

The Shipping Industry and its Developing Trends

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I have been asked to discuss the shipping industry and its developing trends.

This is a perfect topic in order to emphasize and reiterate the need for shipping in general to come together and demonstrate accountability, credibility and responsibility as we face ever mounting challenges in becoming the “whipping boy” of everything from environmental damage to sub-standard ships. Shipbuilders will certainly play a crucial part in this effort since Ships – not freight futures – will still be the medium that will transport seaborne cargo worldwide !

The last 7 years have seen our shipping industry seemingly forget our fundamental role of performing safe, reliable and environmentally friendly means of transporting seaborne cargo around the world. Since 2005, our industry has undergone the most incredible and unprecedented transformation ever into a glamorous commoditized and very “sexy” business. Shipping has become a “Midas-like” industry where indeed, it was felt, that everything that shipping touched turns into gold.

The result ? Like the one-cell amoeba, shipping has split into two. The “ship” has disengaged from the “shipping”.

And yet, is this unprecedented once-in-a-lifetime phenomena really so good, so miraculous? Today, I think we all know the sad answer to this question. In turning shipping into yet another investment portfolio, we have basically lowered all barriers of entry into our very challenging and demanding industry. An industry that was and even more so today is inundated by maritime regulatory statutes that asks ship owners and ship managers to do the impossible. An industry that threatens us with criminalization for every little act that we do. An industry that only the most committed and most passionate can hope to even survive in.

As I mentioned earlier, the Ship has disengaged from Shipping. The barriers have come crashing down. But does that mean our industry has truly changed into another derivative? Another investment product to be shopped around?

Ships still load and discharge the same cargoes that they loaded and discharged decades ago. Rules of navigation and methods of maintenance are the same. Ships haven't changed in its essence. They are built with hulls of steel, the prime movers are still diesel engines that works on the age-old principals of combustion. The ways and means of technical, safety and manning & training management of ships haven't changed either.

So what has changed?

Liabilities – Unlimited pollution liability generated from legislation from both sides of the Atlantic from OPA 90 to the EU ship-source pollution penalties, more stringent vetting of seafarer training schools and manning companies through the establishment of STCW 95 and, now, its “Manila Amendments”. The Rotterdam Rules, which saddles full liability on owners for even gross negligence of stevedores and obliges owners to demonstrate seaworthiness of a vessel for an entire voyage. Greenhouse Gas Emissions which, through the Copenhagen Climate Change conference, is forcing the shipping industry to make submissions for a global solution in the reduction of carbon dioxide emissions as early as December of 2012! And to top all of this off, the unbearable pressure put upon our seafarers as a result of the piracy atrocities in the Indian Ocean and the increasing criminalization of seafarers for so-called “crimes” that they usually did NOT commit. These are just some of the changes (and I must add – Unprecedented Changes) shipowners face.

By commonsense, shouldn't these changes reflect exponentially prohibitive entry barriers to shipping?

This has not happened.

Incredible as it may seem, these “over-the-top” changes in our shipping industry have, instead, seemingly spawned a shipping market that has become a speculators' heaven where literally every hedge fund, venture capital equity, tax shelters, shipping IPO's and the like comes in and orders new ships at a frenzied pace equal to any real property bubble in any major city around the world. A shipping market that launched an unprecedented newbuilding orderbook to the tune of 600-plus each for capesize and panamax bulkers, almost 600 container vessels, 200-plus VLCC's and about the same number for aframax tankers all delivering in the next 2-3 years fueled by a commoditized freight market where FFA's dictate freight rates and time charter rates.

This frenzied speculation also included an explosion in medium to small privately-owned shipyards which, in China alone, has more than tripled our Motherland's shipbuilding capacity!

All this gave rise to a new breed or new generation of shipowners and yard owners whom are nameless and faceless. These are quasi-owners who are not interested in the business of shipowning and shipbuilding.

Lest we forget, these ships will not only be delivered trading on the shipping market. More critically, they will be plying in the oceans and other waterways of the world!

And THAT'S when the trouble will start.

Starting with what are certainly poor construction standards by these upstart small private shipyards that will deliver a good sized chunk of these newbuildings, to the aptitude and qualifications of the lower tier ship managers, to shipowners that are not shipowners, who look at owning a ship akin to nothing more than buying a flat.

And then there is the challenge of our seafarers. High quality officers in our seafaring industry continues to dwindle and new generations of seafaring cadets also reveal a continuing aversion of going to sea. Who will man these ships?

We will be seeing more navigation-related accidents such as groundings and collisions, cargo claims will skyrocket and liability from exposure to pollution, injury, loss of life and property will certainly increase.

In the meantime, regulatory legislation will continue to mount and inundate our industry as bodies like IMO will continue to engage in frenzied knee-jerk reactions to the aforementioned casualties. They will pile on more legislation, procedures and penalties for shipowners.

So back to my earlier question, how is it then that these supposedly formidable barriers to entry into our shipping industry are still allowing this flood of speculative investment to come in?

First off, there are no requirements for shipowners to comply with the International Safety Management Code. This compliance is only mandatory if the owner chooses to manage their own ship. As long as the owner contracts management of their ships to a third party manager, as far as they are concerned, they are just buying a piece of investment.

AND.....

For every blue chip ship manager who refuses to manage a vessel owned by a so-called quasi-owner, there will a number of lower tier managers whom will be happy to take up this business.

For every P&I Club who refuses to enter such an owner, there will be others hungry for tonnage and happy to oblige.

For every blue chip syndicate who refuses to underwrite a vessel, there will be other underwriters, syndicates and markets that will be happy to do so.

And for every quality charterer and operator who only wants to employ quality tonnage, there will be the freight trader who's only interested in the lowest freight rate.

THEREFORE, my contention that Ships and Shipping has split into two. Because our regulatory bodies are seemingly unable to enforce entry barriers into shipping. I was asked to discuss the Shipping Industry and its Developing Trends. Well.....here it is !

Regulatory bodies such as IMO, OCIMF, Flag State and Port State Control calls for accountable, committed, professional and responsible ship owners to operate tonnage in safe, reliable and in an environmentally friendly manner.

At the same time, though, our shipping industry has become a bubble of speculation thriving on derivatives and sentiments with loads of hot money coming from all manner of investor equity and hedge funds with this new group of players not obliged to be accountable nor responsible for demonstrating reliable, safe and environmentally friendly means of transporting seaborne cargo around the world !

If our industry continues to deteriorate into nothing more than a speculative hothouse, shipowners and ship managers like ourselves will continue to be penalized for the actions or inactions of the quasi-owners, whom in-turn, gets away scott-free and continues their destructive ways of speculating on ships.

And where do shipbuilders figure into this challenge we are facing? Well, to start with, without ships, there will be no shipping. And ships must be built! Shipyards can play a critical role in ensuring that unified standards be drawn up and enforced demanding that ships be built to standards that reflect the traditionally lofty entry levels into the shipping industry.

Hong Kong shipowners and the Chinese shipbuilding industry had, for many decades, proved a solid friendship, partnership and strong collaboration. Despite the challenges of dealing with the aforementioned small private speculator shipyards, China's shipbuilding industry still demonstrates increasing leadership in quality and standards of ships built for shipowners around the world. This solid partnership between Hong Kong shipowners and the Chinese shipbuilding industry can do much to tackle the challenges of ships being disconnected from shipping.

We can work together in demonstrating this brand of leadership in the concept of "built-for-purpose" and "user-friendly" ships.

Redefining "built-for-purpose" and "user-friendly" ships means redefining the way a ship is viewed by both builder and owner. Instead of a yard viewing their connection with a ship they built being limited to the time period from contract and spec negotiations to the expiry of the One Year Warranty period. Shipyards need to adopt a "lifetime" view of their products. This means, externally, a

stronger and more interactive dialogue with shipowners concentrating on the performance of their products from a managed, maintained and running condition point of view and, internally, a more interactive relationship between a yard's after-service department and its design, outfitting and QA departments so that a ship's design and outfitting standards evolve from operational aspects rather than just design aspects.

Similarly, a shipbuilder's dialogue with makers, especially machinery makers, needs to take into account that machinery makers' responsibilities towards providing a quality piece of equipment is not limited to that piece of equipment itself. Shipyards need to emphasize the fact that a ship's machinery operates as ONE INTER-DEPENDENT AND INTERACTING SYSTEM that will enhance a vessel's machinery systems running condition. Commercially, machinery means only good speed and consumption. Technically, we all know this goes far beyond that. We talk about seaworthiness of a ship's hull. But has anyone delved into the critical importance that Machinery Seaworthiness is equally, if not more, critical?

Many Hong Kong shipowners have partnered with Chinese shipbuilders in so many pioneering newbuilding endeavors that have redefined many areas of shipbuilding standards. Through these efforts, China has established itself as a leader in shipbuilding. Now, can China go one step further and establish criteria towards creating a kind of vetting system that ensures money alone cannot build shipyards? This concept may sound far-fetched now. But enforcing accountable and responsible shipbuilding will certainly be a continuing evolution in China's leadership in the world shipbuilding stage.

In conclusion, it is time for ship owners, ship managers, ship builders, charterers, ship financiers, classification societies, P&I clubs and hull & machinery underwriters to unite together and raise the barriers for entry into shipping. While our shipping market has historically encountered over tonnage because of large newbuilding orderbooks or insufficient cargo carriage demand, never have we faced a crisis such as what we are facing today. A shipping market still inundated with speculative money looking for quick profits through massive ordering of ships and manipulating freight futures for similar short term gains.

A level playing field for ship owners and shipbuilders, whether they may be traditional shipping entrepreneurs or "new kid on the block" investors is urgently in need to be formalized. A minimum requirement for quality needs to be established and mandatorily complied with.

Our shipping industry, as a whole, needs to be answerable to maritime legislative statutes that call for accountable and responsible commitment towards requirements and standards of ship owning, shipbuilding, operating and management.

Today, it seems the physical aspect of shipping is almost an afterthought. This should not be. We as traditional and committed ship owners already have too much to handle as we continue to meet near impossible regulatory requirements that, nowadays, if we don't, can oftentimes have criminal consequences.

If the shipping industry is to return to its lofty heights as a respected and specialized industry, barriers to entry must be identified and drawn up. Those already in the industry and those who wish to enter it must do so in a level playing field that imposes minimum standards that must be met.

Accountable shipping and responsible shipping must be these minimum standards. And I don't think we're asking for too much!

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