

“To The Future” Pressures on the Mariner

Arthur Bowring
Managing Director
Hong Kong Shipowners Association

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The Future....

- Why is this now a 'hot' issue?
- A major 'Change-Point'
 - Global economic meltdown
 - Rise of consumer activism
 - Riots against austerity measures
 - Increased environmental awareness

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Agenda for today

- Regulations
- Trade

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Regulations

- An avalanche of regulation
- Due to...
 - An unfortunate coincidence?
 - Idle hands?
 - Semi-retired legislators?
- Should we stop regulation for the time being?
- Especially now that the markets are so bad...

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The Shipping Industry

- Intensely (insanely?) competitive
- Very low barriers to entry
- Ships are industrial workhorses
- Standard ships are now 'commodities'
- Where the only variant is price

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Commodities

- A commodity must comply with its specification
- If foreign matter less than specification, then 'giving' commodity away
- If more than specification, then reduction in price or rejection

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Ships

- The specification is regulation, or industry standards or requirements
- If maintain better than regulation, no increase in freight
- If less than regulation, then PSC detention or rejection for cargo
- Incentive is to 'just' comply with requirements

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Regulation

- Is regulation up to scratch?
- Does it represent 'best practice'?
- A competitive advantage is handed to those who operate at minimal standards
- Driving the industry to lowest common denominator

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Regulation

- Regulation brings standards to acceptable levels
- Regulation helps to maintain a level playing field
- But we must write our regulation
 - Best management practices
 - Adopted into legislation
- Technically sound and achievable

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Other challenges

- Ships' lives cut short by rapidly changing regulation
 - Good news for shipyards
 - Not so good news for owners
- New documentary and inspection challenges
- Simple familiarisation or refresher training not enough
- Continuous Professional Development?

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Trade

- We love imbalance between supply and demand
- The further apart, the better it is
- Imbalance generally comes as a surprise
- Great volatility in the markets
- Until logistics supply chains sort out the most cost effective solution

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Trade Challenges

- Unemployment in developed countries remaining stubbornly high
- Protectionism on the rise
- US elections 'demonising' China
- Larger capacity ships
- Too many shipyards building ships
- 'Cash flow' operation (again!)

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The Mariner

- High but reducing volatility
- Know your owner...
- Continued shortage of senior officers
- MLC, 2006 will help to reinforce level playing field
 - ‘no less favourable treatment’ clause

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In summary

- Increased volatility
- ‘Black Swan’ moments just when you don’t need them (for better or worse)
- Increasing retrofits to comply with new regulations
- Increased education and training
- Increased use of ‘record books’
- Piracy?

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Thank you!

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“To the Future”
Friday, 21st October 2011
The Mariners Club

Nautical Institute Hong Kong Branch 40th Anniversary Annual Seminar

Session 4 – Pressures on the Mariner of the Future, the Shipowner’s perspective

Arthur Bowring
Managing Director
Hong Kong Shipowners Association

Please check against delivery

We are getting towards the end of a fascinating day, and I do realize that it is only Neil and myself standing between you and your well-earned cocktails. I also realize that I have a very hard act to follow after Captain Robinson's excellent presentation, but I will do my best.

This session is to debate pressures on the mariner of the future, and my specific presentation is to concentrate on the shipowner's perspective of those pressures. But may I just preface my presentation by noting that the pressures experienced by a shipowner are pressures on the operation of ships and therefore almost always translate into similar pressures on the mariner. So, as requested by the Committee, I will talk about some potential future pressures on shipowners, and by reference and by implication how they could well affect mariners.

But first, why do we have the burning need at the moment to talk about the future? There does seem to be an increased fascination at the moment with what might happen over the next few decades. Just a few years ago, we seemed to be content to predict the future in freight rate terms or in analyzing a potential shortage of seafarers, but now many of us, but not all, seem to want to look at many other aspects of our business. Why is this?

I believe it is because we are going through, what is commonly termed, a major change-point; we know and feel that something is going on and our magnetic compass is swinging wildly. We seem to have lost our sense of direction, and need to reorient ourselves. As with all change-points, hindsight will prove to us how obvious it all was, but at the moment nothing seems to be clear. As Steve Jobs said, you can connect the dots looking backwards, but not looking forwards.

The change-point we are experiencing not only reflects the continuing global economic meltdown and how the world's major economies are likely to stagnate for many years, but also the rise of consumer activism, which is more than just riots against austerity measures and sit-ins against 'greedy bankers' as it also includes an increasing awareness of the natural world. All of these issues will affect our maritime sector – sometimes it feels to me as if we are operating in a separate universe, as we read analysis of our markets and trading opportunities, without apparently referring to what is going on outside.

I would like to address this presentation in just two parts: regulations and trade. These two issues are firmly interlinked, but for ease of presentation I will try to deal with them as separately as I can.

Regulations. As has been pointed out by others, we are about to be inundated by an avalanche of regulation. This is largely and unfortunately coincidental, through entry into force dates becoming due, but are there other reasons for the amount of regulation? Is it due to idle hands, semi-retired baby-boomers with no patience for golf, or something else? There are noises from many in the industry that we should put a stop to regulation for the time being. As one editorial said the other day, should we be asking the industry to comply with yet more regulation at a time when the markets are so bad?

As we all know and appreciate, we work in an intensely competitive industry, where the barriers to entry are extremely low. Anyone can buy a ship, and many non-shipping people did when the markets seemed to be going up forever. We also work in an industry where the ship is an industrial workhorse, where many of our ships have become commodities and, like commodities, the only variant, the only difference between them, is the price.

A commodity must comply with its specification. The specification of grain or meal determines the amount of water or foreign matter that may be included with that commodity. If the seller of the commodity includes an amount of foreign matter that is less than the amount allowed in the specification, he gets paid no more for it, and is effectively giving commodity away. If he includes more than the specified amount of foreign matter, then he will either have his commodity rejected, or have to accept a reduction in price.

It is the same with standard ship types. If you maintain or equip your ship to higher than specification, or regulation, or industry standards or requirements, then you are very unlikely to get paid more for it. If you do not comply with regulation or requirement, then you will be detained or have your ship rejected for the cargo. So the incentive is to just comply with regulation.

Which would work well, if regulation were up to scratch. There are many pressures on our industry, from environmentalists, lawyers, politicians, etc., and in many areas our regulation is just not up to the standard that we are expected to maintain, or which we would like to maintain. It is then the nature of our business that a competitive advantage is given to those who would operate at the basic regulation level over those who would want better standards. Which promotes an implied push to the lowest common denominator.

It is through regulation that we can bring our standards to acceptable levels. With regulation, all have to comply, and there is no competitive disadvantage in achieving the higher standards. Regulation helps to maintain a level playing field. But in seeking regulation, it is good that we write it, through best management practices and other recommendations, which can be eventually adopted by politicians as regulation. Then we end up with good regulation, regulation that is technically sound and achievable.

As our industry adjusts to the many pressures on us, whether from environmentalists, the general public, politicians, or others, we must expect to have to continually raise our standards; this will result in more regulation. But we must be proactive in writing our own regulation, by codifying best practice, in order to raise the standards of our industry.

What does this mean for the future? If we are not proactive, we must expect difficult and potentially unachievable regulation forced on us by politicians who have pressure from sometimes misinformed lobbying groups. I would personally hope that we can find some common ground, so we are able to work together to avoid this.

But rapidly changing regulation brings other challenges. Ships are built for a 25 to 30 year life. This life could well be cut short due to new regulatory standards and customer preferences. We have seen the most incredible rise of environmental awareness by consumers over the last decade. This environmental awareness has resulted in charterer and shipper pressure to reduce the environmental impact from shipping operations. If, or perhaps more accurately when, this pressure increases, to the extent that ships are preferred because of their energy efficiency or, in larger terms, their impact on the environment, then older ships will become redundant that much earlier in their lives. Shorter ship lives will be great news for shipyards, but not so good news for shipowners trying to justify the investments needed, to satisfy mortgage commitments or even raise money for ship replacements. And this at a time when the traditional shipping banks in the West are under other funding pressures, and the banks in China, who we thought would be the industry's savior, are being restrained in their lending by Central Government.

For the mariner, changing regulation will result in new documentary and inspection challenges, and new ships and equipment will need education and training; as we are now finding out, simple familiarization will no longer be enough. We can easily expect the further development of refresher training into some form of continuous professional development to accommodate these changes, but are we able to address the issue of already overworked senior officers in order to reduce their paperwork and inspection demands? Which are likely to only get more onerous over time.

Having brightened the room with these encouraging words, I would now like to turn to Trade.

The shipping industry loves deep imbalance between supply and demand. We make our money where the supply of a product or commodity is in a very different place to the demand for that product or commodity, and the further they are apart, the better it is. These disruptions might be through a 'black swan' event, something not predicted, or they might be through a natural development that few of us noticed was happening. An example of the first would be the closure of the Suez Canal in 1956 and the second would be the rapidly increasing iron ore and coking coal requirements of China in 2006/7.

What generally happens is that the imbalance takes us, or at least most of us, by surprise, and in a typical reaction we see great volatility in the initial stages, fading away over time as the logistics chain and manufacturing processes sort themselves out in the most cost effective way.

This seems to be playing itself out in the markets at the moment. Chinese demand for raw materials is still good, but the rise is well taken care of by the increased supply of ships and larger ship capacities, as well as by raw material production investments. On the other hand, Chinese manufacturing has been hit by higher labour costs and increased environmental concerns, which are increasing costs and starting to make repatriation of manufacturing to consumer countries a distinct possibility. There are reports almost every day about factories in China going under due to rising costs and no way to pass these on to the eventual consumer.

Protectionism is on the rise, as employment figures in the US and Europe remain stubbornly high, which will lead to reduction of trade of certain products through the very unfortunate imposition of tariffs on trade. The elections in the United States will not assist this, as politicians from both sides work hard to demonise China, and by inference other developing countries, in an attempt to scare the voters into handing them their votes.

Adding to this, we have the Valemax ultra large bulk carriers, which will take tonne-miles from traditional capesize routes, a larger Panama canal in 2014, which will introduce a new 'panamax' size (where will all the old ones go?), and the larger 18,000 teu container ships, each of which will replace several of the slightly older but smaller workhorses of the industry. We have already spoken about the risks that these larger ships will present to the insurance markets, but is the much-vaunted rise in demand really going to appear when these ships are delivered? They will certainly not be able to deliver the increased efficiencies promised unless they are kept full to capacity.

What we seem to be doing is building towards another 'Black Swan' moment, much like the rise in VLCC ordering in the late 70's, which just happened to coincide with the energy crises in the 1970's, the lasting effects of which led to vastly decreased demand for VLCCs in the early 80's, just when the ships were being delivered.

What can we expect in the future, and how will this affect the mariner? Quite probably high but reducing volatility until the next 'Black Swan' moment, certainly an overhang of supply of ships due to increased sizes of new ships (apparently for efficiency reasons) and the need for all those shipyards to continue building ships, 'cash flow' operating conditions, and a continued shortage of senior officers.

I hear a gurgling, 'that doesn't make sense'. How can an overhang of supply of ships result in a shortage of senior officers? Maybe another presentation another time on the changing demographics of seafarers, and the shorter-term nature of a seafaring career that these new demographics now present to us.

What we do have for the seafarer, however, is the Maritime Labour Convention, a tripartite negotiated convention that will (I am certain) reduce the opportunity for unfair competition on labour standards. Again, another presentation for another time, but the 'no less favourable treatment' clause and the opportunity it presents for Port State Control to inspect non-ratifying country ships to the standards of the Convention, will no doubt assist in maintaining minimum but fully acceptable standards of seafarer welfare.

The title of this presentation is 'Pressures on the Mariner of the Future'. My prediction is that all of us are not in for an easy ride. The markets will be extremely volatile, and there is no telling whether the Black Swan moment will produce better or worse markets for our ships. Regulations will ensure that we will be increasingly retrofitting new but unfortunately not always better equipment, which will need increased education and training, as well as increased record keeping. And I have not even mentioned piracy and attacks on ships.

But this is perhaps what keeps us interested in shipping, what keeps us in the industry. The daily challenges that face us, but overall, the immense satisfaction we get by finding better ways to operate our ships, and introducing better minimum standards to not only protect our business, but also the lives and work of our seafarers.

Thank you!

Arthur Bowring
21 October 2011