The 8th International Annual Summit Communications & IT in Shipping

"New Technology & Systems for Effective Operation and Management of Ships"
Tuesday 16th & Wednesday 17th March 2004, Hotel Okura, Amsterdam, The Netherlands

COMPETING ON QUALITY IN THE SHIPPING INDUSTRY:

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Lyras: Traditional London based Shipping Company.

The thrust of my short speech will be about new trends in shipping not new trends in Communications and IT, which many of us have presented during these past two days.

Advisor to the board especially on marine matters for Ulysses Systems:

Ulysses System is a marine Software Company based in the UK.

Ulysses builds shipping software and has a number of clients, some present in this Room: Eletson and BP for example, so you can get first hand accounts of whether the software is any good.

Ulysses learning sells call center CBT training to communications companies such as AT&T, Banks such as ABN Amro, and even software companies such as Intuit.

1. **The Marine industry is beginning to be conscious of its image:**

2. **Current state of the image:**
    The current industry image we are told is obscure to nonexistent

3. **Obscurity:**

Obscurity will no longer serve the industry since it has already attracted attention via recent incidents

4. **Low to zero tolerance for pollution:**

The low to zero tolerance for pollution and the quick dissemination of graphical shipping disasters are the drivers behind the need for the industry to change its image

5. **The current image plus the zero tolerance environment will invite extreme measures from Legislators**

6. **How will a better image serve the industry?**

With a better image the legislators will behave towards the industry as they do other industries, which introduce high risks: E.g. road transport, two wheeled vehicles, aircraft etc.

7. **The role of competing for quality and competence:**

In those industries, the operators and the builders compete on competence and quality. In cases where this is not true, for example heavy vehicle drivers, legislation treats the industry with mistrust, regulation and enforcement.

8. **Why are airlines treated with more respect by legislators?**

Airlines, however, are treated with greater respect by legislators because for a number of good reasons it is in the interest of every airline to portray quality and complete on quality.

9. **Shipping is safer than most modes of transport, however, it is treated with far less tolerance:**

Whereas the shipping industry does not offer the high risk environment of either the road transport industry or the airline industry, the zero tolerance environment the spectacular visibility, the lack of voting lobby, the low cost of sea transport to consumers and other influences are such that the pressure is greatly disproportionate to the risk.

10. **In the current good markets:**

The current shortage of vessels will gain the industry some respect from some charterers for a short spell.

11. **However, pressures on legislators from public opinion will continue.**

12. **Charterers can no longer afford to jeopardize their image before the general public**

   Oil companies, well known Mining companies, Gas companies, chemical companies, all suffer in the event of an incident in which they are visibly a part of the value chain. Container lines will one day also follow in the dubious limelight of an incident investigation.

13. **Single high quality standard and regulated supply and transport cost:**

   While charterers and even port states may simply want a single uniform high standard form all ship operators and all vessels, rather like the taxi industry in North Europe, they are understandably not willing to let this be accompanied by a fixed price transport environment and controlled supply as with cabs. Supply regulation works for roads, which must be prevented form being congested. For ships, we need an unregulated ships supply environment to promote healthy competition, low cost and innovation.

14. **The remaining alternative is voluntary competition for quality plus a minimal standard**

   Many risk intense industries compete for quality, even ones that do not retail. Commercial vehicles, workboats, offshore oil services, military suppliers, and many others.

15. **Competing for quality creates progress through innovation**

16. **Innovation that is rewarded through preferential treatment by clients brings about a continuously improving industry**

17. **Innovation is the lifeblood of mature economies.**

18. **So what does this mean for the technology industry in shipping?**

   It means more demand for quality marine products from companies competing for quality. For example:

   - From redundant machinery as in the Stena vessels all the way to safer operating practices like keel clearance, tank condition monitoring etc.
   - Measures that may be adopted more readily that have been available for years such as: On board simulator training Machinery monitoring systems connected to trend systems, etc

   However there is a precondition: The improved quality of service must work and must be demonstrable.

19. **How do you value the benefit to the client such that risk management is demonstrable?**

- How do you value the risk reduction of having an on board navigation simulator?
- How do you value the risk reduction of redundant instruments, machinery, etc?
- How much improvement in critical on board awareness and attention to risk issues does maritime software really provide?

20. **You will need to further prove the value of products on a total cost basis to sell them and competitive tools, not just because the client needs the proof but the client needs to pass the proof to his charterer, while the charterer has to be able to sell it as best practice to help demonstrate competence in the event of a disaster.**

Charter party negotiations are taking place for a tanker intended to load in one of the many ports that are likely to be adversely rated or not rated at all by the coast guard or IMO with respect to security.

Chartering problems:

Anticipate delays in a number of subsequent sensitive ports in the US for example, following the loading at a non-rated port.

Anticipate rate negotiations with each subsequent charterer since they use this potential delay due to the ships port history, to protect their interests.

The period for which the call at a non-rated port is significant to the security history of the vessel could be many months. The vessel could visit a sensitive U.S. port six months later and still experience security related delays.

The worst case is where the history of this non-rated port is for 6 months or so used against the vessel in many subsequent chartering negotiations.

Operations department and Ships side precautions:

Before agreeing to load at a non-rated port, the company operations department to contact known security sensitive ports likely to be visited within the next six months.

A clearly worded inquiry into what those ports recommend over and above the stipulations in the approved vessel and company security plan.

There will be two white lists of approved ports, one from the US coast guard and one from the IMO. These will give guidance as to which ports are non-rated.

Operations department and Ships side precautions:

Escalate ships security level form level 1 to level 2.

Log all security activities in the port in accordance with approved plan and subsequent sensitive port recommendations.

Maintain ample evidence of precautions taken at previous ports of call especially ports deemed.

Main concerns:

- Security levels and their implications

- Charter party terms especially spot market terms

- Delays in ports, who pays?

- War risk coverage in specific circumstances

- Getting ships passed by the deadline

- Approval bottlenecks

- Maintaining the security standard on board

- Managing complexity on board cost effectively

Many of these issues will get ironed out in due course as self-interest of ports and their local industries align themselves to the new security requirements.

However some issues are the most disruptive from an implementation standpoint and some of these will remain with us for a long time?

- Getting ships passed by the deadline

- Maintaining the security standard on board

- Managing complexity on board and ashore cost effectively

MAINTAINING THE SECURITY STANDARD ON BOARD:

More frequent scrutiny of the system than that for ISM:
Maintaining compliance with security stipulations is another awareness campaign however this time it can be audited at every security sensitive port, unlike ISM.

High risk of delays for owner account:

Frequent scrutiny in sensitive ports:

In sensitive areas, maintaining compliance to the satisfaction of local port authorities will likely be far more critical than compliance to ISM procedures.

Historical evidence of compliant practices:

Furthermore compliance scrutiny may apply to records and practices at previous ports. Therefore the burden of maintaining and demonstrating continuous compliance may well be critical to avoiding significant risk of port delays.

High burden of diligence and process compliance for officers and crew at the most critical times:

The extra burden of security diligence is required at exactly the time when activities such as port operations,

Port operations, narrow waters navigation, bunkering, cargo operations, stores loading, arrival or departure, cause the intensity of work aboard to reach high levels.

It is during these events, when attention is disbursed in many critical directions, that extra burden of security diligence is required: Patrols, personnel checks, incoming parcel checks, service provider identity checks, perimeter checks etc.

HOW DO WE MANAGE THIS EXTRA PREOCCUPATION:

Since there is no forthcoming reward to the extra burden of on board personnel we must find ways to minimize effort to achieve this extra compliance.

Ascertain the requirements of sensitive ports:

Allow long lead times so as to properly prepare for calls to ports deemed high risk by sensitive ports

- Provide means for crew to easily demonstrate diligence in security measures taken.

- Provide ample crew familiarisation, far more than was ever needed for ISM

- Expect far more commercial pressures to ensure on going compliance therefore far more stringent audits of your system

WILL CARGO SHIPS BE MORE SECURE?

- Yes, against pickpockets and petty theft for sure

- Maybe even against low budget piracy

- Also against unauthorized access by potential troublemakers

These are not in themselves trivial achievements however if they delay self-improvement and risk management this will be a setback.

- Will ISPS discourage organized terrorism? Hardly.

This is a personal opinion and I hope that I stand to be corrected.

After all we are a service industry and the more sophisticated the service we are asked to provide, the greater the value of our expertise in providing it.