

MARITIME BUSINESS INSIGHT

Feature

Marine Insurance



C.Y. Tung International Centre for Maritime Studies

Maritime Education * Research * Consultancy

Volume 5, Issue 1, January 2017



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Contents

Safe Management – Safety is always the top priority	2
<i>Captain CHAN Lok Ching</i>	
War Risk Insurance: "infringement of any customs or trading regulations" exception under the Institute War and Strikes Clauses Hull 1/10/83 - The "B Atlantic"	4
<i>Dr. Poomintr SOOKSRIPAISARNKIT</i>	
Marine Insurance - What is a Warranty?.....	6
<i>Dr Sik Kwan TAI</i>	
Types of Marine Insurance Covers and Posts	13
<i>Vicky YIP Yan Pik</i>	
Compliance with Port State Control and Flag State Control, Minimization of Maritime Incidents	16
<i>Capt. Rajiv KAPOOR and Capt. Nishant KUMAR</i>	
Which is the Best International Maritime Center in Asia?.....	20
<i>CC CHONG, TN CHUNG, YY LEUNG and HT SO</i>	
Crew Management and Training	27
<i>Capt. Sriram RAJAGOPAL</i>	
Evaluation of Operators	33
<i>Capt. Pappu SASTRY</i>	
Call for Articles for April 2017 Issue.....	39

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Safe Management – Safety is Always the Top Priority

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Capt. CHAN Lok Ching has 10 years' sea experience as officers in bulkers, tanker & container ships, and as master for 15 years in bulker and container ships. After getting onshore, Capt. CHAN has worked as member of a management team in a container liner company, responsible for accident investigation, senior officers' recruitment, crew training and instructor in company simulator centre, cargo operations and vessel claims matters. Now he is working as a Risk Management & Loss Prevention Consultant of CM Houlder Insurance Brokers Ltd.

Introduction

As a matter of fact, all the merchant vessels are covered by insurance. Automatically, we would think that the insurer is the biggest beneficiary if the shipowners claim nothing from them. But when you



think deeper, having zero accidents is actually a 'win-win' situation for everyone.

Always remember, ships can be rebuilt but you cannot restore human life, nature and credibility.

Why?

Marine accidents are often costly. They can lead to loss of lives, environmental pollution, criminal offence and reputation damage as well. So, no news is good news. This is especially true for the crew, their company and family, as well as the following parties: Shipowners, Ship Operators, Charterers, Underwriters, P&I Clubs, Insurance Brokers, Shippers, Consignees, Office Staff and General Public.

Today I want to share a case with you all in which my insurer friend rejected the insurance cover of a fleet. And for your reference, the paragraphs below are the summary of incident cases which involved the management team of this fleet.

Case Summary of One Ship Owner (6 years)

Ship Number = 13 and Crew Injury cases not counted

1st Policy Year = 9 cases (Lost of anchor x 1, engine damage case x 6 & engine room fire case x 2)

2nd Policy Year = 6 cases (Grounding x 2, engine damage case x 3 & engine room fire case x 1)

3rd Policy Year = 13 cases (Ingress of water tank x 1, engine damage case x 10 & engine room fire case x 2)

4th Policy Year = 12 cases (Collision x 2, heavy weather x 2, grounding x 2, engine damage cases x 2, fire x 2 & engine room fire case x 2)

5th Policy Year = 15 cases (Collision x 3, heavy weather x 2, grounding x 1, engine damage case x 5, fire x 2 & engine room fire case x 2)

6th Policy Year = 13 cases (Grounding x 2, engine damage case x 8, fire x 1 & engine fire case x 2)

As you may have noticed already, the loss ratio of this fleet was comparatively high and got worse each year. Here are some implications drawn from these cases:

1. Engine damage cases and fire in engine room incidents indicate poor engine maintenance.
2. Grounding, collision and heavy weather damages indicate poor navigation skill.
3. Crew quality was a serious issue.
4. Ship management was substandard – there was no plan to improve their supervision, work execution and follow-through
5. The assumption was that the crew lacked proper training.

What can be done to achieve the goal of zero accidents?

1. **Crew quality** - mentorship program for new entrants and those who have just got promoted on this fleet; safety culture enhancement program with the inclusion of daily risk assessment for all crew.
2. **Efficient fleet** – raise awareness of safety and compliance through the implementation and regular promoting of standardized shipboard operational procedures throughout the fleet so as to enhance shipboard safety and proper crew training; ensure crew is familiar with Company’s Policies and Safety Management System to strive for cost efficiency and sound operations.
3. **Set targets/KPIs** for Zero Crew Injury, Zero Marine Casualties, Zero Major Port State Control Inspection Deficiency, Efficient Shipboard Operations, Cost Efficiency, Good Shipboard Morale, etc.
4. **Crew seminars** should be arranged while “proper” training on bridge and engine room resource management should be included in training as well. In particular, communication skills and a teamwork spirit should be emphasized.
5. **Reward shipboard key personnel** who do the right thing through incentive programs.

After taking in the above remedial suggestions, results from the 7th Policy Year onwards have demonstrated that both the standard of ship management and crew quality have improved significantly.

Safety Concerns for Crew - What Are the Problems?

1. Crew’s failure in identifying risks associated before performing their task is the number-one problem when it comes to safety.
2. In some cases, individuals choose to ignore the safety procedures.
3. In many cases, either complacency, the lack of experience (such as poor ship handling, unskillful machine work etc.) or no safety awareness is the direct cause of injury or fatalities.



What Can the Crew Do to Avoid Accidents?

1. **Keep learning.** Accumulate experiences in ship handling, machine work, deck work and so on.
2. **Take time to think** about the possible risk associated with the task you are going to perform and know how to manage it.
3. It is a basis requirement that you must **wear personal safety gear** when at work.
4. **Follow the safety procedures** for any task that bears risks.
5. Make sure you **know how to do the task properly**. Ask your supervisor for clarification if needed.
6. **Don’t be shy.** If you notice something goes wrong, speak out.
7. Remember that **safe working procedures** are “good” rules to follow. Instead of luck, you should rely on them to keep you and the workplace safe.
8. **Stay alert.** Don’t let your over-confidence in routine and repetitive tasks blind you.
9. **Cross check each other** during your work so as to break the error chain before it is too late.
10. **Keep in mind that safety is always the top priority.**

What Can the Company Do to Minimize the Number of Accidents?

1. The established safety procedures must be continuously evaluated and updated.
2. Help crew further cultivate safety knowledge and related work experience through on the job training, simulator training, computer based trainings and seminars, etc.
3. Conduct campaigns to promote safety awareness and culture. For example, all crew should take part in the daily risk assessment before starting the day’s work and maintain the mentoring program.
4. Motivate the crew to think safe and work safe.
5. Maintain good crew discipline.
6. Create a sense of belonging. This is why the company must respect, invest in and recognize the efforts and achievements of their crew.

Again, remember that safety comes first, before anything else.

War Risk Insurance: "Infringement of any customs or trading regulations" exception under the Institute War and Strikes Clauses Hull 1/10/83 - The "B Atlantic"

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In this article, the author considers a recent judgment of the English Court of Appeal in *Atlasnavios-Navegação, LDA v Navigators Insurance Co. Ltd and Others (The "B Atlantic")* [2016]

EWCA Civ. 808; [2016] 2 Lloyd's Rep. 351 which is an appeal from the judgment of Flaux J of the Queen's Bench Division reported at [2014] EWHC 4133 (Comm); [2015] 1 Lloyd's Rep. 117.

The vessel in issue, *B Atlantic*, was insured for war risk insurance with Navigation Insurance Company Limited and other insurers under the Institute War and Strikes Clauses Hulls - Time - 1/10/83. In this set of standard terms, Clause 1 states risks covered while Clause 4 states the exclusions. Relevant to this context are:

"1 PERILS

Subject always to the exclusions hereinafter referred to, this insurance covers loss of or damage to the Vessel caused by,

1.2 capture, seizure, arrest, restraint or detainment, and the consequences thereof or any attempt thereat ...

1.5 any terrorist or any person acting maliciously or from a political motive

1.6 confiscation or expropriation...

4 EXCLUSIONS

This insurance excludes

4.1 loss, damage, liability or expense arising from

4.1.5 arrest, restraint, detainment, confiscation or expropriation under quarantine regulations or by reason of infringement of any customs or trading regulations".

Clause 3 of the standard terms was amended such that the vessel is treated as a constructive total loss if it is continuously detained for the period of six months. In addition to the standard terms, there was also an agreed cover for "...Malicious damage and Vandalism. Piracy and/or Sabotage and/or



Terrorism and/or Malicious Mischief and/or Malicious Damage".

On 13 August 2007, three bags of cocaine were found stuck to the hull of the *B Atlantic* 10 metres below the waterline near to the rudder during an underwater inspection. This happened in Venezuela where the vessel had just finished with loading a cargo of coal. Since then, the vessel was detained by Venezuelan courts under the domestic

Venezuelan law which provided for preventive detention pending investigation. In September 2009, the owners decided to abandon the B Atlantic to the local court in Venezuela. The master and the Second Officer were found in the trial in Venezuela in the presence of jurors to be involved in the scheme to attach the bags of cocaine to the hull. There was no finding that the owners were involved in the plot. The insurers invoked the exclusion under Clause 4.1.5 arguing that the loss was due to 'infringement of any customs or trading regulations'. However, the owners argued that the loss was proximately caused by the malicious act of the drug traffickers. The owners contended that the proximate cause of the loss was due to unlawful judgment of the courts in Venezuela to detain the vessel.



Judgment

Both Flaux J and the Court of Appeal adopted as correct an explanation of Clause 4.1.5 made by Hamblen J during his determination of preliminary issues in *Atlas Navios-Navegação LDA v Navigators Insurance Co. Ltd (The "B Atlantic")* [2012] EWHC 802 (Comm); [2012] 1 Lloyd's Rep. 629. Hamblen J explained first that it is the underwriters' duty to prove their case that the factual situation came within Clause 4.1.5. The wording of this Clause is broad and does not seem to suggest any limitations and hence it is not limited to the infringement of customs regulations caused by the privity of the ship-owners or their servants or agents. The exclusion as in this Clause is applicable to virtually all perils stated in Clause 1 plus the cover as agreed in the slip.

When the case came before Flaux J, the underwriters admitted that a situation such as if the drugs were attached to the hull by the Venezuelan authorities themselves in order to facilitate detention of the ship would not fall under the ambit of the exclusion. This convinced Flaux J that there must be limitations to Clause 4.1.5. In paragraph 256 of his judgment, he gave

examples of two scenarios which linguistically would fall within the ambit of the term "infringement of customs regulations" but these scenarios are unlikely to be within "the spirit of the policy". These are when the drugs were attached to the ship by the malicious third party in an attempt to blackmail the ship-owners so as to extract a large sum of money or, without an attempt to blackmail, the third party simply called the authorities so to cause the ship to be detained. So, he proceeded to construe, in paragraph 258 of his judgment, that the terms in Clause 4.1.5 "must be subject to the implied limitation that they do not apply where the only reason why there has been an infringement of the customs regulations by the vessel is because of the malicious acts of third parties..."

However, the Court of Appeal disagreed. Construing Clause 4.1.5 with such implied limitation would amount to a re-writing of the Clause. As to the situations which Flaux J gave as examples to demonstrate that they should not have come within the ambit of the exclusion, the Court of Appeal viewed them as going to the issue of causation in the sense that the courts, faced with such factual circumstances, may not find the detention was effectively caused by the infringement of custom regulations at all.

Within the context of the case, the Court of Appeal found in paragraph 61 of the judgment that the loss was caused by the combination of the initial sticking of drugs to the hull of the vessel and the subsequent detention by reason of such finding of drugs which proved to be in breach of the custom regulations. Hence, the matter came within the exclusion in Clause 4.1.5.

In this case, the ship-owners lost the claim for the vessel and its equipment in the total value of US\$14,135,000 on a matter which was not due to a fault of their own. The case served as a reminder for ship-owners to be cautious in negotiating marine insurance contractual terms.

Marine Insurance - What is a Warranty?

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The author aims to use the example of a case study to illustrate how a warranty was defined in an insurance contract and how the warranty on deadweight tonnage is defined as being breached.

Facts

In this case, the Assured entered into a contract of marine insurance (the Contract) with the Insurer in respect of the shipment of a cargo of logs on board a named vessel from Malaysia to the PRC. The Contract contained a clause in relation to the carrying vessel which "WARRANTED DWT NOT LESS THAN 10,000" tonnes (the Deadweight Warranty). The vessel sank and the cargo was totally lost. The Assured's claim for the insured value of the logs under the Contract was rejected by the Insurer on the ground that the Assured was in breach of the Deadweight Warranty: the vessel only had a deadweight capacity of about 8,960 tonnes. At first instance, the Trial Judge held in favour of the Assured on the grounds that: (a) there was a clear inconsistency between the naming of the vessel under the Contract and the Deadweight Warranty. Accordingly, effect had to be given to that part of the Contract which gave effect to the parties' intentions, and this meant giving effect to the cover for the named vessel and disregarding the Deadweight Warranty; (b) the Insurer must be taken to have been aware of the vessel's deadweight capacity in that this was information easily available on the Internet; (c) accordingly, insofar as the Insurer relied on the material non-disclosure of the vessel's deadweight capacity under s.18 of the Marine Insurance Ordinance (Cap.329) (The Ordinance), this defence failed; (d) further, by reason of the above, insofar as was

necessary, rectification of the Contract would be ordered by deleting the Deadweight Warranty. The Trial Judge's decision was reversed by the Court of Appeal. The Assured then appealed to the Court of Final Appeal maintaining the grounds on which the Trial Judge had held in its favour. An additional argument was raised that since the vessel's deadweight capacity was information available on the Internet, this was a part of the factual matrix of the Contract that had to be taken into account. A further argument was also raised based on a waiver based on s. 34(3) of the Ordinance.



Judgment

The case was held and the appeal was dismissed as the Deadweight Warranty was breached in that



- (1) There was no doubt that the Deadweight Warranty was a marine insurance warranty. Section 33 of the Ordinance was therefore engaged.
- (2) There was no inconsistency in the Contract between the identification of the vessel and the existence of the Deadweight Warranty. The mere fact a vessel was named in a contract of marine insurance did not mean an insurer was prevented from insisting by way of warranty that the vessel should possess certain characteristics. Moreover, nothing in the Ordinance remotely suggested otherwise.

- (3) As to knowledge, even assuming that this might affect what otherwise was the true construction of a contract in the absence of waiver, there was no actual knowledge which could be established on the facts. The Assured did not raise a *prima facie* case of sufficient cogency so that any adverse inferences could be drawn against the Insurer (*Nina Kung v Wong Din Shin* (2005) 8 HKCFAR 387 applied).
- (4) The account that one took of the factual matrix of a contract was to assist in arriving at its true construction. It did not have a separate life of its own to undermine or nullify the effect of a clear term of the contract.
- (5) While rectification was possible for contracts of marine insurance (as per s. 91 of the Ordinance and *Agip SpA v Navigazione Alta Italia SpA*), no case was made out for its application (*Agip SpA v Navigazione Alta Italia SpA* [1984] 1 Lloyd's Rep 353 applied).
- (6) As for the defence of waiver by estoppel, none of the matters relied on, whether singly or cumulatively, could possibly amount to the requisite clear and unequivocal representation by the Insurer that, notwithstanding the fact that the vessel's deadweight capacity did not comply with the Deadweight Warranty, it would insure the vessel under the Contract.
- (7) It was not relevant to consider the question of non-disclosure under s. 18 of the Ordinance. There was an illogicality in considering non-disclosure of a material fact when the same fact was the subject matter of a marine insurance warranty.
- (8) It was difficult to accept that the special knowledge of a party to a contract might affect what otherwise would be the true construction (as opposed to the effectiveness) of the terms of that contract, much less could such knowledge "red pencil" or completely delete a term. A party's knowledge might, however, in certain circumstances, result in

some form of waiver by estoppel being applicable.



According to s 33(1) of the Ordinance, a warranty means a **promissory warranty**, that is to say, a warranty by which *the assured undertakes* that some particular thing shall or shall not be done, or that some condition shall be fulfilled, or whereby he affirms or negates the existence of a particular state of facts."

A warranty is categorized into **Express or Implied Warranty**. An express warranty is constructed in the form of words (s 35(1)) and the words should be included in the policy (s 35(2)) Examples are "**Warranted** cargo to be professionally packed." However, the word "warranted" is not essential to constitute a warranty: e.g. "the assured shall keep 1/5 uninsured."

Examples of Express Warranty are mentioned in the Ordinance:- warranty of neutrality (s 36(1)), warranty of good safety (s 36(2)) and sailing warranties (s 38).

In the Institute Clauses ITCH (95), there is an Express Warranty, including Towage & Salvage Warranty (cl1.1), classification clause (cl 4), disbursements warranty (cl 22).

Warranty of Good Safety (s 38) refers to the situation of the vessel being warranted "**well**" or "**in good safety**" on a particular day. Therefore, it is sufficient if the vessel is safe **at any time** during that day

In the case of *Blackhurst v Cockell* (1789) 3 TR 360, there was the term "Lost or not lost.

Warranted well on Dec 9” in the insurance policy. This policy was subscribed to between 1 and 3 pm and the ship was lost earlier at 8 am.

Held: No breach of warranty.

Sailing Warranties

Warranted “to sail”

§ A vessel shall sail on or before a certain



date. An example of the wording is “Warranted to sail on or before May 10, 2016.”-

§ Test: whether there was a clear (& bona fide) intention on the part of the master, when the vessel left her moorings, to proceed directly on the voyage.

§ Warranted “to sail from” a specified port on a certain date = to depart

§ Test: actually left the precincts of the port

In the case of *Moir v Royal Exchange Assurance Co* (1815) 3 M. & S. 461

§ There was the warranty term of “to depart on or before September 15.”-

§ The vessel sailed on her voyage on Sept 9 and came to anchor within the mouth of the harbour because the wind changed and the vessel was thus detained until after Sept 15:

Held: Breach of warranty that “A warranty to depart on a particular day is, I think, a warranty to be out of port on or before that day.”



Implied Warranties

Nature of Implied Warranties

§ Fundamental and essential to the contract

§ Does not appear in the policy

§ Understand by law to exist

Examples of implied warranties



§ Warranty of seaworthiness (ss 39 & 40)

§ Legality (s 41)

§ “A ship is deemed to be seaworthy when she is reasonably fit in all respects to encounter the ordinary perils of the seas of the adventure insured.” (s 39(4))

§ “...the term seaworthiness is a relative and flexible term, the degree of seaworthiness depending on the position in which the vessel may be placed, or on the nature of the navigation or adventure on which it is about to embark.”

- *Burges v. Wickham* (1863) 3 B&S 669.

Warranty of Seaworthiness

Apply to: Voyage Policy (s 39 (1)-(3))

Period:

- (1) Seaworthy at the commencement of the voyage; for the particular adventure insured.
- (2) In port: at the com/t of the risk, be reasonably fit to encounter the ordinary perils of the port.
- (3) Different stages: at the com/t of each stage, the ship is seaworthy with preparation or equipment for that stage.



The Suez Canal in Perspective

Time Policy

- NO implied warranty at any stage of the adventure.
- Except: with the privity of the assured, the ship is sent in unseaworthy state & loss attributable to unseaworthiness.

-



Privity: actual and constructive knowledge

The Eurysthenes [1977] QB 49

Nature of Warranty

Contract Law	
<p>Breach of Conditions (major terms)</p> <ul style="list-style-type: none"> 1. Repudiate the contract 2. Damages 	<p>Breach of Warranties (minor terms)</p> <ul style="list-style-type: none"> 1. Continue the contract 2. Damages only

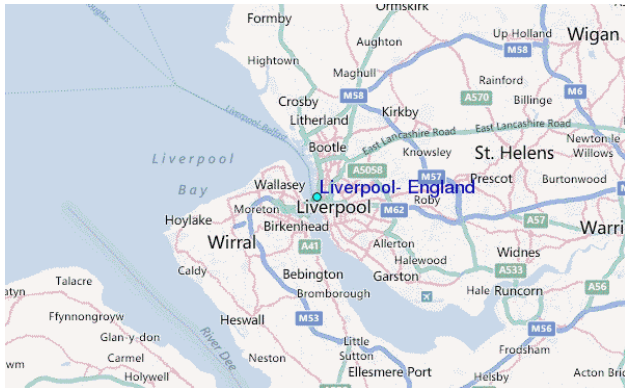
Warranties in Marine Insurance Law:

Equivalent to CONDITIONS

Doctrine of Strict Compliance (s33(3), MIO)

“A warranty is a condition which must be exactly complied with, whether it be material to the risk or not.”

It insists upon a literal compliance: substantial observation is not good enough.

De Hahn v Hartley (1786) 1 TR 343

The policy had a clause stating that the ship would sail from Liverpool with "50 hands". The ship set sail with 46 hands on board. Several hrs later, 4 hands were added. After the ship was lost, the insurer refused the claim.

Held: the clause was a warranty

The difference between representation and warranty

De Hahn v Hartley (1786) 1 TR 34

Lord Mansfield: "There is a material distinction between a warranty and a representation. A representation may be equitably and substantially answered: but a warranty must be strictly complied with. Supposing a warranty to sail on 1st August, and the ship did not sail till the 2nd, the warranty would not be complied with. A warranty in a policy of insurance is a condition or a contingency ..."

Effect of Breach—Automatic Discharge

S 33(3): If the warranty be not so complied with, then the insurer is discharged from liability as from the date of the breach of warranty, but without prejudice to any liability incurred by him before that day.

- Automatically discharged; assured becomes uninsured.
- Loss before the breach is valid.

S 34(2): "Where a warranty is broken, the assured cannot avail himself of the defence that the breach has been remedied, and the warranty complied with, before loss."

- No remedy for breach.
- No defence for breach.

Excuses for Breach of Warranty

Two statutory excuses: (s 34(1))

- by a change of circumstance, the warranty ceases to be applicable; or
- when compliance with the warranty is rendered unlawful by any subsequent law.

Waiver of Breach of Warranty

S 34(3): A breach of warranty may be waived by the insurer.

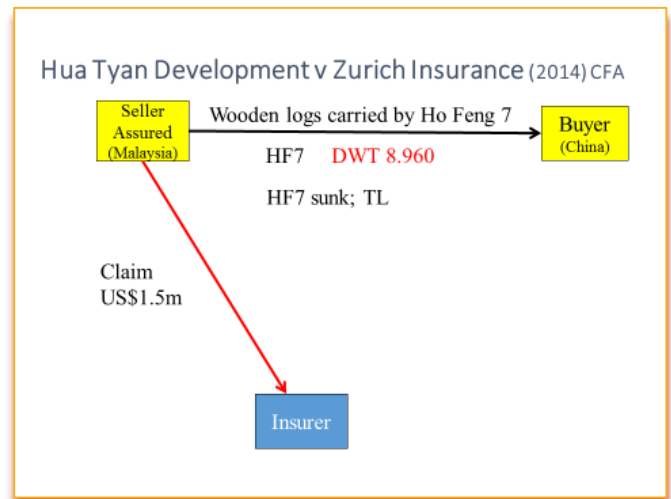
- Breach of warranty excused.

Hua Tyan Development Ltd v Zurich Insurance (2014) CFA



Facts

1. The Assured arranged a cargo insurance in respect of the shipment of logs from Malaysian Port to Chinese Port. Goods valued at USD1.5 m.
2. Cover Note issued with the following terms:
 - (a) Ship: "Per approved vessel or vessels to be declared & subject to any additional surcharge if required."



- (b) Conditions: “Warranted year built of the vessel not over 30 years. Warranted DWT not less than 10,000.” (Deadweight Warranty)
- (c) The insurance cover would be subject to the terms, exceptions & conditions of the policy to be issued.
3. The Policy replaced the Cover Note with terms:
- (a) Vessel: “*M.V. Ho Feng No. 7*” (HF7)
- (b) Conditions: Deadweight Warranty (DW)

4. Carrying vessel “HF7” had a DWT8,960.

Decision of the trial judge:

No breach of warranty because DWT of the vessel was available on the internet.

CA: Overturned the decision; the Assured appealed.

Issue 1. What is the Legal Effect of the Deadweight Warranty

- § S 33(1), MIO: A warranty is a promissory warranty.
- § Warranted: The word is not conclusive. It raises a presumption that a warranty is intended. (pa 17)

§ By this warranty, the Assured affirmed a particular state of facts, namely the DWT of the carrying vessel.

§ Conclusion: The DW is a marine insurance warranty. (pa 38)

Issue 2: Whether the insurer was prevented from relying on the DW by reason of any one of the following?

A. Construction of the Contract

- § There was no inconsistency between the identification of the vessel and the existence of the DW.
- § The mere fact a vessel was named in a contract of marine insurance did not mean an insurer was prevented from insisting by way of warranty that the vessel should possess certain characteristics.
- § Unless the Insurer knew the DWT of the vessel when the vessel was named.

B. The state of Knowledge of the Insurer

- § No evidence of actual knowledge.
- § The constructive knowledge could not be relied on by saying that all facts were

“reasonably available” to the parties. (pa 48)

§ (C.A.) Information of DWT could be obtained on the internet did not mean that the Insurer was to be fixed with knowledge. The fact that such info could be obtained did not mean that it should have been obtained. (pa 33)

C. Rectification & Waiver

§ The court rejected the application of these defences.

Conclusion: The Assured had breached the Deadweight Warranty. The liability of the Insurer had been automatically discharged.

Changes in the UK—Insurance Act 2015

Problems in the Current Law

1. An Insurer may refuse a claim for a trivial mistake which has no bearing on the risk.
2. The Assured cannot use the defence that the breach has been remedied.
3. The breach of warranty discharges the Insurer from all liabilities, not just liability for the type of loss in question. E.g. a failure to install the right sort of burglar alarm would discharge the Insurer from liability for a flood claim.
4. A statement may be converted into a warranty using obscure words that few policyholders understand. E.g. if a policyholder signs a statement on a proposal form stating that the answers given form the “basis of the contract”, this has the effect of converting all the answers into warranties.

Insurance Act 2015

1. Abolish the “basis of the contract clause”

S 9(2): A representation is not capable of being converted into a warranty.

2. Suspend policy on breaching

S 10(1): Automatically discharge of liability is abolished.

S 10(2): On breach of warranty & not yet remedied, suspend rather than discharge the insurer’s liability.



Types of Marine Insurance Covers and Posts

Vicky YIP Yan Pik, Editor, The Hong Kong Polytechnic University



Vicky YIP Yan Pik has obtained a Master of Laws in Maritime and Transportation Law from the City University of Hong Kong. She had been working in a Marine Insurance Broker firm for 3 years to give assistance to clients in matters of marine insurance underwriting. Before that, she had worked in a seafarers' trade union for 7 years.

There are 2 types of marine insurance:-

1. Hull and machinery (H&M) insurance. It is for shipowners and cover loss of hull and machinery of the vessel. Meanwhile, cargo cover is provided to cargo owners.



Hull and Machinery and cargo loss

2. Protection and Indemnity (P&I) insurance. It is a form of mutual maritime insurance provided by a P&I Club. The main risks covered are liabilities, expenses, and costs for:

- Loss of life, injury and illness of crew, passengers and other persons
- Freight, Demurrage and Defence (FDD)
- Cargo loss, shortage or damage
- Collision
- Damage to docks, buoys and other fixed and floating objects
- Wreck removal

- Pollution
- Fines and penalties
- Mutiny and misconduct by crew
- Crew repatriation and substitution
- Damage to property on board the insured vessel
- Quarantine
- Vessel Diversion Expenses
- Unrecoverable General Average contributions
- Crew repatriation and substitution
- Damage to property on board the insured vessel
- Quarantine
- Vessel Diversion Expenses
- Unrecoverable General Average contributions



Crew Injury



Wreck Removal

Posts of Marine Insurance Field

1) Marine Insurance Underwriter

Job duties:-

- provides insurance coverage for boats and ships
- helps shipowners to choose the correct type and amount of marine insurance coverage, in order to protect assets from loss, x
- provides proper coverage for vessels and cargo transported by sea.
- assesses the probability of risk. Underwriters use a combination of statistics and investigation to determine the odds that a particular ship will be damaged or lost. The vessel should be inspected by a marine expert to check for proper seaworthiness and safety equipment.
- considers statistics such as the financial health of a shipping company and the history of past events.

Marine underwriting process is regulated and standardized by law in most major countries. In Hong Kong, it is governed by the Office of the Commissioner of Insurance.

Qualifications required:-

Holder of Australian and New Zealand Institute of Insurance and Finance (ANZIIF), or the Chartered Insurance Institute (ACII)

2) Marine Insurance Broker

Job duties:-

- analyze shipowners' risks profile and identify their insurance needs.
- propose risk management solutions to take care of clients' need and concern.

Qualifications required:-

To become a marine insurance broker, one need to be registered to be a member of the Professional Insurance Brokers Association (PIBA) or Hong Kong Confederation of Insurance Brokers (HKCIB).

To be a member of the PIBA or HKCIB, one should pass the Insurance Intermediaries Qualifying Examination for Insurance Brokers ("IIQE").

Exemption from P&P Paper, GI Paper and LT Paper of the IIQE can be granted to:

Holders of an approved insurance qualification:

- Associate or Fellow of the Chartered Insurance Institute (ACII/FCII);
- Senior Associate or Fellow of the Australian and New Zealand Institute of Insurance and Finance (ANZIIF);
- Fellow of the Life Management Institute (FLMI);
- Chartered Life Underwriter (CLU); Chartered Property Casualty Underwriter (CPCU); or
- Hong Kong Diploma in Insurance Studies of the Insurance Institute of Hong Kong.

To acquire the qualification as member of the Australian and New Zealand Institute of Insurance and Finance (ANZIIF) or the Chartered Insurance Institute (CII)., one might study for the Professional Diploma in Insurance (PDI) course offered by the PEAK (高峰進修學院) which is under the Vocational Training Council (VTC).

3) Average Adjuster

General Average is an internationally recognised system of casualty management. It is an individual or firm hired by an insurance company to apportion intentional loss in a maritime claim. There are two kinds of average in a claim:- general average or particular average.



Cargo loss

Job duties:-

- organises the process of collection of General Average security from the contributing interests. On a modern container vessel this can mean dealing with thousands of Bills of Lading
- prepares the adjustment according to the terms of the relevant contract of affreightment evidenced in the bill of lading or charterparty
- collects contributions due under the adjustment
- advises owners on special General Average clauses to be included in their Hull & Machinery policies which avoid the necessity of collecting General Average security on smaller casualties.

Qualifications required:-

Although there is no prerequisites to work as an average adjuster, it would be advisable to acquire a title recognised internationally as a demonstration of excellence. To acquire the qualifications as Associate and Fellow member of the Association, one should sit for the corresponding examination. (<https://www.average-adjusters.com/>). The examinations of the Association of Average Adjusters are held in January, March and October each year.

4) Claims officer/assistant

Mainly employed by insurance companies, P&I clubs and insurance department of shipping owning or ship management companies.

Job duties:-

Assist in processing claims by getting information from customers, entering the appropriate information into a claims database and explaining the process of submitting a claim to customers.

After the claim is processed, the claims assistant may also prepare payments for disbursements to customers.

File and process claims into the company's system, gather and organize files for state-mandated audits and corresponding with insured individuals about obtaining the information necessary to file claims correctly.

Provide input to underwriters during the review of existing claims.

Prepare claims summaries and respond promptly to reinsurance queries □ Promote the positive relations with our brokers and insureds.

Prepare documentation to help evaluate and report on claims

Assist in the review of claims by conducting necessary auditing and reviewing of internal and external claim files.

Qualifications required:-

Generally speaking, no specific prerequisites are set for claims staff for hull and machinery (H&M) and for protection and indemnity (P&I) insurance. However, for Freight, Demurrage and Defence (FDD) offered by P&I clubs, higher educational or professional background, such as legal background, is required since this kind of insurance cover involves more complicated concepts.

Compliance with Port State Control and Flag State Control, Minimization of maritime incidents?

Capt. Rajiv KAPOOR and Capt. Nishant KUMAR, Anglo Eastern Ship Management Ltd.



Capt. Rajiv KAPOOR

Introduction

Shipping is one of the safest and most environmentally benign modes of transport, covering over 90% of the world's trade.

Maritime safety is increasingly significant in a rapidly growing, diversifying, global industry like shipping where major incidents have wide reaching impacts. The growth in seaborne trade has meant an increase in global shipping movements and vessel sizes.

Vessel size has increased the need to benefit from economies of scale, whilst manning levels tend to be reduced with the introduction of labor saving and assisting technologies on board.

Safety relates to the technical integrity of ships or other maritime installations at sea, the operation of ships, compliance of global standards regarding qualification and welfare of the human personnel onboard, and measures to prevent pollution of the marine environment.

Under the regulatory framework of various legislations, ship owners/shipping companies have been entrusted with the primary responsibility for the safe operation of their ships and the safety and welfare of their crew.

With the realization of the importance of maintaining a proper safety culture on board, most ship owners and operators constantly strive for improvement on compliance with regulations for promotion of safety on ships. In these times

of competitive ship management, it is seen that commitment from the top levels to the fostering of an effective safety culture is a matter of enlightened self-interest.

As the need to make ships safer and maintain the required standards on board becomes imperative, inspection and verification through third party inspections has over the years assisted in the tightening of the net to eliminate sub-standard shipping.

To achieve high standards of compliance with quality and safety, efficient management companies coordinate their functional departments to achieve their goals of minimum deficiencies and ensure a safer ship and cleaner seas.

The need to keep the marine environment and ships safe and secure for global commerce imposes immense responsibilities on flag, coastal and port states with respect to the sustainable management of marine environment and maritime safety.

Let's take a look at the legal requirements facilitating the development of port state and flag state regime.

Port State

A country is a port state, which provides ports or facilities for ship-shore interface (includes including offshore facilities) and whose services are open to foreign ships to anchor, or berth for any purpose ranging from loading or discharge of goods to repair or for transshipment.

The rights and obligations of port states are derived from several mandatory UNCLOS, IMO and ILO instruments, and national laws often referred to as relevant instruments under port state regional memoranda.

Articles 218 & 219 of the UNCLOS empowers States to take administrative measures against

substandard ships in their harbors and to verify enforcement of applicable conventions on vessels visiting their harbors.

Under the port state inspection regime, specific obligations of a port state include inspection of foreign ships calling at their ports, exercising control measures such as detection of deficiencies, detention, banning, directing that a ship will not leave the port until deficiency (-ies) detected are rectified etc.

Port states through the IMO have been organized into regional blocks who through their respective regional Port State Memorandum have developed harmonized inspection procedures aimed at the prevention, reduction and eventual elimination of substandard shipping, prevention of marine pollution and improvement of the living and working conditions of seafarers aboard ships.

Several IMO Conventions and other maritime related conventions/codes stipulate provisions for ships to be inspected when they visit foreign ports.

The coordination of port state control activities by groups of port states working under a Memorandum of Understanding (MOU) has enabled a more unified approach to inspection.



A page of the Annual Report of Paris MOU



Currently there are 10 port state control regimes eight of which are MOUs, one of which is an Agreement (The Acuerdo de Vina del Mar Agreement, Latin America) and the US Coast Guard, which operates their own regime as a stand-alone authority, but does cooperate with other maritime authorities.

A ship owner's/manager's compliance with the port state regulations is of rational importance as a vessel can only make money while sailing. Detention/poor PSC record of a ship affects its commercial viability.

Port state control regime is considered as a last "safety net" to catch substandard ships.

Over the years in shipping, control through the PSC inspections has proven highly effective in identifying and to some degree eliminating substandard shipping, but it should never be seen as alternative to ensuring flag states meet their obligations.

Flag State

The concept of flag state originates from the practice of hoisting the flag of the country where a ship is registered as a mark of identification of the ship's port of registry.

The evolution of flag state jurisdiction is linked to the developments that have been brought to the concepts of nationality, ship registration, safety and also to the efforts of the international community through international organizations to set rules and standards to govern the operation of ships.

As directed from the 1958 Convention on the High Seas and the United Nations Convention on the Law of the sea of 1982, duties of the flag state in relation to ships registered under its flag have been identified. States taking the decision to entitle ships to fly its flag have preset conditions. Such conditions generally relate to the nationality of owners, the age of the ship, the nationality of the crew, manning requirements and registration fees.

Once the ship is registered, it has on board the official documents attesting nationality and it is duly flying the flag of the country in which it is registered. It can then be said to be under the jurisdiction of that country.

By “jurisdiction” it is understood that the flag state has the power to prescribe rules of conduct, to threaten sanctions and to enforce sanctions with regard to the ship users.

The flag state is under an obligation to demonstrate its connection with the ships – the genuine link – by exercising effective jurisdiction and control in administrative, technical and social matters over ships flying its flag. It is a duty of the flag states to take such measures for ships flying its flag as are necessary to ensure safety at sea and maintain the vessel in seaworthy condition at all times.

The term “seaworthiness” can be defined as meaning “the fitness of a ship in all respects to cope with conditions likely to be encountered at sea; this includes not only her hull and equipment, but also her crew competency, sufficient stores and bunkers’ quantity.

The flag state has an obligation to inspect the vessel which is requesting to be registered prior to allowing it to fly its flag. Thereafter to ensure continual implementation and maintenance of set standards, it is required to carry out such surveys at regular intervals.

The minimum legislation which involves the ship’s hull and equipment is determined by the conventions which are established by the IMO and ILO, besides ensuring the implementation of these conventions. Sometimes the legislation

from a flag is stricter than the conventions e.g. carriage of LSA/FFA equipment.

The flag states exercise the right of overseeing the International Safety Management Code through issue or withdrawal of ships Safety Management Certificate (SMCs).

Whilst the flag state sets the minimum regulatory standards, it is the ultimate responsibility of the ship owner/manager to implement them effectively.

It is in the interest of ship owners, seafarers and the shipping business at large that the transportation of people and goods by ships should be made as safe as possible, and that set safety standards are well implemented.

Compliance and Incident Prevention

In an effort to comply with the various regulations, ship owners/managers constantly develop their quality and safety management to accommodate new regulations and advise the fleet on pursuing best practices in order to reduce deficiencies aimed at enhancing maritime safety. Looking at the history of shipping, major maritime accidents all over the world have been the main drivers for development of maritime legislation. For example, SOLAS traces its origin to the sinking of the Titanic, and the ISM code was introduced after lessons were learnt from the Herald of Free Enterprise accident. On a similar note, constant changes/amendments to conventions are brought about on the basis of lessons learnt.

“**A MARINE INCIDENT** is any event, or sequence of events, other than a marine casualty, which has occurred directly in connection with the operations of a ship that endangered, or, if not corrected, would endanger the safety of the ship, its occupants or any other person or the environment.”

The marine industry, in general, experiences incidents that range from major accidents to near misses. ISM Code requires companies to ensure that any non-conformity is reported with the possible cause.

It needs to be realized that consistent reporting of non-conformities is dependent on trust established between the ship's crew and the management organization. Investigation into the incidents should be aimed at learning lessons learned from the incidents, without looking for someone to blame. It needs to be realized here that a blame culture if implemented, inhibits the acceptance of responsibility.

Studies into various marine accidents in the past have pointed out many causative factors, and statistically human error remains the most common reason for the occurrence of the maritime incidents.

Human error is sometimes described as being one of the following: an incorrect decision, an improperly performed action, or an improper lack of action (inaction).

With heightened emphasis on compliance with legislative requirements there is a need for the management to cater for the matching tasks, such as adjusting the training focus on people development, building the right working culture, and facilitating a motivational learning environment.

Besides the usual human error faults, fatigue has been cited as the number one concern for seafarers which needs to be addressed through proper work planning on board ships. Equally important in this regard is support to the vessel and planning at the shore side.

Human errors can be reduced significantly. Besides manning the vessels with trained and sufficient staff, ship managers should create work environment, introduce technologies and develop organizational factors based on a HUMAN CENTRED DESIGN.

Economic and commercial factors also have an impact on shipping safety, such as the race to minimize turn-around times in ports and the use of a minimum number of officers and crew required to handle a vessel which often has safety implications such as staff working whilst they are fatigued.

The role of the flag state becomes imperative in this regard to ensure that the vessel flying its flag is manned with adequate crew with sufficient training appropriate to the specific type of vessel. There is a need in the shipping industry to promote greater owner and operator responsibility and ensure registration with better flags, particularly by promoting those flag registries that make the effort to significantly improve the standards of ships.

Several organizations/port states MOU's publish guidelines on flag state performance.

With high performance standards of ship operation being the benchmark, management companies need to constantly develop methods of running ships more efficiently, organizing the training of their own staff and providing a fine career structure for professionals ashore and afloat.

Conclusion

Concluding, I would say that, though third party inspections have had a success in the contributing to safer shipping and cleaner oceans, responsibility for implementing standards of maritime safety and marine environment lies with the owners/managers.

With the advancement of technology and increased awareness of the contributing factors of shipping accidents, it is essential to continually review and verify compliance with the safety standards on the vessel and training standards for the crew directed towards strict enforcement of procedures and regulations aimed to minimize accidents.

Improvement in safety management as a result of ISM Code implementation is dependent on the willingness of flag states and companies to investigate incidents and share the safety lessons without looking for someone to blame.

The key factor attributing to the successful running of a ship is that the owners/operators remain committed towards compliance with the set standards.

Which is the Best International Maritime Center in Asia ?

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The Project Group

Introduction

London is a world renowned International Maritime Center (IMC) offering extraordinary global maritime services. Nevertheless, in the recent decades, Asia's role in global maritime business has boomed to a new level. The port services in Asia are reaching an extraordinary performance level which is in line with some world rankings. Asia accounts for the largest tonnage in the world in terms of metric tons in millions. Asia, America and Europe account for 41%, 22% and 8% in the world's loading respectively, while occupying 58%, 19% and 15% share in the world's unloading capacity, which has marked the shift of maritime business from Europe to Asia. The shift of the centre of gravity of the shipping industry from Europe to Asia has exerted great influence on the global shipping industry. Geographic inconvenience and room for further development in maritime software are the obstacles encountered by Asian countries in the development of an IMC. Focus

may be placed on several outstanding maritime centers in Asia including Hong Kong, Shanghai and Singapore which are the busiest ports in the world. More importantly, they provide an international business environment and have the high ambition to be IMCs.

International Maritime Centre is defined as "a region which achieves a high degree of production, provision of maritime services and possession of maritime knowledge at international level. It has an outstanding performance of the scale and size of activities in maritime industry." Based on the three interrelated aspects there are three generations of IMC. The third generation of IMC is focused on maritime knowledge and information and can be regarded as the most advanced IMC. If one place enables the players in the shipping industry to master more accurate information, that place should be able to enjoy more competitive advantages and take the leading position to make the right decisions. Until now, London is the only world recognized third generation IMC.

UK was once a major seafaring nation which dominated the shipping industry globally. As the most widely recognized IMC. London maintains its leading status in global maritime business in spite of the fading and moving out of its port services. The robust development of the following business sectors are the contributing factors of the symbolic status of London as an IMC: ship finance, arbitration, marine insurance, international maritime organizations and the Baltic

Exchange. The expertise and professionalism of the maritime industry of the UK further sustain its development through the provision of specialized maritime knowledge and innovation. With a long history of development, there is a sound and trustworthy legal system in the UK. The maritime industry of the UK enjoys the competitive advantage as the English legal system allows the winning party to recover the majority of the legal costs. This can avoid parties bringing groundless claims. Around three thousand maritime disputes were referred to arbitration in London in 2013. London is a world leading center for the provision of capital for shipping companies. Banks headquartered in London are some of the most significant providers of banking services and funding to maritime industry. According to Menon Business Economics (2012), based on lending ability and value of maritime companies listed on the city's stock exchange, London ranks the third largest maritime finance center in the world.



A port of the United Kingdom

Lloyd's, as the world's largest subscription market, allows over 200 countries and territories worldwide

to cluster together in London to form syndicates of risk insurance. London is supported by the concentration of 13 major international P&I clubs in the UK which cover 90% of the P&I business. In addition, many fundamental international organizations influencing the maritime industry globally, such as International Maritime Organization (IMO), International Chamber of Shipping (ICS), International Association of Classification Societies (IACS) and P&I Clubs have established their headquarters in London. Amongst the international organizations headquartered in London, the Baltic Exchange is the backbone of the international maritime marketplace and it comprises 645 member organizations worldwide. It is the world's only source of independent maritime market data. In 2015, it recorded a profit of £1,340,759 after tax deduction. London International Shipping Week is an innovative example for promoting and sustaining UK's maritime competitive advantages. During the week, conferences and board meetings with more than 300 hours of discussion are held and players of the global shipping industry from more than 50 countries gather together to exchange their expertise.

Compared to London, which has taken centuries to build its competitive maritime industry, the maritime centers in Asian countries are relatively weak in the area of maritime services and information management. To retain and enhance the competitiveness of the maritime business, the maritime centers in Asia should pay reference to the success of London as an IMC.

Overview of Hong Kong, Shanghai and Singapore

We will overview the three regions in respect of the following four aspects:- geographical location, infrastructure, education and social condition.

Hong Kong



Hong Kong is located in eastern Asia and is the gateway to the manufacturing center of the Pearl River Delta (PRD), the hinterland of Hong Kong. Hong Kong was once ranked as the world's top container port. However, in the recent decades, due to the fierce competition from the globe and decreasing production in PRD, its ranking has constantly fallen. Based on its geographical location, Hong Kong acts as a node for linking the hinterland through the Guangzhou-Shenzhen-Hong Kong Express Rail Link. Meanwhile, in view of its dropping position, HKSAR has strengthened intermodalism, such as Guangzhou-Shenzhen-Hong Kong Express Rail and Hong Kong-Zhuhai-Macau Bridge to foster a closer linkage between Hong and China. Concerning the education, many world class universities are based in Hong Kong, but education specializing in maritime and shipping is comparatively weak as only one university provides maritime related subjects with a limited student quota. Consequently, maritime work

is not common among young people. The English ability of Hong Kong people in the business context scored 5.39 in BEI (2013), which was quite high and shows a satisfactory internationalization as it ranked the second among the three regions. In contrast, Hong Kong ranked the third most expensive cities city which implies high living and operating costs there.

Shanghai

As the world's largest container port, Shanghai is situated at in the middle of the Chinese coastline, which is a gateway to the Yangtze River Delta (YRD). YRD is the largest manufacturing center in China which helps Shanghai retain its superior position and enjoy a great superiority in level of business activities. Besides, Shanghai has high accessibility as it acts as a node for connecting inland transportation inducing a highway and inland water system. With excellent intermodal connection, the quality of transport services is improved by shortening transit time and lower costs. Regarding education, there are two renowned maritime universities in Shanghai, namely, Shanghai Maritime University (SMU) and Shanghai Ocean University (SHOU) to provide different qualified programs in all levels. Concerning the business environment, based on BEI (2013), the score of China is 5.03 which showed shows lower internationalization as the average English level is the lowest among 3 regions. Additionally, both labor and living costs in Shanghai are relatively low compared with Hong Kong and Singapore. The low business cost inevitably advances the competitiveness of Shanghai.

Singapore

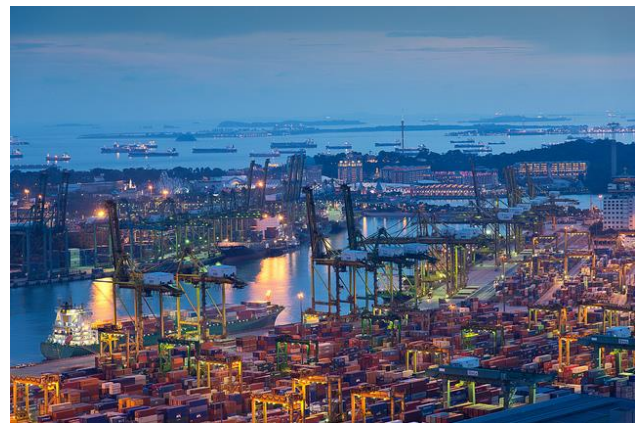
Singapore is situated at in the center of Asia. Singapore's immediate hinterlands are Malaysia and Indonesia which are recognized as the Growth Triangle. Aiming to become an infrastructure hub, it plans to operate two infrastructure projects: The Johor Bahru–Singapore Rapid Transit System (RTS Link) and The Kuala Lumpur–Singapore High Speed Rail (HSR), to strengthen and encourage the connections. The industry and government strongly support the education and development of talents in the maritime and shipping sector. A wide range of shipping related programs and the largest amount of scholarships are offered in the universities in Singapore. Additionally, they encourage continuing learning by offering education programs to mid-career maritime staff. Concerning proficiency in English, Singaporeans show the highest performance among the three regions by indicating according to the BEI. On the cost of doing business, it ranked the most expensive city in the world.

Measurement

The performance of Hong Kong, Shanghai and Singapore are is analyzed under eight criteria, namely, level of marine business, legal system, shipping finance, marine insurance, shipbroking and chartering services, ship registration, ship management and knowledge management.

Level of Marine Business

Concerning container throughput in 2015 (SH:36537; SIN:30922; HK:20073) ('000 TEUs), Shanghai performed the best among the three regions. For the vessel turnaround time in 2013 (HK: 0.718; SH:0.85; SIN: 1.309) (days), Hong Kong presented as the most efficient port. Singapore has the most



Port of Singapore

centralized connection and had the highest cargo throughput among the three regions in 2015 (SIN:575846; SH: 513326; HK:256559) ('000 tones) which explains the good consolidation. The low vessel turnaround time was explained by the complex of handling diverse customers. To conclude, Singapore shows the best performance and has the biggest potential to increase and sustain its level maritime business.

Legal System

Hong Kong handles the largest number of maritime-related cases amongst the three regions. In 2013, HKIAC handled 463 disputes in which 75% were international. Compared to the other two cities, it has the lowest number of maritime lawyers and law firms and only offered a few courses on maritime education. Singapore had handled a similar number of cases with high quality. It also provided the largest number of related education programs and scholarship amongst the three regions. Shanghai had the largest number of lawyers (17,000) and law firms (1,400) but handled relatively fewer maritime-related cases amongst the three regions and there are only two maritime universities which offer maritime-related programs.

Shipping Finance

An International Ship Finance Centre (ISFC) should have a favorable and safe international business environment. Therefore, three cities were compared in respect of social stability, good rule of law, tax regime and number of internationally competitive financial institutions.

Singapore performs the best in terms of number of institutions and 'Favorable Tax Regime'. With the consolidated base of financial background, Singapore is served by over 1,200 international financial institutions, while providing a low tax environment and various tax incentives. It also performs well in two other aspects i.e. 'Good rule of law' and social stability. Hong Kong performed the best in 'Good rule of law' and social stability. However, the political event of the 'Umbrella Movement' which started in September 2014 might pose a threat to the high position of Hong Kong. Besides, it is observed that Shanghai is a national ship finance center instead of an International Shipping Finance Centre (ISFC) because of the political issues even if it performed well in Shanghai Stock Exchange (SSE) in terms of market capitalization. As a result, Singapore had the best business environment for evolving to an ISFC.

Marine Insurance

Shanghai's marine insurance business had recorded the highest gross insurance premiums about 2,452 million USD in 2014, which was contributed to by cargo insurance. However, it provided less diversified insurance products to the clients. During the same period, Singapore performed above the average and it had a constant growth in the gross

marine insurance premiums which amounted to 312 million USD. Hong Kong had performed worst amongst the three regions as the gross marine insurance premiums were about 169 million USD. However, with the large number of authorized insurers, Hong Kong can provide a diversity of insurance products to clients. Besides, Hong Kong, Shanghai and Singapore have respectively thirteen, two and six P&I Clubs. This showed that Hong Kong was with had the highest level of ingenuity and excellence when compared to the other two regions.

Shipbroking and Chartering Services

Hong Kong performs the best in the sectors of shipbroking and chartering as it contributes the most in world's total number of ships (around 4.4% of world market share) and the world's total deadweight tonnage (around 8.6% of world market share). Meanwhile, Singapore had the highest number of shipbroking and chartering companies amongst the three regions. Over 130 companies have set up offices or headquarters there. Shanghai was the least profitable in this sector amongst the three regions.



Port of Shanghai

Ship Registration

Hong Kong and Singapore are international ship registers while Shanghai is a national register. With a favorable taxation arrangement and operating environment, Hong Kong has been the most popular region for ship owners or operators to register ships as indicated by the number of ships registered in Hong Kong. According to the information of UNCTD, in 2015, vessels registered in Hong Kong totalled 150,801 DWT, which occupied 2.71% of world market share. A large number of vessels have been registered in Singapore as it had a low tax regime and extensive network of double tax agreement (DTA) and performed fairly in other aspects. On the other hand, due to the national perspective, more restrictions and a higher tax regime were set in Shanghai and this has impeded the level of ship registration in Shanghai. Recently, Shanghai was in the process of cancelling the limits on the proportion of foreign-controlled fleet sailing, by establishing the Shanghai Free Trade Zone to attract more foreign ship owners and operators.

Ship Management

Singapore is at a central location between India, Indonesia and Philippines and this has greatly favored the supply of seafarers. The government also supports the recruitment of crew for shipping companies. Shanghai's ship management company is about to benefit from China's great deposit of seafarers and from the great support from the Chinese government as well. On the contrary, Hong Kong is posed with the serious problem of shortage of suitable local shipping expertise, especially those with seafaring experience. All the three regions have the right mix of ingredients or requirements for ship management. However, they

have different levels of performance. Singapore has a more competitive workforce in terms of maritime knowledge and proficiency in English. Hong Kong has a longer history of development in ship management as a large number of foreign ship management companies had previously established their headquarters or branch offices in Hong Kong, while some of them have relocated their companies to Singapore recently.

Maritime Knowledge

Both Shanghai and Singapore government have set up funding schemes to encourage maritime-specific R&D activities, and they have a specific maritime research institute, namely the Shanghai International Shipping Institute (SISI) and Singapore Maritime Institute (SMI) respectively. Supplementary to Singapore's positive action to the maritime industry, the Singapore government has a strong linkage with the maritime industry while tertiary and research institutions put innovation at the heart of its development blueprint with an international perspective. All these enable it to have the best performance regarding knowledge-based shipping business amongst the three regions. Unlike Singapore and Shanghai which have a representative maritime sector, Hong Kong does not have such a maritime body to drive and coordinate in R&D activities on behalf of the maritime sector. The common practices of the organizations in Hong Kong are to carry out their own research in-house to fulfill their needs. Due to insufficient resources and level of technology, the research results are not favorable in most situations.

Conclusion and Suggestions to Hong Kong

The findings revealed that Singapore has the highest potential to be an IMC, the most contributory factor being the great support from the government, tertiary institutions and the maritime industry. Meanwhile, Shanghai is processing to develop itself from a national maritime centre to an IMC, with the power of the huge hinterland development and government support.

Comparatively speaking, Hong Kong is less attractive to the foreign companies owing to HKSAR's laissez-faire approach. Nevertheless, by paying reference to other regions' preponderances, and integrating with Hong Kong's international business environment, well-developed legal system and renowned ship registration system, Hong Kong has enormous potential to regain and sustain its position as the next IMC in Asia. In a view of consolidation of the status of Hong Kong as an IMC, the Hong Kong Maritime and Port Board (HKMPB) was set up on 1 April 2016. However, concerns and suspicion about the decisions made by the Chairman of HKMPB were often raised due to the limited maritime background of the top management of the government.

We would like to suggest that the HKSAR Government to increase container yard space and change the usage of container terminals to alleviate the problem of port congestion. There are four pieces of land around the four ports with a total area of 15.2 hectares, and the HKSAR Government can grant the said land to Container Terminal 9 (CT9), CT7, CT5, CT8 by entering into long term contracts. Besides, as the usage rate of CT9 is low, the HKSAR Government should change the usage of T9 by building new berths or upgrading the existing

berthing facilities to improve efficiency of the berthing process.

An effective measure is to offer tax exemption or incentives. It is necessary to attract more qualified overseas shipping companies while maintaining the tax income of HKSAR at a considerable level. It is suggested that companies which are subject to higher standards of self-assessment are targeted. In addition, Hong Kong should continue to expand its network of double tax agreement (DTA).

Moreover, the HKSAR Government should set up a funding scheme to attract R&D talents to produce high quality researches; establish partnership with the industry, tertiary and various international bodies to conduct R&D outreach projects; bring together the global maritime research community to exchange information and showcase R&D results; and form an institution to guide HKSAR in developing a maritime R&D strategic plan. More resources should be allocated to maritime education to launch more maritime programs and set up more scholarship fundings for the maritime industry in order to provide a better learning and researching environment.

Meanwhile, the HKSAR Government may try to communicate with shipping companies or maritime-related organizations and lobby them to provide internship programs for senior students so that they can get into the real working environment of the maritime industry.

Crew management and Training

Capt. Sriram RAJAGOPAL,
Senior QHSE Superintendent, Anglo Eastern Ship Management



Introduction

Ship owners often outsource the day to day operations of ships, including their maintenance and manning to third party companies known as ship managers. This allows the ship owner to

focus on the more commercial aspects of ship operations, especially securing charters and the loading and discharge of cargo.

One of the most important services that a ship manager provides is that of ensuring that the ship is manned with qualified and competent seafarers. He does this either by carrying out the task of manning the ship himself, or by further outsourcing this task to a third party manning agent. The term “qualified” in this case usually refers to the seafarer having the required Certificate of Competency (COC)¹ for the appropriate rank. However, with stricter requirements from ship owners, vetting inspectors and PSC², screening interviews have now become a necessity in many companies even for seafarers who possess all the necessary certificates.

In the pre-ISM³ era of shipping, having the required COC, issued as per the requirements of STCW⁴ and certificates that were evidence of completion of mandatory safety courses were usually considered sufficient for seafarers to man ships. However, in the post ISM era that we are

in, in light of the more stringent requirements of charterers, tanker operators and port state control, this alone may not be considered sufficient. Additional value added training has become a necessity. Hence training has assumed an important role in modern shipping. This article will examine both, the crew management and training aspects of maritime operations. Crew management consists of supplying adequate, qualified and competent manpower to ships, in a timely, efficient and cost effective manner. All of these are the responsibility of the ship manager. In today’s world of shipping, the ship manager in most cases is a third party company, hired by the ship owner to provide seafarers to operate ships. This is done through a clear written contract that details, among other things, the fees for crew manning (usually per seafarer), the duties and responsibilities of each party. SHIPMAN 98 and SHIPMAN 2009 by BIMCO⁵ are two such popular forms of contract. The number and qualifications of seafarers required on board any particular ship is primarily guided by the Safe Manning Certificate (SMC) issued by the flag state for that ship, and it is the ship manager’s responsibility to ensure that this is achieved.

As per SOLAS⁶ Chapter V Regulation 14, every ship is required to be manned by a minimum set of seafarers as per IMO resolution A.1047 (27). The SMC contains details of the number and qualifications of the officers, engineers and crew required for safely operating the ship. It is the responsibility of the crew manager to not just ensure that these people are present on board, but also that they carry out their work as required and

¹ The Certificate of Competency (CoC) is a document issued by the government after a seafarer passes the qualifying examinations for that rank

² Port State Control

³ International Safety Management Code (or the International Code for the Safe Management of Ships and for the Prevention of Pollution)

⁴ Standards of Training, Certification and Watch Keeping, an IMO convention

⁵ Baltic International Maritime Council

⁶ The International Convention for the Safety of Life at Sea, an IMO convention

that they are relieved appropriately when their contracts are completed.

Due to the practical considerations of shipboard operations, and to address additional maintenance and cargo related tasks, most ships carry a handful of personnel in addition to the minimum required by the SMC. Most merchant

owner must pay for all the joining expenses of a crew member.

Usually, seafarer contracts are ship-specific and commence from the date that they leave the closest international airport to their place of residence. While a decade ago, it was necessary for the seafarer to physically visit the ship manning agent's office, today this has been dispensed with in some countries for certain ranks. For example, Anglo Eastern Ship management (Mumbai), one of the largest ship managers in the world allows some of its senior officers to join ships without having to necessarily come to its office on the date of leaving. Seafarers visit the office much earlier. E-tickets are sent through email on the day of departure. The contract always needs to be signed first

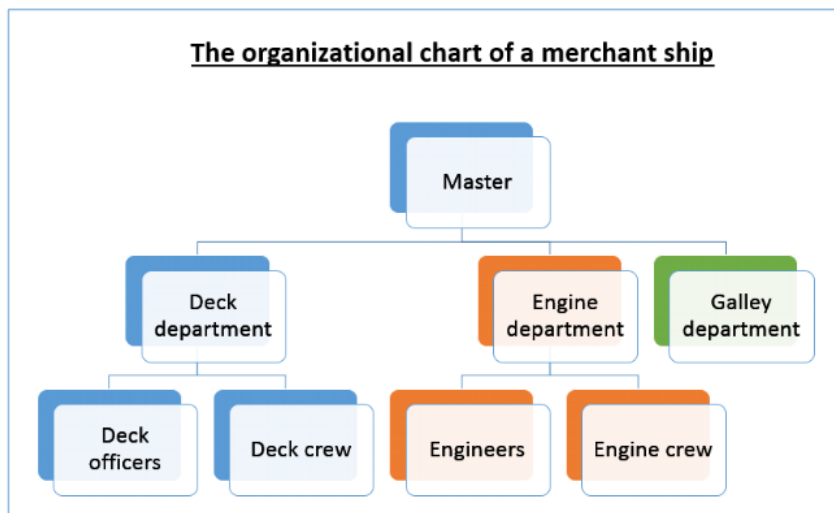


Figure 1 - The organizational chart of a merchant ship. Source: The author.

ships today have a manning of just 21-24 people on board. This usually consists of a Master, a Chief Engineer, 3 deck officers, 3 Engineers, 5-6 deck crew, an engine room fitter, 2-3 engine crew, a chief cook and 1 galley crew.⁷ Many ships also carry cadets, who may be trainee deck officers or trainee engineers.

Crew reliefs, also called crew-repatriation form an important aspect of the crew manager's duties. Repatriation consists of ensuring that the new joining crew is transported to the port of joining efficiently, in a timely and cost effective manner and ensuring that the crew member who has signed off is transported back to his/her home port after handing over his work to the new joiner. Usually, this transport consists of either train travel (if in the same country) or as it happens in most cases, air travel from the nearest international airport of the joining crew member's residence. As per MLC 2006⁸, the ship

hand. However, the company sends the contract for signing by a delivery service, thus saving the seafarer valuable time and avoiding last minute delays.⁹

Usually, three copies of the employment contract are signed by the seafarer – one copy is given to the ship's Master, a second copy is retained by the manning agency and the third copy is given to the seafarer. It is the responsibility of the manning agency to ensure that all the terms of the contract are correct, as per the Collective Bargaining Agreement (CBA).

The salient aspects of this seafarer's employment contract include the contract period, date of commencement, and salary. The contract period may vary between nationalities, ranks and types of ships. Typical contract periods vary from 4 months (for senior officers on tankers), 6-8 months (for officers on bulk carriers) to 11 months (for crew on general cargo ships)¹⁰. For

⁷ Information based on the author's own 25 years' experience in shipping

⁸ Maritime Labour Convention 2006, Regulation 2.5

⁹ Information based on interviews conducted by the Author with officers of Anglo Eastern Ship Management, in February 2016

¹⁰ Information based on interviews with Human Resource personnel in

example, on M.V. Taishan, a roro vessel managed by Wilhelmsen lines on which the author served for two years, the Indian senior officers were on rotation, and hence had contracts of 4 months each. The crew, also informally on rotation, served contracts of 7-11 months depending on the availability of the reliever.¹¹ In any case, it remains the crew manager's responsibility to ensure this process took place smoothly, booking tickets of the on-signers and off-signers and ensuring arrangements for their visas were made well in time.

However, this is not definitive and varies from company to company.

This can also lead to interesting challenges for the crew manager. Some countries have extensive requirements regarding the paperwork, documentation and permission required for overseas workers. For example: In the Philippines, the POEA¹² has an extensive set of requirements for permission and document submissions leads to it taking nearly a month to process¹³. Philippines is among the largest suppliers of manpower for merchant ships, hence, this adds an extra dimension to the job of ship manning agencies in the Philippines.

Tasks associated with Crew management

- Crew sign on
- Crew sign off
- Interviews for selection
- Documentation checks
- Flight bookings
- Liaison with clinics for medical examination
- Entering into contracts and agreements

Figure 2 : Tasks associated with Crew management. (Source: The Author)

Crew managers also need to keep flight bookings fluid as ships ETAs and ETDs¹⁴ are subject to change at the last moment. Hence every manning agent usually has to liaise continuously with the travel agent, the ships master and the agent in the port of call. This can also sometimes lead to unique problems that need to be tackled. In one case known to the author first hand, Chinese officers were required to join a general cargo ship in the port of Rouen, France on a certain date. The ships ETA kept getting delayed due to inclement weather. As a result, the new joiners' flights also had to be constantly rebooked to avoid costly stays in the hotel in France. When the ship finally arrived, the officers' Schengen visa had nearly expired and they arrived in France in the nick of time. Had they arrived even a day later, their visa would no longer have been valid.

The Role of the Local Manning Agent:

As we have seen, shipping is one of the oldest outsourcing industries, and ship management today is nearly always outsourced to a ship manager. The most popular locations of ship managers are Hong Kong, Singapore, Piraeus and Cyprus for international companies and local centers such as Mumbai, Glasgow, Antwerp and Hamburg for local companies. Additionally, there is often a level of outsourcing even in the role of ship manning – many ship managers employ the services of manning agents who are located in the country of the seafarers. This personal contact with a local manning agent is extremely important for the seafarer, especially in an environment where the seafarer risks joining a ship that he has never seen, working for an owner who he

shipping companies, from February to May 2016

¹¹ Information based on the authors own experience while serving as a Chief officer on M.V. Taishan in 2004 and 2005

¹² Philippine Overseas Employment Agency, a department of the government that oversees Filipinos who go out of the country on work

¹³ Information based on interviews carried out with Manning agents in the Philippines by the author in 2015

¹⁴ ETA: Estimated time of arrival (of ship), ETD: Estimated time of departure (of ship)

may never have heard of, through a ship manager who he has never met. Physically meeting a manning agent, who the seafarer has interacted with in the past, helps assure him of the reliability of such an arrangement. In some countries, this may even be a national legal requirement. For example, a large ship manager with its head office in Hong Kong has 35 ships that are manned by Chinese crew from PRC (People's Republic of China). This ship manager utilizes 6 different manning agencies located in Guangzhou, Xiamen, Shanghai and Dalian. The manning agencies in this case have been pre-selected by the ship owner. However, in other countries, it may be the ship manager who carries out this selection of manning agent¹⁵. Conducting interviews is an inherent part of the manning agent's work. For many of them, interviews are a

daily task, with 3-4 interviews per day per person being the norm. Thus, ship manning is a key responsibility of the ship manager. As crew repatriations happen around the clock, the manning agent, and ship manager too, need to carry out this task continuously, to ensure smooth ship operations.

Training

The training requirements for maritime personnel are contained in the STCW code, an extensive set of regulations compiled by the IMO¹⁶. Broadly speaking, STCW may be said to consist of two types of maritime training – competency training and short-term courses. The former consists of training for competency courses, required to obtain the COC and is delivered usually by

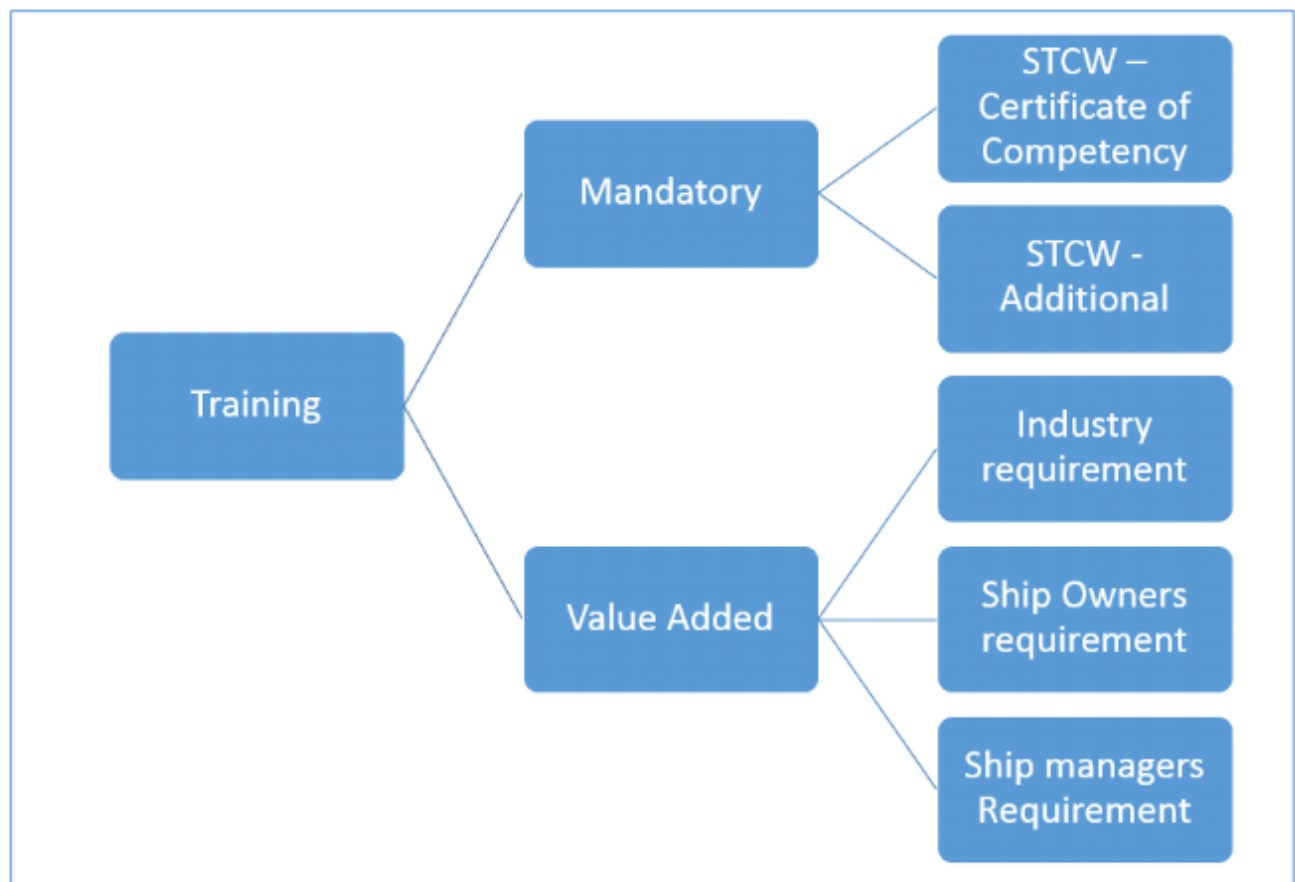


Figure 3: Types of training required for seafarers. Source: The Author, based on information contained in STCW

¹⁵ Information based interviews carried out by the author with key HR personnel and manning agents in April and May 2016 in Hong Kong and China

¹⁶ International Maritime Organization

academic institutions such as LBS College of Advanced Maritime Studies and Training in Mumbai, one of the oldest maritime colleges in India established in 1953. In other countries, such as the Philippines, training for such examinations may be delivered by private entities. In the Philippines, a seafarer is required to pass competency examinations conducted by the MARINA, but is allowed to choose how he / she wishes to train for these exams. This has led to more than a hundred so called "revision centers" in Manila and Cebu that run short terms classes for a few weeks, to prepare seafarers for the type of questions that are asked most frequently in the Philippine certificate of competency examinations.

The second type of STCW training consists of short-term courses that have to be carried out at authorized training centers. The syllabus for such courses is fixed and guided by IMO Model courses. The SMS (Ship maneuvering Simulator) course is one such 5-day intensive course that familiarizes deck officers with multiple maneuvering situations through ship handling simulators. It is mandatory to do this training for an officer who wishes to become the Master (Captain) of a ship. Similarly, STCW also requires engine room simulator courses for engineers, and tanker specific courses for deck officers wishing to join tankers, and so on. A recent addition to this list is the ECDIS course (Electronic Chart Display Information System), a 40-hour course that familiarizes deck officers with the operation of electronic charting software, and includes normal operations as well as actions in emergencies. While not yet mandatory for all ships, ECDIS training has already become an industry requirement for seafarers on tankers. Training centers may vary from private entities to in-house establishments run by ship managers themselves. They vary from simple classroom institutions, to large institutions with navigation and engine room simulators. The latter have become increasingly

popular. While traditionally, suppliers for these simulators were few, and often located in specific countries, of late more manufacturers of these simulators have surfaced. For example: Transas and Kongsberg are two popular navigation simulator manufacturers, which have been operating for the past two decades. However, in recent years, companies such as ARI (Applied Research International) based in India, have established a visible footprint. A new recent trend in China has been that of maritime colleges themselves developing their own simulators, many of which can be considered state of the art. For example, Ji Mei University is a large maritime university located in Xiamen and is one of the four largest maritime universities in China. The university boasts of 16 navigation simulator bridges, and two large full mission simulators. Its latest simulator has been developed jointly by an in-house team with Dalian Maritime University. Thus we see a new trend where the user is now gradually turning into a supplier. Simulators tend to be an expensive investment - a full mission bridge with 170 degrees field of mission can cost up to 170,000 US dollars to install. Additionally, they tend to have high running costs, due to the large number of computers that they use. For example: A full mission bridge simulator can have as many as 17 separate but networked computers connected to it. This adds to training costs and it is important that ship owners see this as an investment towards improved ship operations and not purely a cost.¹⁷

In addition to these STCW courses, there exist a number of industry based training requirements such as those required by tanker owners, and value added courses that are carried out to help bridge any gaps left by STCW training. There exists an efficient industry based mechanism of checks to ensure that the requisite training is carried out. For example, the former are checked frequently by inspectors during vetting inspections. Any lapse of the latter can result in the loss of a tanker charter, hence training as per

¹⁷ Information based on the authors visits to maritime training centres around the world from 2008 to 2016

SIRE requirements has become an important element of training for seafarers working on tankers. This has resulted in a number of training providers and a number of different training courses. It is not uncommon to find seafarers attending training courses during their vacations for 5-10 days. The advantages of such training are obvious – a better trained seafarer is usually more valuable to the ship owner, operates ships more efficiently and is safer for the ship. For example, the probability of cargo related losses and charter party errors would normally be reduced if the ship is manned by deck officers who have completed a “Commercial Knowledge course”. This is a value added course that is not required by STCW, but fills in a knowledge gap evidenced by commercial losses and cargo claims that a certain ship manager or owner may have experienced. However, in the glamour of simulators and classroom facilities, it is easy to lose sight of what is perhaps the most important element of maritime training - the instructors and teachers.

Most instructors tend to be ex seafarers, their seniority often dependent upon the type of training required as well as the country and company. For example: all the deck faculty of AEMTC, a large in-house maritime training center located in Mumbai, India are Master Mariners, most of whom have sailed for 10-30 years on ocean going ships. Similarly, their engineering faculty are all Chief Engineers. On the other hand, most faculty members in private training centers in the Philippines tend to be junior level officers, many of whom may have only sailed on inter-island ferries. This can naturally have an impact on the quality of training provided. Retention of good trainers can be difficult if their requirements are not addressed. In an interview conducted by the author in May 2016, a senior maritime trainer with 15 years training experience and 20 years prior sailing experience revealed the pros and cons of working as a trainer. The pros included the satisfaction of making a positive impact on the profession, the opportunity to share one’s knowledge as well as the ability to stay with one’s family continuously (as opposed to

having to travel to ships for work, thus being away from home). Cons included salaries that were lower than what a trainer would earn working on ships, a lack of support from higher management and a lack of appreciation from the company itself. Thus, manning and training form two important elements of ship management. Ensuring that seafarers are relieved in time, with well-qualified, competent seafarers, is the primary task of the manning department. It is the job of the training department to ensure that seafarers are well trained, to fill any gaps in knowledge so that the owner’s requirements are fulfilled. Together, they need to work in tandem so that ships are operated smoothly and safely with minimum delays, damages and losses.

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Evaluation of Operators

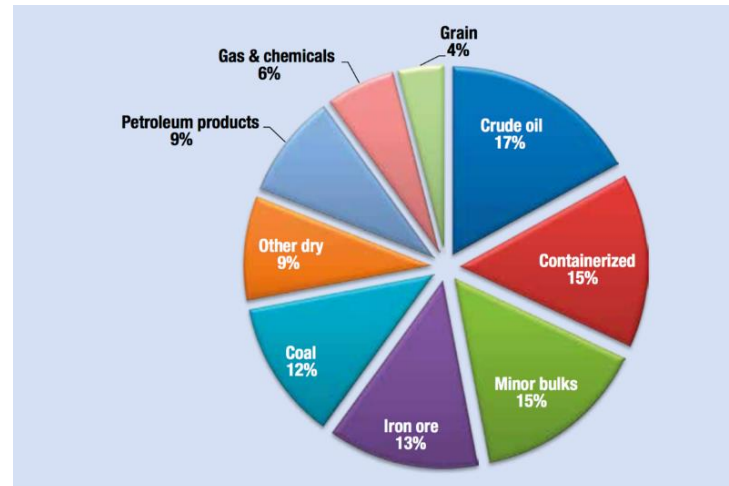
Capt. Pappu SASTRY, Managing Director, Accord Projects Hong Kong



Captain SASTRY is the Managing Director of Accord Projects in Hong Kong and Accord Ship Management in Malaysia. He had conceptualized and started Project, Commercial and Ship Management concept originally for Nepa Group in Amsterdam. As a Master Mariner and with 14 years at sea, he

gained experience on various types of ships and applied it to the Project & Commercial Management concept. He has initiated and executed ventures with a number of investors and ship owners. In 2015, Lloyd's List magazine covered him as one of the "Top 50 Leaders for Shipping in the next generation." Lloyd's List Asia awards also had nominated him for "Innovation in Shipping" for the business models he uses.

According to UNCTAD 2016, in 2015, global dry bulk shipments contracted by 0.2 per cent, and their volume was estimated at 4.8 billion tons. In contrast to the average annual growth of 7 per cent in recent years, dry bulk trade contracted due to the 1.3 per cent decline in trade in the major dry bulk commodities (iron ore, coal, grain, bauxite and phosphate rock) – termed 'Major Bulk'. In 2015, shipments of the major bulk commodities totaled 2.95 billion tons. In less than 15 years, China's import volumes increased nearly sevenfold, from 319 million tons in 2000 to 2.1 billion tons in 2015.



Source: UNCTAD secretariat, based on Clarksons Research, *Seaborne Trade Monitor*, 2(5), May 2015.

Fig.1 Break-up of Commodities transported by sea

When a dry cargo ship is delivered clean, newly built or is empty from previous cargo in a particular location, the owners of the ship start exploring cargo options, very similar to the concept of a taxi driver having to look for his next passenger after each 'voyage'. The ship owners, like the taxi drivers, used to have a preference for the direction or destination, but in today's market they will take the best option they come across. There are cargo owners who normally would stick to being a shipper or a trader and would seldom venture into shipping their own cargoes unless they have economy of scale in doing this. Such cargo is chartered in by dry cargo operators who would then look for a ship that could perform the voyage with the cargo for best results. The taxis in most countries have a meter and rules on charging their passengers in line with the local agreed rates and/ or norms. The owners of these ships may wish they had such meters but they possibly do not because

owners of dry cargo ships are not standardised as operators.

Limitations of Analysis

Force – 1: Internal rivalry

There are several large private firms, listed firms, government owned/ backed firms and smaller firms that constitute the dry cargo operator industry. Most of these are firms that are not just operators, but also either ship owners or cargo owners. The wide spread and truly global markets would mean that identifying a firm's competition is only possible when each firm would segregate the market either by commodity or by region. Many operators stick to their geographical location or their specialized commodity. The 'pure' operators who neither have assets of cargo, or ships or contracts are common. These are the operators that have contacts and experience and are able to develop their business. The number of operators has not decreased with the reduced demand. There are no statistics anywhere to show the number of operators in the world, though there are figures available to show that the demand is falling. There is a significant cost advantage with smaller firms who have lower overheads and higher risk appetite. The number of ships has been growing over the last few years and the demand for ships has not increased in the same time frame. Consequently, there is excess capacity available and this encourages newer firms to consider operating in spite of lesser lower margins. There is very little 'brand' loyalty. There are almost no costs involved for cargo owners to switch from one operator to another if they have to negotiate a contract. The transparency on terms and pricing between competitors is not common. In operating, there is no history of "cooperative pricing" and

practices do not end up with cost facilitating prices. There are operators in some commodities and in certain parts of the world that have cost leadership, but they normally are the ones who have lesser sensitivity to costs or they have cargoes committed on front hauls. Operators are normally better suited for large contracts because they have experience and access required for getting ships from the market for their contract commitments. The ship owners in such cases are at a disadvantage and are usually termed as "bounded rationality".

Force – 2: Entry & Exit

In a multi-billion-dollar industry where one transaction – usually on back-to-back terms – could leave the Operator with a handsome profit that is perceivably risk-free, there is bound to be some inclination to enter without realization that such deals are not done every day in this market. Given that anyone with a single contact with cargo and a cell phone could start up as an Operator, the trust on any firm in Operator market has diminished to the extent that Professional Indemnity insurers restrict brokers from classifying any of their clients as "First Class". Most of these entrants are based in or have cargo emanating or destined for developing countries which attributed to majority of the seaboard major Bulks trade and relevant revenues that were involved new operators could take a very long time to take off from the ground if they have no access to some commodity or do not have a niche trade to attend to. The advantage to the incumbent players is that the 'Major Bulk' trades are generally secure in this respect but the minor bulk trades will always be under threat from 'paper' operators. Similar trend also occurs with exit strategies where we have seen a number of larger players exiting the sector only because the margins

are so thin that they are unable to compete with either the small players who undercut or the Ship Owners who are undercutting the freights in their attempt to keep their ships employed cargo owners are also trying not to work with Operators and work directly with Ship Owners as far as possible. It is also common to have people from Operator companies establishing their own contacts and trying to have a new start up operator company using these contacts. The experience of an incumbent Operator in a particular trade seems to be underestimated and this is never considered either by the new entrant or the cargo owners who are ready to deal with the new entrants. There are specific “cabotage” domestic trades that are protected by governments where Operators are geographically at an advantage and the number of entrants increases with the amount of trades.

Force – 3: Complement and substitutes

A cargo owner or commodity trader can easily have his own operating company for trading his cargoes and will use that establishment to tap into market cargoes. This could be seen as a close complement to the incumbents in the dry cargo operating business. There could be some conflicts of interests between larger commodity traders in doing that this, but in general if pricing is met with reasonable terms, at least spot shipments could be operated if not the longer contracts. Similarly ship owners could also use their existing staff and tools to enter into the operating industry. Such an entry would be seen more as a close substitute to the existing players. This is normally done through procurement of larger contracts wherein they can use their own ships but they will also need market ships to serve or complete the contracts. Traditionally, operators, being bound by geographical

trades or niche commodity trades, will not be able to always find the best paying cargoes wherever the ship will end up and thus even if staff from an operating background are employed by the ship owners, these owners will need other operators to trade their ships efficiently. The cost efficiency of having a large number of chartering/operating personnel in either a cargo owner’s office for operating commodities that are not theirs or in a ship owner’s office for trying to fix market ships as well as their own ships, could prevent either of them from being a strategic long term dedicated ship operator. The globalization of the economy and the evolving new trades and niche markets will always warrant the existence of operators in any sector of dry bulk shipping, however small that sector may be.

Forces 4 & 5 – Suppliers force and owners force

This is more in relevance to identifying who is the client supplier and who is the service provider (owner). For sake of this argument, it is necessary to identify the broad spectrum of shippers, mines, cargo owners, traders etc. as the clients of the operators and the ship owners to be the service providers. Considering only the major bulk as mentioned before, it is known that the supplier’s industry is not as concentrated as the operator’s industry and so there are always choices made primarily on the basis of price. Most suppliers who are in the major bulk arena are either large mines and traders who can afford large shipments or are the contract holders for the freight of such traders and mines. The profile of an operator firm that is in the business of operating handy size – supramax size (20,000 – 50,000 MT shipments), irrespective of the niche commodity or operating area, is atypical for characterization. The profile of such an operator firm in the larger sectors

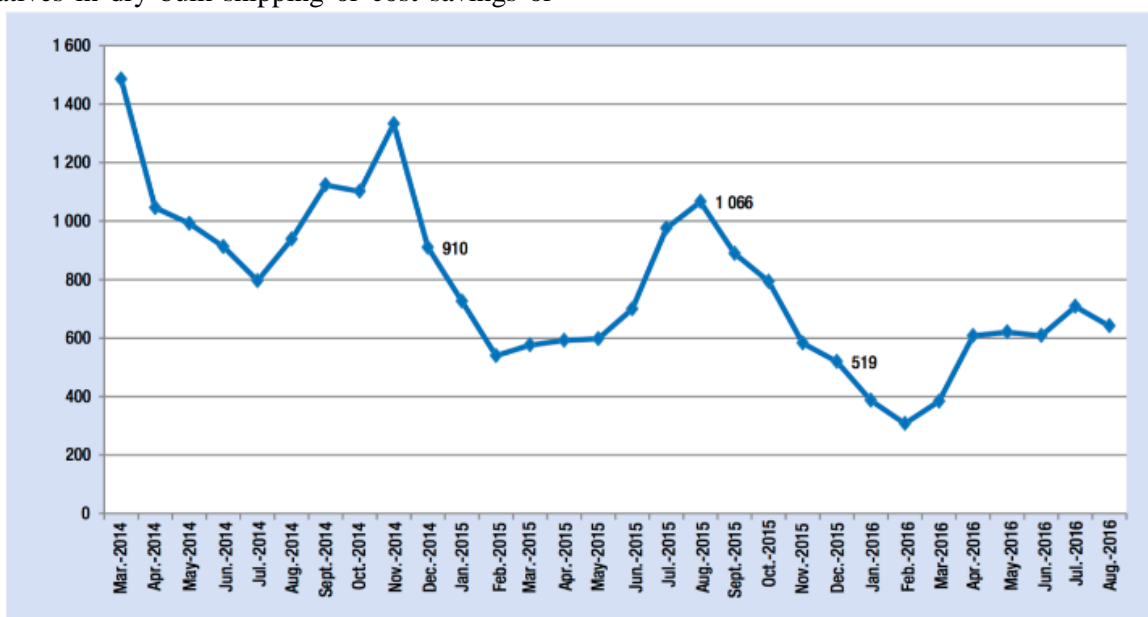
of Panamax or Cape Size (above say 65,000 MT till even 300,000 MT each shipment) is generally easier to quantify as these operators would have made considered relation specific investments to be operating cargoes in this sector, mainly due to the small number of suppliers and owners that are available in this bracket. Suppliers in both smaller shipment size and larger, pose a threat to switching between operators for a small price differential, unless in the rare case where the operators are shipping a large part of the supplier's total volumes. The owners in the larger shipment sectors have only a few operators to choose from and tend to bind themselves more often with repeat business or term contracts (normally directly with suppliers) if available at all. The suppliers pose a credible threat in forward integration. The owners do not pose the same level of threat in backward integration. The learning curve that will be required for either suppliers or owners will not justify such vertical integrations with the present global economy providing few alternatives in dry bulk shipping or cost savings or

efficient pricing which These may be experienced only after a considerable amount of resources have been dedicated towards such learning. As it has happened a few times already in last decade with many firms, the firms who do not distinguish between economies of learning and economies of scale will misjudge the benefits of diversification in the market that will exist at the end of such a learning curve. Until a better shipping environment prevails to provide confidence in the major bulk commodity trades, it is best for suppliers and owners to find the right operators to contract with.

Value Net

The BDI – The Baltic Dry Index – is a well-known index that is indicative of the shipping freight rates for commodities that are traded around the world in bulk. It is specific actually only to the commodities carried in bulk and does not apply to containerized or unitized commodities of any sort.

Given these challenging market conditions, the Baltic



Source: UNCTAD secretariat calculations, based on data from the Baltic Exchange.

Note: The Index is made up of 20 major dry bulk routes measured on a time charter basis and covers Capesize, Handysize, Panamax and Supramax dry bulk carriers, which carry commodities such as coal, iron ore and grain.

Fig 2: BDI fluctuations since March 2014; reminding you, BDI was 1000 in 1985!

Exchange Dry Index dropped to 519 points in December 2015, its lowest average in the year, plunging by 43 per cent from its average in December 2014. The fall continued in early 2016, and the Index posted an average of 319 points in February. As a reaction to depressed rates, a few owners and operators forged alliances to reinforce collaboration, coordinate chartering services and improve market conditions for themselves by sharing information and optimizing so that ships are deployed and thus achieving reduced costs rather than being in competition.

Value Net is the economic concept that interactions among firms can sometimes enhance profits. The efforts by competitors could end in setting standards that facilitate industry growth, boost demand, improve efficiency, or promote favorable regulations for the industry.

Industry growth: The improvement in logistics and infrastructure of many developing and transition economies would mean that there is better access provided for raw materials that could be mined inland or used inland but could still be carried by sea in large quantities. This includes investments made in mining technology in Central America, new projects undertaken for port development in Africa, the river connectivity & transport infrastructure development underway in India, and to some extent also the OBOR (One Belt One Road) program laid out by China.

Boost demand: The regular movement of minor bulk, general cargo and project cargoes has been increasing. The major bulk segment has to find new sources and new destinations, which will be a result of developing projects for steel production, new power plants, emphasizing food security for

developing economies, and extending infrastructure into developing countries.

Improve efficiency: Port facilities enhancement and increased efficiency has ensured better turnaround for ships, thus reducing the freight costs. The expansion of the Panama Canal would be another good example of facilitation of reducing distance and thus cost efficiency. The innovative designs of ships means that they consume much less fuel now than ever before. This in turn contributes to the reduction of freight cost, greater environmental efficiency of the industry and continued reduction in the average age of ships.

Improving efficiency: The fourth industrial revolution, through digitization and the leveraging of innovation, technology, data and the Internet to shift established modes of production and consumption, may generate welfare and productivity gains and offer new opportunities (UNCTAD, 2016). Innovation, technology and vast data may help increase efficiency and productivity, reduce transport costs, enhance the performance of supply chains and shorten travel distances.

Favorable Regulations: The trade policy liberalizations would automatically enhance the traffic. Sanctions (previously against Iran) or government bans (like the one on Bauxite export from Indonesia) would have the opposite effect on shipping, but are temporary in the scheme of world affairs over a longer period. These steps are taken for reasons of security and/ or safety of a different industry and thus beneficial for the sustenance of shipping in the long run.

Conclusion

There are thousands of operator firms but there are no statistics on firm success rates. There are very low barriers of entry in most cases and irrespective at times the ‘paper companies’ are able to charter multi-million dollar assets from ship owners. Entrants and incumbents do not tend to follow economic principles. Weak demand for dry bulk, coupled with large vessel orders, could delay market recovery. All operators are serving sophisticated cargo owners and traders for whom the freight is 7-10% of the commodity cost of which operators can hope to make 1% of the commodity cost as a profit. However, they are willing to compete further and be squeezed in order to break even. Some operator firms are insufficiently insured because they are taking more risk than they are aware of. Many come and go, and most go fail with the first problem they have. That said, there are a few who have lasted decades. Most of the long term players charter ships for longer or have ‘graduated’ into ship owning to show their commitment to the game. Squeezed between cargo owners and ship owners are this small creed of ‘pure’ operators who have made money in better times and are keeping afloat and waiting for a return to the good times, if they can afford to.

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Call for Articles for Apr 2017 Issue – Ship Safety & Management



CY Tung International Centre for Maritime Studies

The Maritime Business Insight (formerly “Maritime Insight”) was launched in June 2013 under the CY Tung International Centre for Maritime Studies (ICMS). It aims to combine both theoretical and practical knowledge and promote collaborations among scholars and professionals in the maritime industry. It mainly covers article reviews of general interests to the profession with a special focus on different maritime concerns. We endeavor to summarise current maritime initiatives and to bring forward topics for further discussions in academic research whilst also offering implications to industrial players and policy makers.

Interested parties are cordially invited to submit the practical article in Chinese or English. The article can be 2-6 pages long. For our April 2017 issue, we would like to focus on the topic of **Ship Safety and Management**.

Topics will include but not restricted to:-

- Flag state administration
- Port state administration
- Cargoes and dangerous Goods
- Incident reporting
- ISM code
- Technical management - dry docking, bunkering, maintenance
- Financial management – budgeting, control, etc
- Quality and safety management – QHSE (Quality, health, safety and environment), compliance with Port State Control and Flag State Control, minimization of maritime incidents
- Crew management and training
- Procurement of materials

It is MBI’s editorial policy to welcome submissions for consideration which are original. All submissions should not have been published elsewhere and not under consideration for any other publication at the same time. You can provide a short bio (three to five sentences) at the end of the article and you may link to your company, blog and projects.

For submission of articles or enquiries, please email to editor.icms@polyu.edu.hk **on or before 15 March 2017**. For enquiries, please call Dr SK Tai at 2766 7418.