

Cross-sectional audit of the supervision of federally guaranteed oceangoing vessels

Federal Office for National Economic Supply and
Swiss Maritime Navigation Office

Key facts

The Swiss Federal Audit Office (SFAO) already audited the federal guarantees for oceangoing vessels in 2016 and 2018.¹ Those audits revealed considerable shortcomings in supervision. This latest audit was aimed at assessing whether these shortcomings had been adequately addressed. While cooperation between the relevant offices has become closer, there are still some supervisory shortcomings.

The maritime shipping industry has been in crisis since 2008. As a result, Swiss shipping companies have been on an uneven keel since 2016, and federal guarantees have been called in. This led to losses for the Confederation which, at the time of the audit, totalled CHF 350 million. In November 2020, there were 19 commercially used oceangoing vessels registered under the Swiss flag, 18 of which benefited from a federally guaranteed loan totalling CHF 332 million. Four of these ships are subject to crisis management and should be sold off as soon as possible.

Rather than normal supervision, the focus is on crisis management

As a general rule, the Swiss Maritime Navigation Office (SMNO) is responsible for flag registration aspects, while the Federal Office of National Economic Supply (FONES) looks after federally guaranteed ships' financial needs. Since 2016, owing to the ongoing crisis in the maritime shipping industry, the General Secretariat of the Federal Department of Economic Affairs, Education and Research (GS-EAER) and the Federal Finance Administration (FFA) have also been heavily involved.

In spring 2019, the GS-EAER set up a standing cross-departmental crisis organisation; ever since, this organisation has sought solutions for federally guaranteed oceangoing vessels in financial distress, in order to keep guarantee-related losses for the Confederation to a minimum.

The SFAO had already explicitly pointed out in its 2018 audit that there was a danger of Swiss-registered ships being blacklisted. The Directorate of Public International law did not recognise the risk of blacklisting as a risk in its own right until May 2019. When, in October 2019, the risk became increasingly acute after numerous ships were detained by port authorities, the SMNO instituted comprehensive measures.

In the case of the San Padre Pio, held in Nigeria, a regular exchange took place right from the outset between the Federal Department of Foreign Affairs (FDFA) and the EAER.

¹ Audit report of 28 February 2017 on the registration procedure and registration assistance for the merchant fleet sailing under the Swiss flag (audit mandate 16384); report of 4 March 2017 on the administrative audit of the granting, monitoring and supervision of federal guarantees and the increase of the guarantee credit facility (audit mandate 16496); report of 8 August 2018 on the audit of the sale of Swiss oceangoing vessels (audit mandate 18579)

The FONES is not assertive enough to perform financial supervision independently

Since the last SFAO audit, the FONES has expanded its expert financial resources, in order to put its supervision on a more professional footing. However, it is still not assertive enough with the shipping companies. For example, it accepts the fact that auditor's reports for financially distressed companies have still not been submitted nine months after the reporting date. In some cases, companies' quarterly reports are submitted months late and have been discussed with the ship owners.

In view of the steady decline in the number of federally guaranteed oceangoing vessels and the waning importance of oceangoing vessels in supplying the country's needs, and the reduced need for FONES resources that this implies, it should be assessed how the financial supervision of the remaining oceangoing vessels can be effectively and efficiently ensured outside the crisis organisation. The SFAO considers that restoring this activity to the FONES in its current form, combined with unchanged close support from the FFA and the GS-EAER, is not a viable option. Alternatives such as transferring tasks to external entities or other administrative units should also be examined in depth.

Legal requirements on capital adequacy remain unenforceable

One task of the SMNO in the supervision of ships under the Swiss flag is the verification of compliance with the provisions of the Navigation Act. This also includes the verification of capital adequacy. Under Article 24 paragraph 2 of the Federal Act on Navigation under the Swiss Flag (Navigation Act), the ship-owning company must, as a general rule, have capital equal to at least 20% of the oceangoing vessel's carrying value.

A number of ships have been non-compliant for several years. In principle, the Act makes provision for non-compliance to be penalised. De facto, however, owing to the existence of the federal guarantees, the SMNO is unable to impose any penalty. The SFAO had already pointed this out in its earlier reports. The FDFA is planning to revise the legislation on maritime navigation following the decision on the future of the fleet.

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