

DIRECTION PAPER PREPARED BY INTERCARGO

D) THE REALITY

As our Association ponders on ways to change the attitude of our industry, we need to reflect on the realities that it faces. These include:

i) Shipping is the Oldest of the Old World Economy

In a world shaken by the changes brought about by information technology and enthralled by the promises of the “New Economy”, shipping continues to operate in a paradigm established in the beginning of the industrial age. As we witness the monumental changes in other sectors, we appear to resign ourselves to the belief that it is too difficult to re-invent ourselves to the new environment.

ii) The Growing Importance of Safety & Environmental Issues

Public awareness and concern on safety and environmental issues has been awoken and this awareness and concern will only increase over time. As members of the global community, shipowners share this concern. Shipowners must work within ever tightening constraints brought about by increasing public expectations in these areas.

iii) “Bottom of the Food Chain”

With the growing sophistication of businesses regarding “Supply Chain Management”, pressures to reduce costs are put to bear on the entire supply chain. Unfortunately, shipping is at the bottom of this “food chain”, and therefore, has to bear the cumulative cost pressures of the various components. As an industry, we are subject to a vicious cycle of endless cost cutting. Take for example the way that cost pressure forces shipowners to press for lower shipbuilding prices. The shipyards respond by refining their safety margins by exerting pressure on classification societies. However, as owners compete, such cost savings eventually get passed on to the consumer. Over time, the liability for such corner cutting always hits the shipowning community which ends up “carrying the baby”.

iv) The Mindset

Since it is so difficult to achieve long term profit sustainability, many owners resort to pure speculation in freight and/or assets. Such speculative behaviour forces the industry to focus on perceptions rather than concentrating on providing real services to satisfy true client needs. Everyone is forced to take a short term view creating instability and irrationality in the market place. Initiatives that could upgrade the industry in the long term are made untenable due to the drastic swings in the market. The speculative mindset of some players causes deep underlying problems for the entire industry.

v) Substandard Ships

Cost pressures and inconsistent enforcement of standards give rise to substandard ships. Some owners resort to manipulating the rules, as they find it cheaper to pay the penalties of non-compliance than to operate within prescribed standards. The market is too focused on rates and there is little price differentiation based on quality. When the market does not recognise quality, it is no wonder that there are pressures to minimise standards.

vi) Challenge to provide a Worthwhile Career

The quality of the industry ultimately depends on the quality of the people in it. It is increasingly difficult to draw the right calibre of entrants into the industry, both for shipboard and shore jobs. We need to improve the condition and the image of the industry so that those who serve in it can have a safe, rewarding and fulfilling career.

vii) Higher Demand on Quality

Concurrent with the pressures on costs is the rising expectation on performance. Quality demands on ship performance rises relentlessly even as our industry struggles with the perennial cycles of cost reduction.

II) **THE INDUSTRY WE WANT**

All those who are committed to our industry in the long term must surely agree on the characteristics of the industry that we want :

i) Safety

We want our industry to be a safe one for our crews, ships, cargo and the environment in which we operate.

ii) Quality

We want our industry to be able to deliver a high standard of service to our clients, and that this standard is not measured only in freight rates, but in the way we can truly provide solutions to enhance their business.

iii) Stability

We want our industry to be stable. Stability enables us to think long term, and embark on upgrading and training programmes. It reduces the financial risks, thereby ultimately reducing the costs to our client. Stability also removes the attraction of the industry to speculative activities.

iv) Equitability

Too often the risks borne by shipowners and the labour of their crews are invisible to the general public. The industry's role in supporting the world economy and maintaining the standard of living of its people is very much undervalued. We want our industry to be accorded the right level of appreciation, and to attain an equitable position amongst world industries.

v) Careers

We want our industry to be able to provide a rewarding, safe and fulfilling career to those who are committed to it, so that over time it can attract its share of committed and talented new entrants.

vi) A Fair Return

Shipping requires huge commitment in capital and effort. We want an industry that can provide us with a fair return, so that it makes continual sense to allocate valuable resources to it.

III) **WHAT CAN BE DONE ?**

To achieve the industry that we want, we need to embark on an agreed direction :

i) Mobilise for a More United Shipping Front

For shipowners to be more clearly heard, we must all speak with one voice. To do so, we should embark on a process of consolidation. This is achieved at two levels; the co-ordination and integration of shipping associations, as well as the rationalisation of the industry. These are not pioneering moves, for we have seen such consolidation and rationalisation in many industries in order to deal with new realities.

Such consolidation reduces the duplication and wastage of resources and minimises sectors of the industry pulling in different directions. It also enhances the clarity of the viewpoints that we want to put forward.

Consolidation also signifies our determination to act collectively to bring about change – for collective action is the only way to deal with the deep rooted and complex problems of the industry.

ii) Promotion of Quality

The following are the directions that we can take to promote quality in shipping :

a) Elimination of Substandard ships

Substandard ships can only be eliminated if we have a clear differentiation in quality. To achieve this, our industry should adopt common standards and take on the responsibility of self regulation.

b) Promotion of a “Chain of Responsibility”

The level of quality provided by shipowners (including areas of safety and the environment) ultimately depends on the requirement of cargo interests and the charterers. The current situation in which only the shipowner bears the onus of quality while the charterer and cargo owner make their decisions only on the basis of the freight rate, clearly leads to an inequitable division of responsibility. We need to promote an awareness of the “Chain of Responsibility”, so that the effect of the decisions by charterers, cargo owners, insurers and bankers on the level of quality provided is transparent to all. If an incident arises because a substandard vessel is employed on the basis of cost alone, the charterer and insurance must surely also be called to account.

c) Re-engineering the Infrastructure

We need to “level the playing field” by re-engineering the infrastructure through which the different important international bodies and agencies come together to identify and prioritise issues, establish activities and initiate actions on industry matters. The global economy has for some time been undergoing major structural changes. The institutions and agencies that govern our industry must also similarly change to ensure that they continue to be relevant. We need to look at the existing processes and promote changes to take better account of the shipowners’ viewpoint as well as the interdependencies that govern our industries and the wider economy beyond.

We also need to promote consistency in the enforcement of international shipping regulation. For example, we should push for some sort of unification of port state standards and practices.

iii) Rationalise and co-ordinate Industry Development

- a) We need to be more aware of the effect on shipping by decisions and policies made within the maritime community. To do so, we need to set up a platform for discussion and consultation of all parties that can influence shipping : owners, charterers, cargo interests, insurers, bankers, Class, port and flag states, shipyards and international agencies.
- b) We must promote a better flow of information and greater transparency on the effect on shipping and the general public due to decisions and actions made in other sectors.

iv) Creating Public Awareness

We need to educate the public on the importance of shipping to our daily life and to raise their awareness of the interdependencies that bind our industry and the greater economy. We should persuade the public that it is a very small price to pay to achieve quality in shipping.

v) Leadership

To persuade others to accommodate the vision of the industry that we want, we must first demonstrate that we have the determination and leadership to bring about these changes. We must also demonstrate that we can also change ourselves. We should therefore be prepared to take up the challenge of driving the self-regulation of the industry.

IV) COLLECTIVELY CHANGING THE CURRENT REALITY

If we are not satisfied with the current reality in shipping, we can change it. But this can only be done collectively because the issues are many and the problems are entrenched. Yet, they are not insurmountable. They only require collective determination and effort. If we take the first step, we should be able, in time, to realise the industry that we want.

By definition, making long term changes is time consuming, but the effort can be made easier if it is undertaken by many. Through a persistent and sustained effort, Intercargo believes that it is possible to have the industry that we all seek.