

This article contains the main text of a speech given at the Institute of Chartered Shipbrokers, Hong Kong Branch gathering at the Foreign Correspondents' Club, Hong Kong, on the 14th Jan 2009, by Mr. Peter Cremers, the CEO of Anglo-Eastern Ship Management Ltd and Chairman of the Hong Kong Shipowners Association, and is reproduced here with his kind permission.

There are three ideas I would like to cover:

- 1 - Will our shipping industry have the maturity to maintain standards also in a low market?
- 2 - Should we make crew salaries and maintenance less market dependent? Should we not stop cheating each other as a normal business practice?
- 3 - My first and foremost concern:
Will our shipping industry have the maturity to maintain standards in spite of the downturn of the market?

It has taken us probably the best of 10 years or so to move significantly towards the goal of a zero accident, zero pollution, zero fatality environment, incidentally, and remarkably, without a significant cost increase.

Quality and subsequent performance is cost saving by the way, we can prove it now. The costs only went through the roof in the last 2 years because of the overheating of the market, a bubble ready to explode with manpower and services not able to meet the demand hence the cost increases.

And, whilst we almost got the standards where they need to be, this manpower crisis resulted in a dilution of the quality standard of the industry, in a way I have not seen in my 30 years in Ship Management. We lost quality ground which we have to conquer back in the first place as soon as possible, before the public at large gets to see the results, if not too late, as recently we had a few accidents with a quite high profile in the general press.

I have been utterly amazed how quick the pressure is on us from certain quarters to reduce salaries, as if a 10% reduction, say US\$200/day, makes a difference in a market that plunged from say US\$50,000/day to say US\$10,000/day.

I have been utterly amazed how quick the pressure has been to reduce technical costs, as if we ever had been swimming in funds for maintenance.

I must admit also that I have NOT been surprised how quick some of my colleague ship managers start to use "cheaper" as their main selling point, and find a market for it. So, we as a ship management industry, are and remain part of our own problem. We sell ourselves too many times on the basis of costs, too few times on the basis of performance.

I am a strong believer that we should move towards making both salaries of crew as well as maintenance of ships less market dependent.

Let's take the crew bit first. A ship is a complicated instrument operating in a harsh environment, it needs professionals on board and they need to be trained and acquire experience which takes time. So offer these people a decent salary, a social environment to work in, a long term commitment that sees them through the high and the lows of what is basically a very cyclical market.

We are today paying a master on a bulker, say US\$8,500/month. For say 7 months a year, this equates to a salary of HK\$39,000/month, admittedly coming with free lodging, but you can't leave your family all the time with your in-laws, can you?

So, just how far down the salary scale in an office in Hong Kong do we need to go to find an equivalent? And this for a person that is in charge of a 25 or 50 million US Dollar asset? And this whilst the ITF has made sure that an AB goes home with almost US\$2,000?

So, before we reduce salaries and chase people away, let's first get rid of the probably 20 to 30% of the people that do not meet the standards and make sure the good ones do not leave the industry.

In the height of the market, we all were thinking of honouring the people that did not leave us for higher salaries by offering long term employment bonuses, we have been thinking, and in fact do offer full term 12 months employment to some pools. These initiatives should not be thrown out now, we rather needed this moment to rethink the whole relationship we managers/owners have with our staff at sea, and go back the full circle to the old days of seafarers being an integral part of the staff of a manager/owner.

I understand that a British Airways pilot can't just step into a Cathay Pacific plane and be in command, and this in an environment that is much more standardized than ours.

We are operating management systems which are really company specific and do vary wildly in their check lists, requirements and level of specifics. We can't just throw people in there, not on the ship, not in the office, without stepping at least one level of responsibility down for an extended period, get them trained and integrated before taking a high level of responsibility.

The Total (oil company) crew experience matrix (which I hate because its difficult to comply with but understand as to the logic behind it) goes some way in this direction, but what if a Captain migrating to a new company, mandatorily has to serve as a Chief Officer for a year under a new DOC before being able to take command. Would that not increase safety and reduce poaching? This was being done, at least for one contract, in the eighties as a matter of normal good self imposed procedure in some of the companies I worked with. And this was prior to ISM!

Taking advantage of today's technology and looking over my shoulders to the airline industry again, I would make simulator training an integral and mandatory part of certification/periodical revalidation and promotion (which it is not today!). With an obvious requirement to pass a test rather than to attend a training.

The improvement of the efficiency of ships leaves less time to learn on board, hence a substantial part of the training has to be transferred to using simulator technology, and it should be a continuous integral part of their readiness to serve at sea.

So, now that we have turned our seafarers into long term employees, fully certified and trained, committed to the company, properly paid and professional, let's turn our thinking towards maintenance, can we make maintenance a bit more independent from the market cycles?

Of course we can, and we should, because basically, maintenance of a hull structure and its equipment is a technological problem. It has very little to do with the market, whims or personal preferences of an owner, and should never be guided by short term consideration such as the owner buys ship only for a year or so, ship is for sale.

We have seen ships being neglected to the point of no return, shortening their useful life, lumping from one problem into another one, basically because of short-sightedness in maintenance in an early part in their life. Would it not be nice that, even if Mr. X owns a ship for one year only, and just at that time it is time to upgrade the ballast tanks as an example, there would be a requirement to do so? Keeping the maintenance up in line with the expected life span??

We have the technology and the know-how to design and construct a ship for a pre-defined life span and operational environment and we have the know-how on how maintenance should be done consistent with the expected life span. Like a plane coming out of the factory, with a mandatory manufacturer maintenance manual, right opposite of what is happening in shipping, whereby a shipyard steers far away from maintenance and ends its liability 12 months after construction.

In my dreams, and I will only disclose the bit about ships:

- I would like a shipyard to design a ship for at least 25 years (anything shorter is a crime against the resources involved).
- I would like the class notation to mention this, so that we all see what we buy or rent.
- I would like the ship to come out of the yard welded properly and painted properly, without the need for the owner to check every square inch or meter of weld.
- I would like the ship to come with a mandatory maintenance manual for the ship, its protection and its equipment. All on a common IT platform, prerequisite to being allowed to supply to a ship.
- When the ship leaves a yard, and all equipment maintenance CD's slid into a computer, which flips out an automatically approved maintenance plan, updated continuously by the manufacturer feeding back into the system maintenance experience, and accidental operational experience. I would like the compliance with this planned maintenance program to be mandatory, so that the maintenance cycles are not interrupted by short term consideration and business plans.

I would not mind to wake up and see the reality of the market, as I know for sure that over the life span of a ship, correct timely maintenance is the most economical way to run a ship. I also know the resources such as steel, paint, etc. are scarce, and once put together as a ship, should be kept running as long as economically possible. As I do not agree with the practice here in Hong Kong to tear down into rubble a 15 years old otherwise perfect building, nor do I agree that we should accept early scrapping of badly maintained ships, both considerations being ecologically driven.

Stop cheating each other. As you know, lying about pollution, falsifying documents and log entries, are criminal activities in certain jurisdictions, usually more severely punished than the pollution acts themselves.

So one morning, we made a statement in our morning meeting that a message would be sent to all ships that henceforth all entries have to be correct, true, and that anybody found tampering with entries would be thrown out of the company. Fine, said my man in charge of the operations, but how will our ship owners/clients and/or charterers react if we:

- do not tamper with speed/consumption figures and wind speeds as instructed from time to time to meet C/P description;
- do not tamper with time and port arrivals;
- fuel consumption and bunker survey;
- And, register all stoppages at sea properly.

I had to stop him, I also had to retract my intended instructions and leave it up to the Master to judge what is a criminal activity and what is a customary practice of handling C/P contractual terms. But is it correct?

It seems to us that it is time for this industry to catch up with the realities of today's technology, whereby ship speeds, positions, consumptions, voice exchange on bridge and ship/shore, can be or are measured, monitored and recorded minute by minute. We should stop pretending that cheating a counter party is part of a normal way to conduct business in shipping.

We can't tell our people to report promptly and correctly the spillage of 5 litres of oil, at the same time as asking them to keep 50 tonnes of bunkers hidden from a charterer. We can't expect our staff to pass an oil major inspection with flying colours and next day expect them to do some hotwork without reporting. We still have a long way to go in achieving the clean and transparent industry we all pretend to be, and the shore side consistency the sea staff deserves, specially now that their action can bring them in jail.

I hope I can leave you with these few simple thoughts as being not too heavy for an evening like this, yet that they plant something that will grow something somewhere, sometime.

In closing, and for a minute wearing my Hong Kong Shipowners Association hat, our industry being in a deep crisis, I do strongly believe that it is now the moment to make a maritime cluster such as ours work. We have an unequalled bank of information, expertise, resources and people at our disposal at our finger tips here in Hong Kong to help each other out of this situation in the quickest way. It is now that we need each other, as old buildings will come down, new foundations will be placed for the future as well.

Organizations such as yours, and ours, can now play an important role in being the platforms and motors of these clusters, to make sure we know each other, and help each other, and stay ahead in the game. As we all know, it is so critical to do the right thing in a bad market, and the better we are informed, the better chance we stand. There is a challenging job out there, and we are there to help, and I hope so are you.

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