

## Column



Jagmeet Makkar

# Commercial aspects of shipping

The maritime industry is one of the key pillars of globalization. The global maritime fleet of technically advanced ships carries over 95 per cent of the world's goods, is capable of carrying over 750 million tons of cargo at any time and transports safely and efficiently over half of all oil and oil products consumed globally every year. Various disciplines in this industry have roots in engineering, structural design, economics, finance, insurance, legal principles, practical shipboard operations and management etc. It is a highly dynamic industry where those involved have to continuously strive to keep pace with the regulatory developments and changes in the market.

Shipping is a self-regulated industry but the public image of international shipping is not very complimentary. The images of oiled sea birds, oily rocks and oil stained beaches give the impression that our industry is a major polluter of the ocean, kills seabirds and other wildlife, and in general has an irresponsible attitude towards the preservation of the environment.

These, however, are extremely isolated incidents, blown out of all proportion by a media hungry for video footage and by politicians who see easy mileage in striding along oil soaked beaches in front of television cameras<sup>2</sup>. The contribution made by the maritime industry to the world economy and the standard of living is either forgotten or the public is unaware of it. In short the public perception of our industry and lack of awareness are major concerns. It is up to us to bring about a better awareness and that can only be done by an increased interaction with the general public and by learning more about the industry we work for.

A common perception that is held by the public at large is to think of maritime industry as a synonym for the merchant navy, which is not entirely correct. In addition to a career in merchant navy, maritime industry has an immense potential to offer rewarding careers in various other disciplines from ship design and engineering, commercial shipping, shipbuilding, surveying, shipbroking, maritime law, marine insurance, ship finance etc.

While a few of the shore based careers in the maritime industry require practical ship-board experience as a bare minimum, there are career streams in this industry that do not require this experience. From a UK study, the annual demand for ex-seafarers ashore is running at between 4 and 5 per cent of the total maritime related shore based jobs and an Australian study puts this number also at close to 6 per cent (2,460 out of 41,000)<sup>3</sup>. These jobs are related to those employed in the middle to senior management categories where practical seafaring experience generally remains the key element in the mix of competencies required for such jobs. In India, this number is likely to be very low, now and in future too, unless India, especially Mumbai, positions itself as a significant maritime center. The road to this significance can only be traversed if the number of major and well established market players such as shipbrokers (both chartering and sale & purchase), marine insurers, maritime lawyers and arbitrators increases. India is probably one of the very few countries, if not the only one, in the world where the arbitration awards can be challenged in the courts on a point of law, thus diluting the finality of such party autonomy

system awards. Unless this changes, I doubt Mumbai can become an international arbitration centre. Practical application of the New York convention 1958 and the UNCITRAL model law in totality with minimum interference by our super slow courts could be one way forward. Government policies need to be more investor friendly in order to make Mumbai as the ship finance centre. Does it all sound impossible? In my opinion, it is difficult – very difficult in the foreseeable future but not impossible if there is indeed a political will to do so. If London and now Hong Kong can do it, why can't Mumbai? Any way, this is a complete topic in itself and we may revisit it sometime in future.

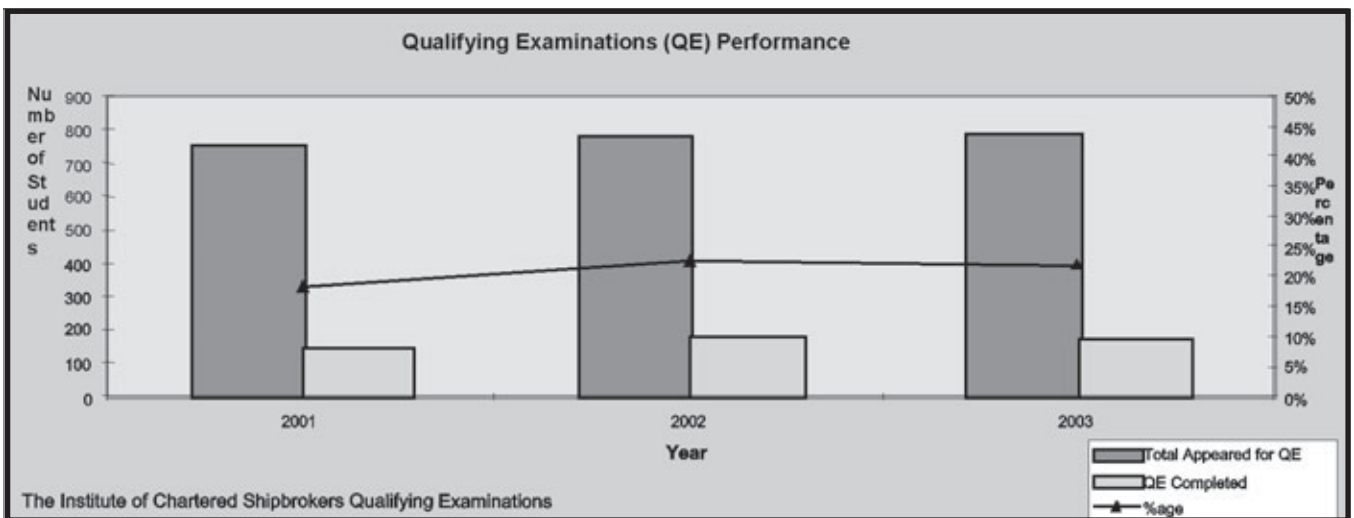
Knowledge of ships, cargo, geography and the market in which they operate coupled with a feel for business is often sufficient for commercial shipping professionals, though shipboard experience is given preference, other things being equal. This is evident from the fact that 75 of the 200 shipbrokers employed in Australia have a maritime background ("Maritime Skills Availability Study" dated November 2002)<sup>3</sup>. Those involved on the operational side of shipping and port services, be it commercial or technical, are essentially required to have a very good appreciation of onboard practical working.

Lack of easily available career counseling in maritime industry and sea going staff generally engrossed in work, leave, courses and examinations cycles, year after year, lead to long passage of time. Only a lucky few, by virtue of their increased awareness (could be credited to their background and exposure) and/or coming into contact with someone who takes interest in guiding them, take to learning and prepare themselves for areas beyond the merchant navy. The situation is now changing and with prestigious and well circulated maritime publications like

Sailor Today and a few others and also professional journals such as MER(I) taking a proactive approach, I am sure the message will get across to our seafaring colleagues that there are many opportunities that are rewarding, especially after attaining the much desired practical experience and attaining the highest ranks onboard the vessels.

Shipping is one of the rare professions where those involved come in such a close contact with each other that the relationships last a lifetime. One of the reasons that comes to mind is the sharing of the difficult times together, as a close knit team. Working together when there is a breakdown onboard in the middle of the ocean for hours with a common aim to "make it work and that too work well" develops very close bonds. This leads to development of a wonderful team spirit and camaraderie and we also learn to appreciate the basic purpose we are there onboard the ship for (recall the "offhire" sword hanging on the head!). This is the backbone or the seed of the concept called "commercial aspects of shipping" series. **In this series of articles in Sailor Today, from August 2005 onwards, we will learn more about the shipping industry with focus on commercial shipping.**

A ship is a commercial enterprise. It is a huge investment and the investor looks for returns as in any other investment, commensurate with the associated risk. How much he gets rewarded depends upon the market, the entry and exit timing and prudent management of the cover and exposure. We, the Masters, the Chief Engineers, the officers and the ratings onboard the vessels work hard to make this commercial enterprise a success. While we need not be experts in commercial shipping, it is helpful to have a reasonable understanding of how our efforts



can and do translate into dollars and cents for the investor. Firstly, this chain of articles covers the need for training, as in this article titled "introduction", giving you an idea of the broader definition of "maritime training". Maritime training does not end with our becoming Master or Chief Engineer onboard the vessel. This stage is the first important step for those who want to take up shipping as a long term career ashore and want to expand their horizons in other maritime

areas as outlined earlier in this article. However, those who enjoy sailing and are content with their onboard career, there is absolutely nothing wrong with it. In the ultimate analysis, nothing else but happiness, satisfaction and contentment matters. These experienced senior most personnel onboard the vessels turn out to be most valuable school of learning for the second in commands who may then aspire to develop career ashore.

The topic of maritime training, covered under this article, will then be followed by basics of economics through an explanation of theories of David Ricardo and Adam Smith. In this two part article on Demand and Supply, we will look at the fundamentals of shipping market freight rates. In the meantime, if you can lay your hands on a book titled "Maritime Economics", you will find an article on "Shipping Cycles" by Dr. Martin Stopford (MD of Clarksons Research, UK). An excellent write up analyzing the shipping cycles from mid 1800 till the beginning of the twenty first century. I would strongly recommend that you read this article. One of the most useful conclusions of this article is summarized in the following table –

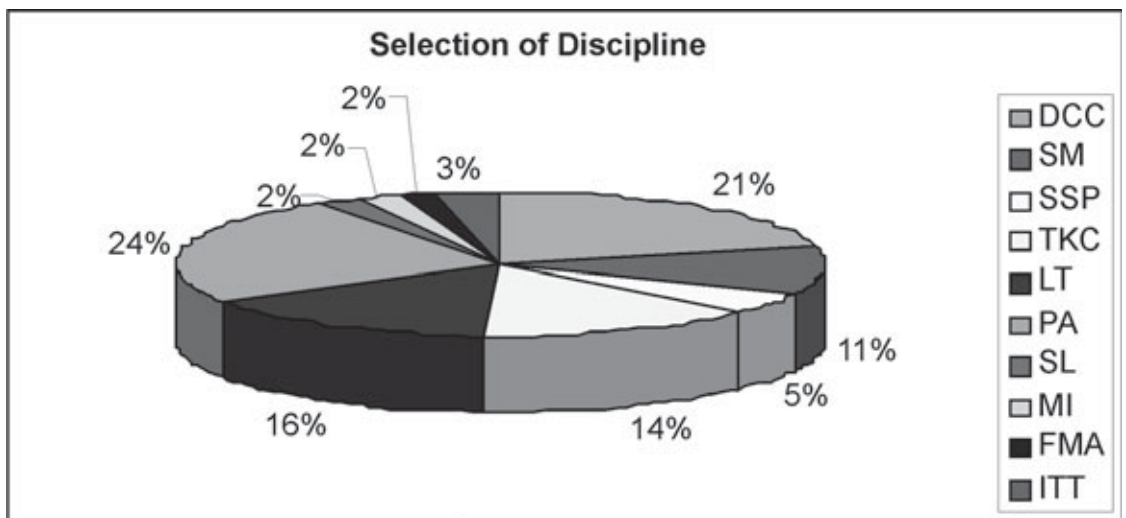
Shipping fundamental trends  
(Dr. Martin Stopford)

Period	Demand	Tendency	Supply	Tendency	Market	Tone
1869-1914	Fast	Expanding	Competitive			
1920-1930	Fast	Over-capacity	Weak			
1930-1939	Falling	Over-capacity	Depressed			
1945-1956	VeryFast	Shortage	Prosperous			

1956-1973	VeryFast	Expanding	Competitive
1973-1989	Falling	Over-capacity	Depressed
<b>1988-2000</b>	<b>Slow</b>	<b>Expanding</b>	<b>Competitive</b>

I leave it to you to research on what happened from end 2002 till date. You will find something that has never happened ever before in the history of shipping industry!

Thereafter we will recognize players in the shipping market e.g. owners, operators, charterers, port agents, liner agents, marine insurers etc. A brief understanding



of voyage and time charter parties will be next. The structure of the charter party is simple while the clauses and what is agreed depends upon who has an upper hand in the commercial negotiation. This further depends upon the prevailing market, positioning and who is feeling the business pain more. Higher the level of pain (the need), more will be the willingness to concede depending on the negotiation skills of course. Once the business is fixed, the fulfillment of the contract takes importance. This is where Master, Chief Engineer, other staff onboard and the operations & ship management departments ashore enter into the picture. Here we will cover "what we promise – we deliver" – in the discharging of the charter party speed and fuel consumption warranties amongst others. It would not be out of place to mention here that each one of us must recognize that it is the 'Charterer' who is the customer of our services. In turn traders and industrial utility companies etc. are either our direct customers (especially where long term industrial charters are entered into directly with them) or the customers of the charterers. A breakdown onboard a vessel that disrupts the timely and reliable delivery of cargo only translates as an unacceptable offhire for the ship-owner but more seriously may result in a loss of market share

for our customer and his customer and this share may be very difficult to regain as their reliability and in turn reliability of the services of the ship-owner then becomes questionable. Further topics will be selected as we go along, depending upon the feedback received. Hence please feel free to give your feedback to the author at [shiplearn@yahoo.com](mailto:shiplearn@yahoo.com) or through the editor of Sailor Today in this case. These articles do not profess to be "all that is to be learned about commercial aspects of shipping". This effort is only a drop in the ocean and with a purpose to ignite the flame or desire in the minds of the readers to learn more in this area.

In addition to the regular courses in the Polytechnics and Universities worldwide, there are a few well established and prestigious Institutes that provide relevant and value added training worldwide through flexible means of study, especially for those who have just started their careers and want to progress.

A structured training scheme with elements of desired seafaring experience and a good understanding of shipping business followed by focused study of the specialized subjects such as Dry Cargo and Tanker chartering; ship management, ship sale and purchase, marine insurance, shipping law, liner trade, port agency, multi-modal transport, Shipping finance etc. prepares the youngsters to take up more responsible roles in the Industry.

Over the last few years, the number of students taking such examinations has increased. This also includes those sailing onboard the vessels (who are ambitious to progress through positions in shore based

maritime industry) and fresh graduates but the majority of the students is from the practitioners in the market who want to acquire better understanding of various disciplines.

Source: Institute of Chartered Shipbrokers, UK.

The Institute of Chartered Shipbrokers is one of the well known and long established institute. The qualifying examinations offered by the Institute of Chartered Shipbrokers are challenging and add value. The flexibility to pass the required number of examinations in different sittings gives an erroneous success rate of just 20%. However, the actual average success rate is about 56%<sup>4</sup>.

DCC: Dry Cargo Chartering; SM: Ship Management; SSP: Ship Sale and Purchase; TKC: Tanker Chartering; LT: Liner Trading; PA: Port Agency; SL: Shipping Law; MI: Marine Insurance; FMA: Finance & Management Accounting; ITT: (International Through Transport).

Source: Institute of Chartered Shipbrokers, UK.

In the previous two years, presented as a percentage of the total, students selected Port Agency (PA) followed by Dry Cargo Chartering (DCC), Liner Trading (LT) and Tanker Chartering (TKC) in terms of their preference. Shipping Law, Marine Insurance and Finance and Management Accounting are not the preferred disciplines as found from the data for these years. However that does not reflect on the importance of these very interesting courses.

*(Jagmeet Makkar is an FICS, FIMarE (I). He is the Education Officer, Institute of Chartered Shipbrokers, Hong Kong)*

## Wallem growth continues

Wallem Group continues on its path of expansion in Asia with the commencement of three new entities.

In Qingdao, Cosco Wallem Shipmanagement Co. Ltd started its business of providing shipmanagement services to international and PRC owners. The new company is a joint venture of Cosco Qingdao and Wallem Shipmanagement in HK, and is first such venture in China for both companies. Wallem brings a wealth of international

experience to the joint venture and this, coupled, with Cosco's links to PRC crew sources will allow Cosco Wallem to provide a steady supply of ship staff, with full technical support to its principals.

In Kuala Lumpur too, Wallem Shipping (Malaysia) has commenced operations. Wallem is already present in Malaysia through its shareholding in Harper Wira, acquired last year and Wallem Shipping (Malaysia) emerged as a result of the re-naming of a Harper wira subsid-

iary.

In Jakarta, PT Wallem Sentosa Shipping Services opened its doors as a Shipping Company that is eligible to provide complete range of shipping services including Agency Services to Principals operating Liner, Tramp and Cruise Ships at all ports in Indonesia. Wallem Sentosa is a joint-venture of PT Layar Sentosa Shipping Corporation and Wallem and represents renewed cooperation for two companies whose ties go back to the early 1980's.