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Beware false economies

TRY walking into your local barber shop and suggesting that the proprietor cuts your hair for less than the cost of the electricity needed to power his clippers. Try telling your accountant you cannot pay his normal fees for auditing your books this year, but are more than willing to defray part of his photocopying expenses.

People do not usually pull stunts like these because they know that such requests will be met with a popular two-word Anglo-Saxon expression or its equivalent in other languages. Yet shippers and forwarders sometimes behave like that and get away with it, because shipping is the only major service industry on the planet regularly willing to work for a loss.

We might once again be entering just such a period, with reports that some container carriers are offering all-in rates that come in below bunker adjustment factor, little more than a year after they were bumping cargoes because demand outstripped the supply of slots.

While this kind of volatility no doubt looks crazy beyond belief to outside observers, shipping industry people have of course seen it all before.

There are arguments that it is important to maintain market share in all circumstances, and if you have to sail a ship from east to west anyway, you are better off getting even a partial contribution to fuel costs than nothing at all.

Furthermore, there is no way of co-ordinating a collective response to the situation, that would not lead to a dawn raid from the friendly local competition authorities.

While it may sometimes be rational to take zero rates temporarily on the chin, no company can continue burning money indefinitely. While there were no boxship bankruptcies during the 2009 downturn, there were some close calls. This time we might not be so lucky.

Shippers who enjoy paying next to nothing to have their containers moved should contemplate the consequences of a big name going bust, with cargoes stranded all over the world as the entire global logistics chain goes haywire. False economies do not always work out cheaper in the long run.

Time for rationality

NEVER mind that the fallout from Fukushima has been insignificant, and forget the fact that if this were not so it would spread across the world without the assistance of the shipping industry.

Indeed, put all considerations of rationality to one side on this one.

Country after country has felt compelled to check vessels arriving from Japan for radiation, in a bid to forestall fears that their recent proximity to the stricken nuclear power station has left them irretrievably contaminated.

There have even been cases of ships being turned away from ports.

No doubt such procedures will be maintained even though Japan itself announced on Friday that it will itself monitor the radiation levels of ships and containers leaving the Tokyo Bay area for foreign ports, even going to the length of issuing the owners with certificates to testify that their tonnage does not glow in the dark.

The reality remains that ships passing nearby waters are exposed to less radiation than the average couch potato takes in during an evening watching football on the television, and that as the US Navy has stressed, the stuff cleans off with soap and water.

But while the obvious thing to do would be to publicise the truth of the matter, the level of panic that wells up in the heart the public at the mere mention of the word nuclear is such that there is no alternative for operators but to put up with this costly and time-consuming charade. Just grin and bear it. ■

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Industry Viewpoint

Sam Ignarksi

Knowing everything is all part of the job

How should shipbrokers be going about their business? A new book by Stephanie Zarach reveals how, among other things, the modern shipbroker should avoid the care and trouble of errors and omissions claims from principals

MANY years ago I worked for a firm of mutual managers that was able to boast of being in charge of clubs in most marine walks of life.

There was a P&I club, a club for the various parts of the intermodal industry afloat and ashore and a club for individuals engaged as intermediaries in the transport and shipping world.

Each club had a different culture and there were frequent debates as to which club had the most impressive members. I always used to reckon that the intermediaries had the best claim to having the most stand-out members — one lined up against the next — simply because the occupations they carried out required them to be alert and responsive at all times.

Having no capital and often not much of an identity outside the narrow fields in which they operated, the intermediaries club — full of shipbrokers, ship agents, surveyors, experts and specialists — was a club whose members operated by virtue of their wits and by being able to follow events and trends in the industry.

Complacency or arrogance have no role in this precarious industry.

To glean the values of what it is to be a shipbroker, one can turn to Stephanie Zarach's handsome new book called Quality Ashore — A History of the Institute of Chartered Shipbrokers. This work demonstrates the long-term beliefs of the kind of people who have worked in the industry over the last 100 years or so since the Institute of Chartered Shipbrokers began.

The institute was formed in 1911 to raise standards and to create a community of professionals. It was granted a Royal Charter in 1920 and its coat of arms says Our Word Our Bond.

The story told by Ms Zarach describes an organisation run on a shoe string, with little capital and no real assets, in many cases by individuals working for no remuneration. As you might expect, the institute has over time invested a lot of weight in things such as education, the importance of associating with other members of the profession and the fostering of the wide range of knowledge, which people who want to succeed in the industry must acquire.

According to one of the founders of the institute, Howard Houlder, a shipbroker had to be "diligent and painstaking, and careful in carrying out the instructions of his principal".

A shipbroker had to "know everything. He must be a fluent talker. He must have the faculty of clear expression and in what he says he must be to the point. He must be careful how he gives advice. The skilful broker gives his advice more by suggesting than otherwise, so that when the decision is arrived at it is due not to the skill of the broker, but to the wisdom of the owner who arrives at the decision".

This is a good description for today of how the modern shipbroker should be going about his or her business and avoiding the care and trouble of errors and omissions claims from principals. It is certainly true that the range of detailed knowledge at the sharp end required of brokers has no limit.

Loading grain: a shipbroker is expected to know everything about "the cereal and vegetable crops of every kind that are grown, when and where they are shipping to, the average crops every year, where everything is produced and the markets of the world". *Shutterstock*

For example, Mr Houlder said a broker must know everything about the crops of the world, "the cereal and vegetable crops of every kind that are grown, when and where they are shipping to, the average crops every year, where everything is produced and the markets of the world. He must have a first-class knowledge of geography, and must know the relative specific gravities of the various classes of merchandise, raw material, and so on, as well as being in touch with the world's financial position."

What is also plain from the history of the institute is how heavily politics, history and technical changes have weighed upon the profession over the last 100 years. The early years of the association still describe a world where Britain enjoyed the status and privileges of the leading maritime player in the world.

Two world wars, many deep shipping depressions and the falling away of demand for things such as sea-coal, general-purpose ships, passenger liners and colonial preferences have helped to describe the radically changed world of the modern shipbroker. Yet it is to Clarkson's Martin Stopford that the world turns for insight into shipping trends, rather than one of the great shipowner names. It is to specialist brokers that the operators of technical trades turn to produce charterparties and contracts of affreightment. The finding of fact, the resolution of disputes and the glad tiding of commercial reputability have all taken the benefit of the institute's values.

"The skilful broker gives his advice more by suggesting than otherwise, so that when the decision is arrived at it is due not to the skill of the broker, but to the wisdom of the owner who arrives at the decision"

Howard Houlder, Institute of Chartered Shipbrokers founder

I remember once asking a fairly well-known shipbroker in Hong Kong why he was not a member of the Baltic Exchange. He admitted that he would not always find the standards demanded would sit easily alongside all the tasks he had sometimes to carry out in the course of his duties.

The cast of characters in Ms Zarach's book, past and current, is quite large and the progress of the institute goes from largely anglocentric origins to its dispersal among many maritime centres in the world and all manner of people.

It could be that this will become one of those institutional histories which emerges beyond its origins because of the good job that it makes describing a confusing and changing landscape called the world shipping industry.

Would you recommend this industry to a son or daughter interested in getting into shipping? Yes, always provided that the offspring understands from the beginning the essential conservatism of world trade and the ruthless efficiency needs that can make occupations redundant with each turn of the technological wheel.

Think how a decade ago, a slew of internet exchanges threatened to 'disintermediate' the world of the shipbroker. The particular threat seems to have come to little, but any business which is based on knowledge and understanding will never be able to sleep too easily without dreaming of changes to come. ■

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Maritime Blogspot

Will the IMO adopt the EEDI in spite of its many criticisms?

Craig Eason

EEDI bashing has become something of a trendy new sport for the industry. If you take its criticisms and add them together, then the energy efficiency design index is both vague, yet too prescriptive; unworkable on many levels, but also biased towards certain owners.

The index is based on an erroneous formula and baseline formula, neither of which work.

It has been developed in an intergovernmental organisation hell bent on proving it has the capability to create CO_2 emission-reducing measures, and will eventually create an unsafe situation where ships will be built for speeds that will be good for the environment in terms of emissions, but more likely to lead to accidents due to their inability to get out of danger — this is what the critics say.

But despite these criticisms there is support for it. Naval architecture is a science that has more or less developed by trial and error over the centuries.

It was only through the development of model tank tests that some radical design changes were able to be proven prior to the vessel being built.

There have been instances where owners have taken a design and lengthened it for a series of vessels, only to find their sea-keeping was suspect.

For the series of vessels after that, the design came with a broader beam to make the vessel less tender, or more stable. Naval architecture was a game of trial and error, and this helped develop the world of sea trials.

Now we have computational fluid dynamics that can calculate stress and performance for us, and programmes claiming to be able to assess a vessel's fuel consumption — often by taking the factors that make up the EEDI and the Energy Efficiency Operational Index.

The EEDI, despite its flaws, is a radical move and one that may get accepted at the International Maritime Organization in July, or it may not.

However, the reasons for it not getting adopted are more likely to be political than based around sound naval architectural practical criticism.

But when the EEDI does come into force, perhaps as early as 2013, it will need to be refined, adapted and most importantly verified.

Despite the advances in ship design, CFD systems and other tools, the sea trials a ship goes through when there is delivery from yard to owner will become more critical.

This is going to be the time when the EEDI can be verified, otherwise it is nothing more than a paper exercise that could be very wrong, yet no one is talking about who should be doing it. ■

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