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Lines learn their lessons

IN THE wake of every shipping crisis, industry leaders proclaim that they have learned their lesson and will never repeat past mistakes. Instead, they find other ones to make.

So when those in charge talk about the need for freight rate stability and predictability after so much recent turmoil, should they be taken seriously?

What gives many shipowners such a buzz is the frequent lurch from boom to bust, and hopefully back again. So do those that supposedly want to reduce price swings secretly enjoy the thrill of a rollercoaster market?

That depends on the sector of this very diverse industry. The wet and dry trades, by their very nature, are always going to be fairly volatile, but for years the container trades have strived for stability through the conference system.

In the years before lines' antitrust immunity was finally abolished in Europe in 2008, conferences were not delivering on their stated aim. Freight rates would inevitably have collapsed during the worst of the global banking crisis, regardless of whether lines had the legal right to attempt to set prices collectively. Just possibly, conferences may have softened the fall a little, but could have done nothing to withstand market forces.

But lines did not help their cause, voluntarily slashing rates in a futile bid to protect market share. All that happened is that their losses were far greater than they would have been if carriers had not gone into a blind panic. Stronger nerves and a bit of common sense would have prevented collective losses ballooning to almost $20bn in 2009.

So while one of the lessons learned from the worst recession the container trades have ever endured was the fact that boxships can be laid-up relatively quickly and easily, the other was the need for market discipline.

That is not the same as collusion, an unlawful activity. Discipline requires firm guidance from the very top. So if some lines are starting to remove capacity ahead of a seasonal slowdown in demand, that seems a sensible step in contrast to last year's price war.

Let's stop the rot

THIS year was designated by the International Maritime Organization as The Year of the Seafarer.

So why are we still seeing crew members abandoned when their ship's owners run into financial difficulties?

Some crews experience a reasonable resolution when this happens but others are not so lucky. The scope of the problem is large and occurs in both first and third world countries.

The International Labour Organisation and the IMO have been working on the subject of working conditions for years, but progress has been slow. The Maritime Labour Convention 2006 should enter into force in early 2012. This should offer protection to seafarers as flag states and port states become involved in its implementation.

A Britannia P&I club spokesman said that ships entered into clubs in the International Group of P&I Clubs undertake repatriation. But only 90% of the world's fleet is entered.

It is the remaining 10% where the problem lies. This is the "rotten underbelly of shipping" as Nautilus' Andrew Linington describes it.

The ITF told us that numbers of vessels involved is difficult to gauge; in any case it is a large number with crew of between seven and 22.

The ILO database contains the names of nearly 100 abandoned vessels.

There is a meeting in Geneva this week of the Preparatory Tripartite MLC, 2006 Committee. But part of the background paper states "it is a significant concern if ratification does not occur in all the regions of the world".

Shipping's rotten underbelly must not be allowed to prosper in those areas. ■

Industry Viewpoint

Niko Wijnolst

Why green agenda should highlight blue shipping

Hasty decisions over long-reaching climate change actions should be avoided in favour of developing the business case further for each shipping segment

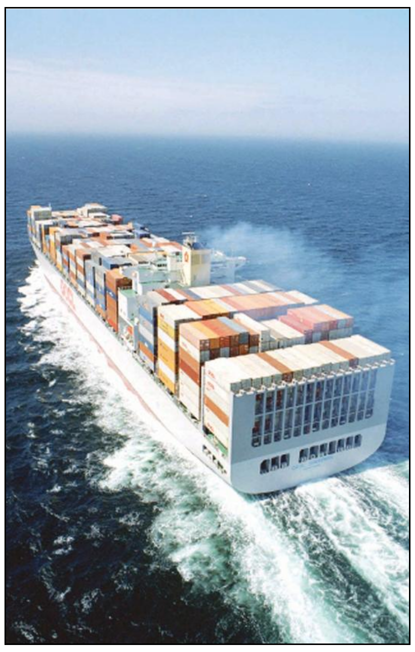
CAN climate change actions revitalise the shipping markets? was the theme of the fourth Euromed Management Mare Forum 2010 conference, which I chaired last week in Marseilles.

The contributions from well-informed shipping and banking professionals reflected on the recent shipping crisis and the current outlook. Some expressed optimism in market niches of the tanker sector (Clarksons) and the offshore sector (Bourbon), but orderbook statistics (Banchero-Costa) brought back the goose bumps.

The orderbook of the handysize segment is 44% of the existing fleet, handymax 48%, panamax 45%, baby-capes 178% (90,000 dwt-120,000 dwt), capesize 54% (150,000 dwt-180,000 dwt), and very large ore carriers 134%. A huge fleet expansion, while demand growth prospects in the minor and major bulk segments are modest. Against these concerns, we looked at the potential of climate change actions to brighten the day.

The array of climate change actions consists of three groups: technical, market-based and logistics solutions. Most of these can and should be explored and implemented as the business case is self-evident, such as more efficient engines, hull designs, propulsion systems, waste heat recovery, cleaner fuels, and so on.

There are others actions for which the long-term business case is less obvious, such as the installation of scrubbers and cold-ironing in ports. Exhaust scrubbers are the right answer to the wrong problem: the burning of dirty asphalt in main engines. If the shipping industry shifts from heavy fuel oil to cheap and clean methane gas as a bunker fuel, the substantial investments by refineries to take out the sulphur in heavy fuel oil, the scrubbers onboard ships to take out SOx in exhaust and the installation of all the connections in ports for cold ironing, as well as the extra power plants to supply the electricity, will become superfluous. This will save a tremendous amount of investment by the entire supply chain.



Before slow steaming became popular, boxships produced 270m tonnes of CO_2 per annum.

Although it must be noted that building a supply chain of liquefied natural gas for shipping will require also substantial investment. Bureau Veritas is working on several projects for owners that want to invest in LNG carriers for the small-scale distribution in ports and bunkering. The number of seminars and conferences on LNG fuel also suggests that we might be on to a fundamental shift in bunkering.

It is time for the shipping sector to arrive at a consensus regarding the fundamental hierarchy in climate change actions as it tends to focus on symptoms and not on fundamentals. If the reduction of CO_2, SOx, NOx, volatile organic compounds and particulate matter is the main concern of the shipowners and shipbuilders then a shift to LNG would do the trick just by itself. Thus avoiding billions of euros investments in useless equipment of cleaning dirty heavy fuel and exhaust. That business case is extremely simple.

It would also pay to focus on those sectors that have the highest greenhouse gas emissions, which are simply the sectors in which service speeds exceed 14 knots, the point above which the fuel consumption starts to increase exponentially.

The urgency for climate change actions in the slow moving oil tanker and bulk carriers sectors where speeds seldom go beyond 15 knots is not really present. This is contrary to the fast moving boxship sector that produces more emissions than crude oil tankers and bulk carriers, which together represent roughly two thirds of world shipping.

A 2008 study from Harilaos Psaraftis from the National Technical University of Athens showed that — before slow steaming became fashionable — boxships produced on an annual basis 270m tonnes of CO_2, while the output from tankers was 108m tonnes and bulk carriers 150m tonnes.

Thus the business case for green shipping should start in box shipping and then expanded to other sectors. Market-based instruments like emission trading schemes and carbon tax/levy of fuel could be introduced at the same time and this will build up an experience curve to measure the effectiveness of these instruments.

The box sector is also suitable for experimentation with the third category of logistics-based measures, like new hub-feeder systems, empty slots and container auctions and new production and distribution concepts, as shipowners will try to pass on the emission cost-burden on to the other stakeholders in the value chain.

In all this, money generated by emissions trading should stay in the sector and be allocated to stimulate research and development and investment in converting main and auxiliary engines, and in new maritime energy infrastructures, like a global network of LNG bunker depots and LNG bunker vessels.

ABN-Amro Bank representatives painted a picture of the fragile state of the economy and the limited financial sources to pay for the thousands of ships due for delivery in the next two years, but also highlighted the changes on the emission trading scene.

Apart from the large European ETS, there are several North American schemes, such as the Regional Greenhouse Gas Initiative and the ambiguous Clean Development Mechanism.

More confusion will be added by International Maritime Organization's Marine Environment Protection Committee, which convenes for the 61st time next week.

A report on market-based measures for greenhouse gas reduction is on the agenda. Prof Psaraftis, who was part of the working group that wrote the report, explained the many proposals: various emission trading schemes (Norway, UK, France, Germany), an international fund based on a global bunker tax (Denmark), various hybrid solutions based on the energy efficiency design index (Japan, USA, World Shippers Council), a port-based scheme (Jamaica), a rebate scheme (International Union for Conservation of Nature) and a proposal by the Bahamas to do nothing.

This was applauded by the shipowners at the conference and might even be the best solution, as much of the CO_2 reduction will come because of measures that are cost-effective when fuel prices go up. As it is very likely that fuel prices will rise in the future, owners will implement these measures without being forced to do so. Most of the cost-effective solutions are also common sense and easy to embrace by shipowners.

It is clear that we — the shipping community and the regulators — should not jump to conclusions about far reaching climate change actions, as the shipping sector is not homogenous, and the urgency as well as the potential of emission reduction is not equal for each segment. We should develop the business cases further for all sorts of climate change actions to arrive at green shipping. Or, as one owner pointedly remarked: green shipping has a very negative connotation for us (dirty hull), therefore let's in the future speak about blue shipping, representing clean seas and clear skies. ■

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UK Hydrographic Office does not withhold electronic charts

From Mike Robinson

Letter to the Editor

SENSATIONAL headlines are designed to catch the eye of the reader and the headline 'UKHO charts a collision course with shipowners' (Lloyd's List, September 15, 2010) certainly caught mine. But as was the case in the classic Sun newspaper headline of 1986, the truth is often very different and much less sensational.

The gist of Ryan Skinner's article is that the UK Hydrographic Office is withholding hundreds of electronic navigational charts by making bilateral arrangements with countries, rather than distributing them via the Regional ENC Co-ordination Centres. This is simply untrue and the writer of the article is unfortunately misinformed.

The two RENCs — IC-ENC and Primar — are fundamental to chart quality and distribution. But the reality is that there are many countries which have, for various reasons, elected not to make their data available through an RENC but prefer to work directly with value-added resellers or distributors.

This is a sovereign right, invoked by countries including the US, Canada, Singapore, Hong Kong and Japan and not subject to the influence of any hydrographic office. To provide a global ENC service, it is therefore vital for any VAR or distributor to have agreements with the two RENCs and with those individual countries which do not distribute through a RENC.

Over the last few years, both Primar and the UKHO have signed numerous bilateral agreements to ensure they can provide as comprehensive a global service as possible. But it is not just governments acting as VARs that can provide global ENC services working with the RENCs and via bilateral arrangements, private companies can too.

The article states that the UKHO (and by inference Primar) use their 'government muscle' in forming such bilateral agreements. This is simply untrue. Hydrographic offices (including UKHO) have provided assistance to third countries to produce ENCs. In such cases, where the country asks for distribution through a RENC, this is always facilitated.

The article also attempts to mislead the reader into thinking that the UKHO has conflicting aims as a "government regulator" and a "market player", an assertion that demonstrates a lack of understanding of the principles of chart distribution and the UKHO's role. The UKHO does not have a regulatory role and, as is clear from the above, is one of a number of channels for distributing ENCs.

So this is the position: the UKHO is not withholding ENCs and is not on a collision course with shipowners. Not only does the UKHO make ENCs available though its own products, it also offers its quality-assured datasets to other VARs.

I accept that the RENC system is not perfect — they operate different models, different licensing regimes, and have different conditions for data use. This makes it difficult to provide a truly global service and discourages new members from joining.

The International Hydrographic Organisation has proposed that the two RENCs should increase their co-operation, a move the UK and Norway wholeheartedly support. To achieve this, all RENC members will have to compromise — never easy but essential if the hydrographic community is to put more ENCs in seafarers' hands. ■

Mike Robinson
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