

CONNECTICUT MARITIME ASSOCIATION

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‘SHIPPING - THE NEED FOR CHANGE’

BY

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To pick up from Commodore Per Heidenreich’s comments yesterday, the shipping industry is broken and needs fixing. It is not only broken, but is broke as well.

With the exception of a few sectors, cruise ships, car carriers and gas and chemicals, this industry is universally bankrupt, unable to meet its operating expenses, let alone pay its debts or afford the price of new ships.

Against this background we face the enormous challenge of dealing with another onslaught of governmental legislation coming, this time from Europe, in the aftermath of the Erika disaster.

This industry was already on its knees before that, and maybe the Erika will provide the catalyst for the serious repair and rehabilitation that is needed to replace the Band-Aids that have been used in recent years.

To deal with this “need for change” I will today focus on four areas of the industry which need fundamental change in order to effect the necessary repair to an industry, which by the way is the single most important industry supporting human existence around the world.

The four areas are:

- 1) Shipyards and Shipbuilders
- 2) Classification societies
- 3) Charterers and shippers
- 4) Shipowners

All of the above need to make significant changes to the ways in which they currently conduct their business to help fix this broken industry, and also to meet the challenges and demands of a new regulatory environment.

Shipyards and Shipbuilders

Up until the end of the 60's shipyards built on demand with ship owners measuring their orders to replace aging tonnage or meet the perceived demands of their customers, the cargo owners and shippers, who themselves contractually supported the expansion of fleets and the development of new sizes and types of ship.

With the boom and bust of the seventies led by the oil revolution and the emergence of the Asian shipbuilders, the shipbuilding industry has become a supply driven industry, building ships irrespective of market demand and with little if any care for the economic health of its customers.

Initially, abundant cheap labour and government assistance created the financial advantage for the Asian shipyards over their predominantly European competitors.

Today, as shipbuilding has become less labour intensive, and with the components of a ship being manufactured all over the world, shipyards have become assembly plants, showing even less concern for the economic health of the industry they supply.

Earning hard foreign currency, usually dollars, has become the predominant driving force, with profitability cast to the wind and the employment of a large labour force now a redundant issue.

Shipyards in Asia need to seriously reconsider their role in over supplying this industry with new ships, which invariably are built to marginal standards for marginal owners seeking to speculate in hull values with no intent or capability of entering the transportation industry on an economic operating basis.

Quality is sacrificed for price in the rush to build cheap ships that can produce a capital profit when sold later into a hopefully rising market.

Shipyards need to take responsibility for their own actions and be held accountable for the quality of the ships they produce and particularly their structural integrity.

The traditional newbuilding guarantee period of twelve months from delivery is hopelessly inadequate and needs extending through first survey, which is usually the first time a ship is dry-docked and can therefore be thoroughly examined.

Shipyards should be required to join in the investigation of the causes of maritime accidents, as aircraft manufacturers do, and the results be published in a short timeframe. Accident reporting should be mandatory, enabling owners of similar ships or engines to learn from others problems.

Classification Societies

Both the strength and the greatest weakness in the maritime industry.

Classification societies, or at least the leading ones, have developed a unique competency and technical proficiency in the design and development of ships, but they have to adapt themselves to a changing regulatory environment that began with OPA 90.

There is no basis in today's world for the integrity and safety of ships and their crews to be entrusted to organizations whose very titles suggest nineteenth century cronyism and a timeless approach to change.

The fact that owners can choose which of these "clubs" they wish to belong to and that the boards of these "clubs" are made up of ship owners past and present with a sprinkling of old shipbrokers and naval architects, lends even more credence to the view that a complete overhaul of the class system is long overdue.

Add to this the fact that classification societies are unaccountable to even the maritime authorities of the nations in which they are based and use aggressive marketing and sales techniques to compete amongst each other for the business of inspecting and classing ships.

Thus the price of surveying a ship is negotiable and one must therefore be concerned, that in some cases so is the quality of the survey.

This is not to say that the vast majority of surveyors are other than industrious and honest but they invariably work within impossibly short time frames, dictated by the owners operating schedules, and yet they are expected to validate the structural integrity of huge ships within only a few hours.

Class as a system, employing thousands of qualified inspectors located around the world needs preserving but with a complete overhaul of its relationships, its operating procedures and its commercial practices.

The class system needs to establish a global uniformity of standards in ship design, content and construction and these standards need to be enforced uniformly. Sub-standard can only be identified after standards have been established uniformly.

Class needs to have the authority to suspend or cancel ships licenses and cease the operations of shipping companies whose standards fall short of those established by the IMO, which itself needs to be overhauled to respond quickly to the demands of maritime governments who seek to improve safety and protect the environment.

Owners must be required to make inspection time available, which a new licensing system would enforce.

Above all, the complete history of every ship should be maintained on a database, constantly updated and available to all those with a legitimate interest in the ship's condition.

This database would greatly reduce the number of inspections required, as port state, flag state, insurance, charterer and prospective buyer could all access the database.

The industry needs total transparency and not partial transparency with standardised rules and regulations enforced by organizations who are not answerable to the owners.

Self-regulation is totally inappropriate to a global industry that is so essential to world trade, operates in a highly dangerous physical environment, and when things go wrong can cause significant loss of life and environmental damage.

Charterers and Shippers

The responsibility for changing the shipping industry needs to be shared by its customers for whom the ships provide such an essential service.

Quality ships that meet the standards of excellence required by the maritime authorities should earn at least enough to maintain the ships and their operations to the required standards.

While major charterers claim to be willing to pay whatever their competition is prepared to pay for chartering ships, this in itself smacks of non-competition.

If resorting to market rates is used to defend this, then the fact that the market is made up of ships, two-thirds of which the majors exclude, means that quality tonnage is unfairly priced by the inclusion of sub-standard tonnage in establishing the market rates.

To maintain and improve the standards of tanker transportation, charterers need to take responsibility by paying a quality rate for quality ships.

The payment of tanker freight needs to be brought back into line with other sectors of shipping, with the full freight being paid within ten days of Bills of Lading or the end of the voyage, whichever is soonest.

Demurrage should be paid immediately on discharge, as should brokers and agents commissions and fees.

Shipowners

Finally the shipowners who buy, build and operate tankers need to put their own house in order.

Instead of operating on the edge of existing regulations or negotiating variations with classification societies, quality shipowners need to uphold and support the changes demanded by the European Community and move towards a quality tanker environment.

Establishing stronger links with charterers and moving towards standardisation of ships will all assist in creating a stronger, more efficient and economically improved tanker industry, in which speculation in hull values is secondary to profits earned from quality operations. Hopefully, some of the e-commerce initiatives now in train will create a better balance of power between charterer and owner and support the process.

Shipping is a vast industry turning over hundreds of billions of dollars every year, affecting the daily lives of the populations of developed and developing countries alike.

It urgently needs to be reorganised and restructured in order to become a major industry, respected and trusted by customers and investors and prepared to recognise and deal with its environmental and safety responsibilities.

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