (viz information and data) as required. Specifically, the reports and working papers from ADB TA 4004-RMI will be a resource[6] Specific Ministry funds required for the project are to be identified and approved. Under ADB TA 4004, an adviser has been made available to assist the Ministry with the development of such a performance monitoring system. That TA also has a budget that will supply some of the computer equipment required. Ministry funds may be required for any equipment beyond the ADB budget.
6. Manhours required	BL: 10 days ADB TA adviser: 5 days IT specialist: 5 days
7. Start date	Immediate
8. Completion date	31 March 2005
9. Review date	Monthly
10. Future criteria	The project will be deemed a failure if T_{min} is not met by the end of TA 4004.

[5] T_{sat} = satisfactory target representing success
T_{min} = minimum target below which represents failure

[6] Especially the Performance Monitoring section of Working Paper 2 – Specification for Shipping Commercial Systems, Performance Monitoring and Project BME, attached to the Inception Report of TA 4004-RMI Improving the Delivery of Sea & Air Transport Services in the Marshall Islands, Oct 2003.

Strategic Action Plan No 5: Ship Operating Strategy

Priority: High/ Medium

1. *Name of the Project*	Determining the most advantageous method of operating the shipping services to meet the required service levels.
2. *Targets*[7]	T_{sat} = 2005 routes and schedules: Oct 31, 2004 Completion concurrent with Plan No 4: Outer Island Shipping Services (March 31, 2005) T_{min} = 2005 routes and schedules: Oct 31, 2004 Completion shortly after Plan No 4: Outer Island Shipping Services (April 30, 2005)
3. *Project Manager*	Wallace Peter, Director, Sea Transport Division
4. *Description*	• To determine the most advantageous method of operating the shipping services to meet the required service levels, for: o cargo/ passenger ships, o the tanker, and o the landing craft. • To determine the routes and schedules for the outer island services • To consider the best place for location of the hub.
5. *Resources allocated*	The project manager will have access to the full resources of the Ministry and will access outside resources (viz information and data) as required. The interim and final results of Strategy Action Plan No 4: : Outer Island Shipping Services, will be required.
6. *Manhours required*	2005 Scheduling: 1 day Long term strategy: 5 days
7. *Start date*	Immediate
8. *Completion date*	Within 30 days of completion of Strategy No 4.
9. *Review date*	Monthly
10. *Future criteria*	The project will be deemed a failure if T_{min} is not met.

[7] T_{sat} = satisfactory target representing success
T_{min} = minimum target below which represents failure

Strategic Action Plan No 6: Fleet Requirement & Configuration — Priority: Medium

1. Name of the Project	Determining the number and type of ships to meet the required service levels
2. Targets[8]	T_{sat} = Two weeks after completion of Strategy Plans Nos 4 & 5 T_{min} = One month after completion of Strategy Plans Nos 4 & 5
3. Project Manager	Wallace Peters, Director, Sea Transport Division

4. Description	• Determine the number and type of ships to meet the required service levels, taking account of:
	  o The level of utilization that minimizes fixed and variable costs,
	  o Cash requirements,
	• Determine a long term fleet disposal and replacement program
	This plan is to be based on the outcomes of Strategy Plans Nos 4 & 5.

5. Resources allocated	The project manager will have access to the full resources of the Ministry and will access outside resources (viz information and data) as required. The interim and final results of Strategy Action Plans No 4 & 5 will be required. Additionally, the reports and working papers from ADB TA 4004-RMI will be a resource[9] Under ADB TA 4004, an adviser has been made available to assist the Ministry with the development of such long term fleet disposal and replacement plan.
6. Manhours required	WP: 5 days ADB TA adviser: 5 days
7. Start date	On completion of Strategy Plans Nos 4 & 5
8. Completion date	One month after completion of Strategy Plans Nos 4 & 5
9. Review date	Monthly
10. Future criteria	The project will be deemed a failure if T_{min} is not met

[8] T_{sat} = satisfactory target representing success
T_{min} = minimum target below which represents failure

[9] Especially Working Paper 4 – 'Plan for Acquisition, Redeployment & Disposal of Ships', attached to the Mid-Term Report of TA 4004-RMI Improving the Delivery of Sea & Air Transport Services in the Marshall Islands, Nov 2004.

Strategic Action Plan No 7: Ship Maintenance — Priority: Medium

1. Name of the Project	Determine and implement a ship maintenance plan.
2. Targets[10]	T_{sat} & T_{min} = implementation of existing corrective program and maintenance plan by 31 October 2004.
3. Project Manager	Wallace Peters, Director, Sea Transport Division
4. Description	• Survey and inspect the MoTC ships (completed Oct 03) • Report on condition of ships (completed Oct 03) • Develop corrective program to return ships to seaworthy condition (completed Oct 03) • Develop an on-going maintenance plan (completed Oct 03) • Implement corrective program and maintenance plan.
5. Resources allocated	The project manager will have access to the full resources of the Ministry and will access outside resources (viz information and data) as required. Additionally, the reports and working papers from ADB TA 4004-RMI will be a resource[11] Under ADB TA 4004, an adviser has been made available to assist the Ministry with the development of such long term fleet maintenance plan. His report has already been delivered.
6. Manhours required	WP: 1 days
7. Start date	Immediate
8. Completion date	31 October 2004
9. Review date	weekly
10. Future criteria	The project will be deemed a failure if the existing corrective program and maintenance plan are not implemented by 31 Oct 2004.

10 T_{sat} = satisfactory target representing success
T_{min} = minimum target below which represents failure

11 Especially Working Paper 1 – 'Ships Maintenance Plan', attached to the Inception-Term Report of TA 4004-RMI Improving the Delivery of Sea & Air Transport Services in the Marshall Islands, Oct 2003.

Strategic Action Plan No 8: Management Information System — Priority: Medium

1. Name of the Project	Establishment of a Management Information System (MIS)
2. Targets[12]	T_{sat} & T_{min} = Completion of the project by end of ADB TA 4004
3. Project Manager	Wallace Peters, Director, Sea Transport Division

4. Description	• Design a management information system covering (completed Oct 03):
	  o Cargo bookings
	  o Passenger bookings
	  o Voyage information
	  o Financial transactions
	  o Management and Financial accounting
	• Develop the system (under way in Oct 04)
	• Test the system and write user manuals
	• Train staff
	• Implement system

5. Resources allocated	The project manager will have access to the full resources of the Ministry and will access outside resources (viz information and data) as required. Additionally, the reports, activities and working papers from ADB TA 4004-RMI will be a resource[13] Under ADB TA 4004, an adviser has been made available to assist the Ministry with the development of such a MIS system. An IT specialist has been engaged to assist.
6. Manhours required	WP: 10 days ADB TA adviser: 15 days IT specialist: 15 days
7. Start date	Immediate
8. Completion date	31 March 2005
9. Review date	Monthly
10. Future criteria	The project will be deemed a failure if the MIS system is not implemented by the end of TA 4004..

[12] T_{sat} = satisfactory target representing success
T_{min} = minimum target below which represents failure

[13] Especially the Shipping Commercial Systems section of Working Paper 2 – 'Specification for Shipping Commercial Systems, Performance Monitoring and Project BME, attached to the Inception Report of TA 4004-RMI Improving the Delivery of Sea & Air Transport Services in the Marshall Islands, Oct 2003.

Strategic Action Plan No 9: Manpower Plan — Priority: Medium

1. *Name of the Project*	Determining the: • Shore administrative; and • Seafarer manpower requirements
2. *Targets*[14]	T_{sat} & T_{min} = Completion of the project by November 30, 2004
3. *Project Manager*	Wallace Peters, Director, Sea Transport Division
4. *Description*	Develop a manpower plan to control, manage and operate a Government shipping service, based on sound commercial practice. This is to include training and personal development requirements.
5. *Resources allocated*	The project manager will have access to the full resources of the Ministry and will access outside resources (viz information and data) as required. Specific Ministry funds required for the project are to be identified and approved.
6. *Manhours required*	WP: 5 days
7. *Start date*	Immediate
8. *Completion date*	November 30, 2005
9. *Review date*	Weekly
10. *Future criteria*	The project will be deemed a failure if T_{min} is not met by November 30, 2004

[14] T_{sat} = satisfactory target representing success
T_{min} = minimum target below which represents failure

Strategic Action Plan No 10: Pricing Policy — Priority: Low

1. *Name of the Project*	Review of current passenger fare and freight rate policies
2. *Targets*[15]	T_{sat} & T_{min} = Completion of the project by November 30, 2004
3. *Project Manager*	Betwel Lekka, Deputy Secretary

4. *Description*	• Review current pricing policies for:
	  o Passenger fares
	  o Freight rates
	• Determine the most effective level of subsidy in terms of the corporate objectives
	• Consider the question of the ability for MoTC to control its own prices without the requirement for Parliamentary approval.

5. *Resources allocated*	The project manager will have access to the full resources of the Ministry and will access outside resources (viz information and data) as required. No specific Ministry funds are required for the project
6. *Manhours required*	BL: 4 days
7. *Start date*	Immediate
8. *Completion date*	30 November 2005
9. *Review date*	Weekly
10. *Future criteria*	The project will be deemed a failure if pricing policy is not completed by 30 November.

[15] T_{sat} = satisfactory target representing success
T_{min} = minimum target below which represents failure

Strategic Action Plan No 11: Privatization Policy Priority: Low

1. *Name of the Project*	Determining a plan to privatize the provision of domestic shipping services within RMI
2. *Targets*[16]	T_{sat} & T_{min} = Completion of the project by January 31, 2005
3. *Project Manager*	Jorelik Tibon, Secretary of Transportation & Communications
4. *Description*	• Determine the extent to which privatization is desirable • Determine the timing of such privatization • Obtain government approval for the concept developed • Develop the methodology by how such privatization might take place (eg, the franchise subsidy scheme)
5. *Resources allocated*	The project manager will have access to the full resources of the Ministry and will access outside resources (viz information and data) as required. No specific Ministry funds are required for the project
6. *Manhours required*	JT: 3 days
7. *Start date*	Immediate
8. *Completion date*	January 31. 2005
9. *Review date*	Monthly
10. *Future criteria*	The project will be deemed a failure if pricing policy is not completed by 31 January, 2005.

16 T_{sat} = satisfactory target representing success
T_{min} = minimum target below which represents failure

ASIAN DEVELOPMENT BANK
TA 4004-RMI

Improving the Delivery of Sea and Air Transport Services in the Marshall Islands

Working Paper No. S3a:

Plan for Acquisition, Redeployment & Disposal of Ships

October 2004

McKay Shipping Ltd, trading as
Pacific Marine Management
Auckland, New Zealand

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I Introduction

1. This Working Paper describes a plan for the acquisition, redeployment and disposal of ships owned by the Government of the Republic of the Marshall Islands, and operated by the Sea Transport Division of the Ministry of Transportation and Communications. This plan has been developed for the Ministry of Transportation and Communication as part of a technical assistance for Improvement of the Delivery of Sea and Air Transport Services in the Marshall Islands, ADB TA 4004-RMI. The project is being carried out by a team of international consultants led by McKay Shipping Ltd, trading as Pacific Marine Management (the Consultants) between September 2003 and early 2005. This plan was developed during the second fieldwork visit in October 2004. The TA is associated with Loan No. 1948-RMI Outer Island Transport Infrastructure Project (OITIP).

A Background

2. During the fact finding mission for Loan No. 1948-RMI, a paper on the operational framework for domestic shipping[1] suggested that a long term plan for the supply of tonnage to meet the transportation demand needed to be developed, taking account of changing conditions such as changing volumes, changes in technology and aging of vessels.

3. This TA (TA4004-RMI) has looked at the policy and strategic requirements of the Government with respect to domestic shipping[2]. A fleet requirement and configuration strategy was identified as one of about a dozen strategies that need to be developed. Although the MoTC has yet to carry out the development of that strategy, this plan looks at the immediate issues and gives a guide that can be adopted for the next five or more years without prejudicing the ability to implement a longer term plan in the future.

B Status of this Plan

4. This plan should be revisited once the strategy issues identified in Domestic Shipping Strategy that precede it have been addressed. The outcomes from those investigations will confirm or vary the conclusions reached in this document.

C Objectives

5. The objectives of this plan are:

[1] Working Paper 3 – Operational Framework for Mixed Private Sector/ Government Domestic Shipping Services, Jan 2002, attached to the Final Report of TA 3506-RMI Outer Island Transport Infrastructure, April 2002.

[2] Working Paper 3 – MoTC: Strategy for Domestic Shipping, Oct 04, as part of TA4004-RMI.

- To consider the type, size and number of ships required, now, and in the long term,
- To look at the 'gap' between the present fleet and that long term requirement, and
- To present a schedule of redeployment, disposal and acquisition of ships in the fleet.

II Existing Fleet

A Deployment of Vessels

6. The Sea Transport Division (STD) are operating 8 ships at the beginning of F/Y 2005. Four of these are passenger/ cargo ships that provide scheduled services to outer islands. These are *Litakbouki*, *Landrik*, *Ribuuk Ae* and *Boken-eb*.

7. *Litakbouki* is the oldest of these four at 28 years. It is in very poor condition, and in September 2004 it grounded on a reef. Although the ship came off, it was extensively damaged, and investigation of the damage has revealed that the structural condition is even worse than was previously assumed. It is likely that the ship will be withdrawn from service and disposed of.

RMI Government Shipping Fleet

Vessel	*Type*	*Yr built*	*Length*	*Passengers*	*Cargo*	*Speed*	*Fuel consumption (gal/hr)*	*Condition (5- excellent 1- poor)*	*Comment*
New Build	Passenger/ cargo	2005	48.6m	75	500	10.3	24 gph	5	Expected in service 1stQ05
Litakbouki	Passenger/ cargo	1976	52m	150	150t	10	56 gph	1	Unsuitable condition for continuing in service
Landrik	Passenger/ cargo	1985	43m	75	200t	9.5	23 gph	4	To be d-docked in November
Ribuuk Ae	Passenger/ cargo	1995	33m	65	100t	8.5	30 gph	3	Recently d-docked in Majuro
Bokan-eb	Passenger/ cargo	1986		30	30t	7	22 gph	4	
Jobake	Tanker	1982	35m		240m3	9	20 gph	4	
Jeljelat Ae	Landing craft	1997				5	48 gph	2	
YFU 82	Landing craft	1968				7.5	48 gph	3	
YFU 77	Landing craft							0	Out of service
LCM	Landing craft	1968				8	48 gph	3	

8. *Landrik*, *Ribuuk Ae* and *Boken-eb* are all in reasonable condition, and are trading. For most of f/y 2004, *Ribuuk* Ae was on the Majuro drydock and out of service. A new ship is being built and is due to be delivered early in 2005. It is more or less the same in design as *Landrik*, and slightly larger.

9. *Jobake* was acquired to provide a fuel delivery service to outer islands. It has been out of service during 2004, but is now in operating condition.

10. The landing craft were transferred to STD control at the beginning of F/Y 2004 (one year ago) from the Ministry of Public Works and Ministry of Resources and Development. These ships have for the most part been idle in the ensuing 12 months, with only a few voyages recorded during December, to supplement the passenger services at this peak time.

B Utilisation

i Outer Island Shipping Services

11. The time spent on voyages by each ship in F/Y 2004 is extremely low. The overall percentage of time for the three cargo/ passenger ships that traded full time was only 35% (ie excluding *Ribuuk Ae,* which was in dock or awaiting mechanical parts for most of the year).

Vessel	*Utilization (on voyages)*	*Number of voyages in F/Y 2004*	*Average number of days on voyage*	*Average number of days per voyage in Majuro*
Litakbouki	37%	9	15	25
Landrik	31%	7	16	36
Ribuuk Ae		2		
Boken-eb	30%	11	10	23
Total STD ships	**35% (excl *R.Ae*)**	**29**	**13.2**	**27**
Mercy K (under MoTC subsidy)		4		
Total for all outer island scheduled services		**33**		

12. Only 6 voyages were planned for each ship. The additional voyages are the result of ships loading to capacity with copra part way through a voyage, and thus having to undertake 'completion' voyages. The new ship will have a larger capacity than *Landrik* and *Litakbouki* and this should result in very much fewer 'completion' voyages, but each voyage will be longer. A good estimate is 18 to 20 days.

13. The ships also spend time in Majuro loading and discharging cargo, and undergoing maintenance. This needs only to be about 6 or 7 days a trip, and not the 25 to 35 days that it has been in practice, although at present funding delays for copra purchasing are a very frequent cause of some departure delays. Until this funding issue is resolved, it would be prudent to plan on a minimum of 10 days to turn round in Majuro.

14.

15. In earlier years, the number of voyages undertaken was similar:

Ship	*FY-2001*	*FY-2002*	*FY-2003*	*FY-2004*
Litakbouki	7	13	13	9
Landrik	4	6	8	7
Ribuuk Ae	6	7	8	2
Boken-eb			7	11
Mercy K	6	6	4	4
Total	**23**	**32**	**40**	**33**

ii Jobake

16. No data was available for *Jobake*'s utilization in 2004. However, since commencing service in 2001, *Jobake* has carried out 1 voyage in 2001, 7 in 2002 and 2 in 2003. During those voyages, the quantity of fuel delivered reduced, with early voyages having sales of more than 10,000 gallons, but later voyages only 4,000 to 7,000 gallons.

17. It is a feature of this service that extremely small parcels are delivered from the tanker directly to consumers; sometimes the vessel's hose fills a 1 gallon container! A far more satisfactory system would be for bulk storage tanks to be placed on each atoll for filling from the tanker, with consumers purchasing from the bulk storage as required.

iii Landing Craft

18. The two landing craft, *Jeljelat Ae* and *YFU 82* have extremely low utilization. They each carried out a series of very short voyages during November and December, mostly to supplement the regular field trip ships during this high demand period. *YFU 82* also carried out one voyage at the end of January. For the rest of the year there is no record of them being used. YFU 77 is unsuitable for service and is not in use.

19. There was no data available on the utilization of the small *LCM*

III Outer Island Shipping Services

A Present Requirement

20. The present requirement is that every atoll or island receives at least six visits a year. Earlier studies[3] have suggested that this should be eight or nine visits a year, at about 6 weekly intervals.

21. An average round voyage should take about 30 days (20 days on passage, plus 10 days in Majuro). Each ship can therefore undertake about 11 or 12 voyages a year.

22. Note that, depending on the route, about two-thirds of voyages are one week shorter or longer in duration, but by careful selection of route allocation, all ships would be able to complete 12 voyages, (or 11 if it is a dry docking year for that ship).

23. There are 6 routes or sectors that need to be serviced.

24. In order to provide a 6 weekly frequency of service, say, 8 voyages a year to each destination, 48 voyages need to be undertaken. At a capability of 12 voyages a year per ship, this requires 4 ships.

25. Several vessels are available from the private sector that are suitable for this work. If one ship were to be obtained from the private sector under subsidy, three ships would need to be provided by STD.

B Requirement in Five Years (2010)

26. The longer term demand can be met by more, smaller ships, with more frequent services, or fewer, larger ships with less frequent services, or a mixture. More, smaller ships would provide a better level of service, especially through more frequent calls, and shorter passenger transit time for passengers.

27. However, the MoTC is about to take delivery of a new build ship of about the size of *Landrik*. As it has been designed and built to a specific (rather than general) requirement, and has been built in a high cost shipbuilding country, Japan, its resale value on the open market is not likely to be enough to recover the amount spent acquiring it. Taking this into account suggests that it should be retained for longterm use, and used together with *Landrik*, as they are interchangeable to a large extent. The third and fourth ships could be *Ribuuk Ae* and *Bokeneb.* Or, the fourth ship could be obtained from the private sector through a franchise subsidy arrangement. Three suitable ships are locally owned, Pacific International Inc's *Mercy K,* a similar ship, *Angelino Litko*, owned by Amblane Lajar, a local businessman and a landing craft,

[33] Working Paper 3 – Operational Framework for Mixed Private Sector/ Government Domestic Shipping Services, Jan 2002, attached to the Final Report of TA 3506-RMI Outer Island Transport Infrastructure, April 2002.

Neidaka, owned by Kalmer Latka, another local businessman. A competitive situation could well exist when bidding for and negotiating the level of subsidy.

28. This would satisfy the requirement for four ships of more or less *Landrik* size and type.

C Surplus Tonnage

29. The present requirement (set out above) needs four ships for the outer island shipping service.

30. *Litakbouki, is* surplus to requirements. *Litakbouki* is not suitable for continuation in service. It should be put up for sale on an "as is, where is" basis. If it cannot be sold, it should be scrapped or scuttled.

31. In the longer term, if the funding of copra purchases problem can be resolved, turn round in Majuro can be reduced. Also, it may be that more frequent voyages (say, 8 a year) will reduce the quantity of copra loaded per voyage. These factors may well reduce the round voyage times to the extent that one less ship is required.

32. *Ribuuk Ae* and *Boken-eb* are both in a condition suitable for further trading. Neither of them is in class, which makes sale difficult. If the utilization of ships improves to the point where one less is required, then one of these two ships should be selected, based on the amount of capacity that wants to be taken out of the system. The ship that is chosen could be sold or leased to domestic owners, who would then be able to operate it in competition with STD. This would improve the level of outer island services, especially on routes near to Majuro, where the freight earnings need less of a subsidy as a result of the present single freight rate regardless of destination. If it cannot be sold or leased out locally, it should be put up for sale to a foreign buyer.

D Gap

33. At present there is over tonnage. With the introduction of the new ship, the desirable type of ships will be in the fleet. There is therefore no requirement for any plans for further acquisition until one of the existing ships reaches the end of its economic life. The first that is likely to reach this point is *Landrik* or *Boken-eb* but not for a further 10 years or so provided they are well maintained.

34. A more likely scenario would be a reduction in numbers of STD vessels, as ship operating efficiency improves, or private sector operators take up opportunities to operate outer island services.

IV Jobake

A Present Requirement

35. *Jobake* was acquired to provide a means of supplying fuel to the outer islands, while at the same time removing a hazardous cargo from the cargo/ passenger ships. The service has not been very successful with respect to the quantity of fuel delivered. This can be attributed in a large part to the methods of storage at outer islands. Most do not have any form of bulk storage. The ship is mostly discharging fuel directly into consumers' containers; drums and even 1 gallon containers.

36. A more efficient and suitable method of storage is needed, eg provision of bulk storage tanks ashore at atolls. In essence, some entity (MEC? Mobil? Government?) needs to recognize this need and enable the provision of some bulk storage at each atoll. The ship would then be able to discharge in a single quantity at each place visited on the atolls

B Requirement in Five Years (2010)

37. Provided that shore bulk storage can be set up at outer island places, Jobake will be able to trade regularly, and thus establish the demand for fuel. Whether the demand is sufficient to justify retaining the ship can then be assessed.

V Landing Craft

A Present Requirement

38. Requirement for this type of craft is sporadic. Several private sector owned vessels of this type are also in service. Utilization is extremely low, with the private sector vessels having better utilization.

39. In the near future there are some major outer island projects scheduled (including the ADB loan funded Outer Islands Transport Infrastructure Project). These will result in some demand for landing craft. It will be worthwhile MoTC retaining a capability to provide this sort of service, but perhaps not at the present level of capability.

B Requirement in Five Years (2010)

40. In the medium term, the requirement for retaining landing craft is less justified. Once the short term demand has been met, the private sector supply of landing craft can be re-assessed, and if it appears sufficient to meet demand without any MoTC capability, the MoTC vessels could be disposed of.

C Surplus Tonnage

41. Initially, the MoTC capability should be reduced to one landing craft. Although it is older, it is recommended that *YFU 82* be retained in preference to *Jeljelat Ae*. *YFU 82* was found to be generally in good, above average condition during the inspections carried out in 2003 for the maintenance plan development. In contrast, *Jeljelat Ae* has a major structural problem, and was otherwise in only average condition. It should be put up for sale.

42. The *LCM* should be put up for sale as soon as possible.

D Gap

43. There is no foreseeable gap in the provision of landing craft capability

VI Schedule for Redeployment, Disposal and Acquisition

44. The specific actions to take are shown in the table below:

MoTC Fleet Disposals & Acquisitions Schedule

Year	*Ship*	*Disposals*	*Acquisitions*	*Comment*
2004	*Litakbouki* *Jeljelat Ae & LCM*	Sale, scrap or scuttle Redeploy by sale.		Not suitable condition to continue trading
2005	*New build*		Take delivery and commence service.	Similar type and size as *Landrik*
Beyond 2005		As voyage times improve or private sector participation increases, redeploy any vessel by sale or lease when the opportunity arises.		

45. The diagram over the page shows the timing for utilization, acquisition and disposal for the whole fleet:

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Plan for Acquisition, Redeployment & Disposal of Ships

2004				2005				2006				2007				2008			
Jan	Apr	Aug	Dec	Jan	Apr	Aug	Dec	Jan	Apr	Aug	Dec	Jan	Apr	Aug	Dec	Jan	Apr	Aug	Dec
1st New Vessel Signing Contract (Mar 04) Launching (Dec 04) Delivery (Feb 05) 1st Dry-docking (Feb 07)																			
M/V Litakbouki Up for Sale (Oct 04)																			
M/V Landrik Major Dry-docking (Nov 04)																			
M/V Ribuuk Ae Continue in service until no longer required																			
M/V Bokaneb Continue in service until no longer required ……..major drydock (Oct 05)																			
Jobake Develop plan for bulk storage of fuels on atolls (Nov 04)																			
LC Jeljelet Ae Up for Sale (Oct 04)																			
YFU 82 Drydock (Jan 05) Major Drydock (Jan 08)																			
YFU 77 Ready for decommission (Feb 04)																			
LCM Up for Sale (Nov 04)																			

ASIAN DEVELOPMENT BANK
TA 4004-RMI

Improving the Delivery of Sea and Air Transport Services in the Marshall Islands

Working Paper No. S3b

Annual Statement of Intent (SOI) and Statement of Service Performance (SSP)

August 2005

McKay Shipping Ltd, trading as
Pacific Marine Management
Auckland, New Zealand

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Annual Statement of Intent (SOI) and Statement of Service Performance (SSP)

1 Background

The Annual Statement of Intent (SOI) and Statement of Service Performance (SSP) are intended to provide a measure of how well the Ministry of Transportation and Communications (MOTC) runs its outer island shipping services. The SOI is prepared at budget time, just prior to the beginning of each Financial Year. At the completion of a Financial Year, the SSP is prepared, comparing the actual performance with that intended.

2 Performance Criteria & Items Measured

The following table shows the performance criteria selected for these statements, the items that measure them, and suggested sources for the data:

Performance Criteria	*Item measured*	*Source*	
		SOI	*SSP*
Trade Based Indicators			
Service Performance			
Number of voyages	Number per year	Annual Field trip Plan	Annual Voyage Summary
Frequency of voyages	% < 6 weeks % < 8 weeks	MOTC Outer Island Shipping Strategic Plan	Annual Voyage Summary
Depart Majuro	% within 5 days of Annual Schedule date % within 1 day of advertised date	MOTC Outer Island Shipping Strategic Plan	Operations Voyage Reports
Passenger comfort	% voyages <75 hrs non-steaming time % voyages <100 hrs non-steaming time	MOTC Outer Island Shipping Strategic Plan	Operations Voyage Reports
Last port rotation	% voys with last atoll different from previous voyage – outbound % voys with last atoll different from previous voyage -inbound	MOTC Outer Island Shipping Strategic Plan	Operations Voyage Reports

Transportation Performed			
CARGO			
Gen cargo outbound (tons)	Quantity pa	MOTC Outer Island Shipping Strategic Plan	Monthly Commercial Reports
Copra (tons)	Quantity pa	MOTC Outer Island Shipping Strategic Plan	Monthly Commercial Reports
Gen cargo inbound & Inter Island (tons)	Quantity pa	MOTC Outer Island Shipping Strategic Plan	Monthly Commercial Reports
Total tons	Quantity pa	(calculated)	(calculated)
PASSENGERS			
Outwards	Number pa	MOTC Outer Island Shipping Strategic Plan	Monthly Commercial Reports
Inwards	Number pa	MOTC Outer Island Shipping Strategic Plan	Monthly Commercial Reports
Inter Island	Number pa	MOTC Outer Island Shipping Strategic Plan	Monthly Commercial Reports
Total passengers	Number pa	(calculated)	(calculated)

Income & Expenditure			
Total cargo revenue	$ pa	MOTC Outer Island Shipping Strategic Plan	Monthly Commercial Reports
Total passenger revenue	$ pa	MOTC Outer Island Shipping Strategic Plan	Monthly Commercial Reports
Charter Income	$ pa	MOTC Outer Island Shipping Strategic Plan	Monthly Commercial Reports
Total Revenue	$ pa	(calculated)	(calculated)
Total direct operating costs	$ pa	TBA	TBA
Trade Contribution to Overheads	$ pa	(calculated)	(calculated)
Revenue per unit			
Total cargo revenue	$/ton	(calculated)	(calculated)
Total passenger revenue	$/passenger	(calculated)	(calculated)

Vessel Based Indicators			
Number of voyages	Number pa	MOTC Outer Island Shipping Strategic Plan	Operations Voyage Reports
Time trading- on voyages	Days	MOTC Outer Island Shipping Strategic Plan	Vsl Utilization Reports
Time trading- in Majuro	Days	MOTC Outer Island Shipping Strategic Plan	Vsl Utilization Reports
Time in maintenance	Days	MOTC Outer Island Shipping Strategic Plan	Vsl Utilization Reports
Other downtime	Days	MOTC Outer Island Shipping Strategic Plan	Vsl Utilization Reports
Utilisation factor- trading	%age of total year	(calculated)	(calculated)
Utilisation factor- trading & maintenance	%age of total year	(calculated)	(calculated)
Fuel consumption per mile	(Main engine gallons/ nm)	Budget	Operations Voyage Reports
Fuel consumption per trading day	(Total consumption pa/trading days)	Budget	Operations Voyage Reports

Financial Indicators			
After tax profit	$ pa	Budget	Financial a/cs
Subsidy allocated	$ pa	Budget	Financial a/cs
Surplus/(deficit) on subsidy	$ pa	(calculated)	(calculated)
Debtors turnover	%	TBA	TBA
Current Assets: Current Liabilities	%	TBA	TBA

3 Format of Statements

Examples of the format of the SOI, SSP and a Variance Analysis are appended. Some example data are shown, to indicate the type of data that is required.

Ministry of Transportation & Communications
Sea Transportation Division
Performance of MoTC Domestic Shipping Services

Statement of Intent (SOI)

Financial Year (Oct 1 - Sept 30): 2006

Trade Based Indicators		Trade:	Northern 1	Northern 2	Central	Southern	Eastern	Western	Charters	Overall
Service Performance										
Number of voyages	Number per year		6	6	6	6	6	6		36
Frequency of voyages	% < 6 weeks		0%	0%	0%	0%	0%	0%		0%
	% < 8 weeks		100%	100%	100%	100%	100%	100%		100%
Depart Majuro	% within 5 days of Annual Schedule date		83%	83%	83%	83%	83%	83%		83%
	% within 1 day of advertised date		83%							14%
Passenger comfort	% voyages <75 hrs non-steaming time		67%							11%
	% voyages <100 hrs non-steaming time		100%							17%
Last port rotation	% voys with last atoll different from previous voyage -outbound		100%							17%
	% voys with last atoll different from previous voyage -inbound		100%							17%
Transportation Performed										
CARGO										
Gen cargo outbound (tons)			400							400
Copra (tons)			350							350
Gen cargo inbound & Inter Island (tons)			20							20
Total tons			770	0	0	0	0	0	0	770
PASSENGERS										
Outwards			900							900
Inwards			875							875
Inter Island			35							35
Total passengers			1810	0	0	0	0	0	0	1810
Income & Expenditure										
Total cargo revenue			$39 450							$39 450
Total passenger revenue			$23 500							$23 500
Charter Income			$10 000							$10 000
Total Revenue			$72 950	$0	$0	$0	$0	$0	$0	$72 950
Total direct operating costs			($100 000)							($100 000)
Trade Contribution to Overheads			($27 050)	$0	$0	$0	$0	$0	$0	($27 050)
Revenue per unit										
Total cargo revenue	$/ton		$51.23	-	-	-	-	-	-	$51.23
Total passenger revenue	$/passenger		$12.98	-	-	-	-	-	-	$12.98
Vessel Based Indicators		Ship:	Aemman	Landrik	Ribuuk Ae	Boken -eb				Total
Number of voyages			8	8	7	6				29
Time trading- on voyages	Days		200							200
Time trading- in Majuro	Days		90							90
Time in maintenance	Days		28							28
Other downtime	Days		47	365	365	365				1142
Utilisation factor- trading			79%	0%	0%	0%	0%	0%	0%	22%
Utilisation factor- trading & maintenance			87%	0%	0%	0%	0%	0%	0%	24%
Fuel consumption per mile	(Main engine gallons/ nm)		3.18							
Fuel consumption per trading day	(Total consumption pa/trading days) gals/day		600							

For Sea Transportation Division	
Financial Indicators	
After tax profit	($540 000)
Subsidy allocated	$550 000
Surplus/(deficit) on subsidy	**$10 000**
Debtors turnover	4%
Current Assets: Current Liabilities	1.00

Ministry of Transportation & Communications
Sea Transportation Division
Performance of MoTC Domestic Shipping Services

Statement of Service Performance

Financial Year (Oct 1 - Sept 30): 2006

Trade Based Indicators		Trade:	Northern 1	Northern 2	Central	Southern	Eastern	Western	Charters	Overall
Service Performance										
Number of voyages	Number per year		7	5	5	6	6	6	0	35
Frequency of voyages	% < 6 weeks		50%	75%						21%
	% < 8 weeks		100%							20%
Depart Majuro	% within 5 days of Annual Schedule date		85%							17%
	% within 1 day of advertised date		91%							18%
Passenger comfort	% voyages <75 hrs non-steaming time		55%							11%
	% voyages <100 hrs non-steaming time		90%							18%
Last port rotation	% voys with last atoll different from previous voyage -outbound		90%							18%
	% voys with last atoll different from previous voyage -inbound		90%							18%
Transportation Performed										
CARGO										
Gen cargo outbound (tons)			450							450
Copra (tons)			340							340
Gen cargo inbound & Inter Island (tons)			25							25
Total tons			815	0	0	0	0	0	0	815
PASSENGERS										
Outwards			1 000							1 000
Inwards			800							800
Inter Island			40							40
Total passengers			1 840	0	0	0	0	0	0	1 840
Income & Expenditure										
Total cargo revenue			$40 000							$40 000
Total passenger revenue			$22 000							$22 000
Charter Income			$5 000							$5 000
Total Revenue			$67 000	$0	$0	$0	$0	$0	$0	$67 000
Total direct operating costs			($110 000)							($110 000)
Trade Contribution to Overheads			($43 000)	$0	$0	$0	$0	$0	$0	($43 000)
Revenue per unit										
Total cargo revenue	$/ton		$49.08	-	-	-	-	-	-	$49.08
Total passenger revenue	$/passenger		$11.96	-	-	-	-	-	-	$11.96
Vessel Based Indicators		Ship:	Aemman	Landrik	Ribuuk Ae	Boken -eb				Total
Number of voyages			10							10
Time trading- on voyages	Days		205							205
Time trading- in Majuro	Days		120							120
Time in maintenance	Days		35							35
Other downtime	Days		5							5
Utilisation factor- trading			89%	-	-	-	-	-	-	89%
Utilisation factor- trading & maintenance			99%	-	-	-	-	-	-	99%
Fuel consumption per mile	(Main engine gallons/ nm)		4.00							
Fuel consumption per trading day	(Total consumption pa/trading days)		550							

Financial Indicators	For Sea Transportation Division
After tax profit	($560 000)
Subsidy allocated	$550 000
Surplus/(deficit) on subsidy	**($10 000)**
Debtors turnover	6%
Current Assets: Current Liabilities	80%

Ministry of Transportation & Communications
Sea Transportation Division
Performance of MoTC Domestic Shipping Services

Comparison of Statement of Service Performance with Statement of Intent

Financial Year (Oct 1 - Sept 30): 2006

Positive value indicates better than intended

Trade Based Indicators		Trade:	Northern 1	Northern 2	Central	Southern	Eastern	Western	Charters	Total
Service Performance										
Number of voyages	Number per year		1	-1	-1	0	0	0	0	-1
Frequency of voyages	% < 6 weeks		50%	75%	-	-	-	-	-	21%
	% < 8 weeks		-	(100%)	(100%)	(100%)	(100%)	(100%)	-	(80%)
Depart Majuro	% within 5 days of Annual Schedule date		2%	(83%)	(83%)	(83%)	(83%)	(83%)	-	(66%)
	% within 1 day of advertised date		8%	-	-	-	-	-	-	4%
Passenger comfort	% voyages <75 hrs non-steaming time		(12%)	-	-	-	-	-	-	(0%)
	% voyages <100 hrs non-steaming time		(10%)	-	-	-	-	-	-	1%
Last port rotation	% voys with last atoll different from previous voyage -outbound		(10%)	-	-	-	-	-	-	1%
	% voys with last atoll different from previous voyage -inbound		(10%)	-	-	-	-	-	-	1%
Transportation Performed										
CARGO										
Gen cargo outbound (tons)			50	0	0	0	0	0	0	50
Copra (tons)			-10	0	0	0	0	0	0	-10
Gen cargo inbound & Inter Island (tons)			5	0	0	0	0	0	0	5
Total tons			45	0	0	0	0	0	0	45
PASSENGERS										
Outwards			100	0	0	0	0	0	0	100
Inwards			-75	0	0	0	0	0	0	-75
Inter Island			5	0	0	0	0	0	0	5
Total passengers			30	0	0	0	0	0	0	30
Income & Expenditure										
Total cargo revenue			$550	$0	$0	$0	$0	$0	$0	$550
Total passenger revenue			($1 500)	$0	$0	$0	$0	$0	$0	($1 500)
Charter Income			($5 000)	$0	$0	$0	$0	$0	$0	($5 000)
Total Revenue			($5 950)	$0	$0	$0	$0	$0	$0	($5 950)
Total direct operating costs			($10 000)	$0	$0	$0	$0	$0	$0	($10 000)
Trade Contribution to Overheads			($15 950)	$0	$0	$0	$0	$0	$0	($15 950)
Revenue per unit										
Total cargo revenue	$/ton		($2.15)	-	-	-	-	-	-	($2.15)
Total passenger revenue	$/passenger		($1.03)	-	-	-	-	-	-	($1.03)
Vessel Based Indicators		Ship:	Aemman	Landrik	Ribuuk Ae	Boken -eb				Total
Number of voyages			2	-8	-7	-6	-	-	-	-19
Time trading- on voyages			5	-	-	-	-	-	-	5
Time trading- in Majuro			-30	-	-	-	-	-	-	-30
Time in maintenance			-7	-	-	-	-	-	-	-7
Other downtime			42	365	365	365				1 137
Utilisation factor- trading			10%	-	-	-	-	-	-	67%
Utilisation factor- trading & maintenance			12%	-	-	-	-	-	-	75%
Fuel consumption per mile	(Main engine consumption/ nm)		-0.82	-	-	-	-	-	-	-
Fuel consumption per day	(Total consumption pa/trading days)		50	-	-	-	-	-	-	-

Financial Indicators	
After tax profit	($20 000)
Subsidy allocated	$0
Surplus/(deficit) on subsidy	**($20 000)**
Debtors turnover	(2%)
Current Assets: Current Liabilities	(20%)

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Improving the Delivery of Sea and Air Transport Services in the Marshall Islands

Working Paper No. S3c

Guidelines for Hull & Machinery Insurance of MOTC's Ships

August 2005

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Auckland, New Zealand

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1 Objective

1. The objective for this part of the TA is to develop a guideline for Hull & Machinery insurances for the MOTC fleet.

2 Marine Insurances

2. Generally, shipowners consider two types of insurances for their fleet:

- Hull and Machinery insurance (H&M insurance) – this covers the physical assets against loss or damage; and
- Protection and Indemnity Insurance (P&I insurance) – this covers the liability to owners of cargo, passengers and third parties such as other ships, port facilities and environmental claims.

3. This document is concerned with the first of these, Hull & Machinery Insurance.

3 Considerations in formation of guidelines towards insurance

4. The following need to be considered when formulating guidelines regarding what H&M insurances should be taken out by an owner:

- What is the risk that the insurance underwriters are likely to assess for the owner's operations, which results in the level of premium that will have to be paid, taking account of:
  - The risks that relate to the trading area that the ship will trade in
  - The risks that relate to the owner's operations – his record with respect to claims and losses in the past, and how these will be viewed in the future
- How does the owner's perception of his risk compare with that of the underwriters.
- What effect will a loss have on the viability of the enterprise. Can a serious loss be withstood financially by the owner?

4 Insurance Underwriters assessment of risk

4.1 Trading Risk

5. MOTC trade their ships in high-risk trades, to the outer islands of the Marshall Islands. There are many coral reefs and atolls in the area, most unmarked by lights. The routes

through the lagoons of the outer islands are not well charted, nor are they marked with navigation aids. The crew are not all properly qualified for their tasks. There is very little in the way of backup for salvage or rescue work should an accident occur.

4.2 MOTC's Record

6. MOTC have had recent incidents where ships have been lost or gone aground. *Juk Ae* was lost after it went on the reef at Mejit in the late 1990s. *Litakbouki* had a serious grounding on a reef in 2004, and although refloated, its damage meant that it did not return to service.

7. The condition of the ships is such that they are not all kept in class. Insufficient money is made available for upkeep of the vessels to a level that would enable maintaining them in class condition.

4.3 Probable view of underwriters

8. It is probable that an underwriter would insist on a high level of premium, and make it a condition of insurance cover that the ship be in class.

5 MOTC's perception of the risk

9. The MOTC's perception is that the trading risk as outlined above is a reasonable reflection of the situation[1]. The recent record of MOTC losses does indicate a high risk, partly through the trading risk and partly because of past weaknesses in management systems. Management systems are, however, now being addressed, and the risk to ship operations is likely to be less risky than in the past.

10. At present, the Government (the owner of the MOTC ships) does not insure the ships.

6 Effect of a loss on MOTC

11. The actual value of the ships is very low, much lower than the cost of finding a replacement, modifying it and delivering it the Marshall Islands. The payout for a total loss would therefore be unlikely to fully pay for a replacement.

12. MOTC is a government owned organization. The cost of replacing a ship, although a large sum of money, is unlikely to be beyond the financial resources of the Government.

7 Conclusion

13. Taking account of:

[1] Pers comm.: MA Oxley with Betwel Lekka, Dep Sec, MOTC, 25 Aug 2005

- The probable high premiums that would be quoted
- The probable condition that ships would only be covered if they are in class at the time of a loss
- The fact that the Government has not in the past considered it necessary to insure its ships for H&M cover
- Payout for a loss is unlikely to fully cover the cost of a replacement.
- The financial cost resulting from a ship loss would not be beyond the capability of the government to sustain in financial terms

the conclusion is that MOTC should continue to self insure, ie that it should not take out H&M insurance cover on its ships.