SUPERMAN: new third-party shipbuilding supervision contract available

BIMCO President honours seafarers involved in migrant rescues with a special award

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  - GUARDCON
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  - SHIPMAN 2009
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Learning from “learning events”

S
ome years ago there was a novel written about a man who, in times of stress, confused his left with his right. Maybe we have all done this, but he was trained as a military pilot, and on a number of occasions during his career he nearly came to grief when this moment of confusion occurred in the air. He was eventually given a job on the ground, as commander of a missile base, and when it was his responsibility to turn the switch to the left to make the missiles safe, or to the right, to fire them, he unleashed Armageddon!

The sub-plot in this completely fictitious story was the fact that at several times during his career there had been opportunities to prevent this officer making this potentially fatal error, but on each occasion the moment had been lost. The “near misses” which had been ignored, it might be concluded, led inevitably to the ultimate mistake.

Ship operations may not be quite so fraught, but the importance of learning from mistakes in order to avoid repeating them is every bit as important. But how often does someone, who is involved in a near-miss, keep it confidential and fail to share the experience?

What stops people sharing incidents?

It might be a culture that contributes to this lack of openness, as the maritime world tends to be unforgiving of those who make mistakes, which may discourage people from sharing their errors. This attitude is changing and a well-organised ship operator will have in place systems that encourage greater frankness, treating them as “learning experiences” which is perhaps a far more positive term.

The Confidential Hazardous Incident Reporting Programme’s (CHIRP) mission is to encourage greater openness about near misses. In his editorial to the latest CHIRP Maritime Feedback, the director, Captain John Rose, emphasises that while the programme is in existence to encourage near-miss reporting and sharing the lessons learned, “we always encourage ship owners and managers to realise the full potential value of their own company near-miss and hazardous-incident reporting system”.

Such learning events don’t have to involve people making errors, although it is important that they feel free to report the same without necessarily being blamed. And while shoreside management may feel that they are doing their duty by firing off instructions to those aboard ship to report defects, malfunctions, unsafe work practices or faulty equipment, it may be that the burden of paperwork involved in the reporting process acts against the desired result. Captain Rose suggests that rather than "pointing the finger" at those aboard ship, the system might be tweaked to incentivise them with a simple reward scheme. He suggests a free phone card each month for the person who has the largest number of learning events recorded and validated. It might be described as a way of “changing the culture”.

The learning experience may be somebody making a mistake and realising the error before there were bad consequences. It may be that it was too easy to make the error, perhaps because of bad design, or the wrong procedures and that by bringing the problem into the open, better and safer ways of working will evolve. Seafarers are practical people. They do learn from experience and can adjust behaviour to make things safer. But the true value will be when lessons learned are shared in the public domain such as in the CHIRP reports, which go to the widest possible circulation.

What is the value in sharing?

As with other reports, from P&I club claim-prevention programmes, the conclusions of the accident investigation bureau, and, of course, those company schemes, the true value will be in the way people are able to associate these reports with their own personal experiences. “There...but for the grace of God, go I...” will have its equivalent in every language and culture. But it is the way that incidents, which may otherwise have just carried on, are not repeated. It is learning from experience in its most basic and effective form, that the report hopefully alerts the readers to perhaps identify poten-
tial hazards or discuss their possibility at shipboard safety meetings. These can be dull and routine, but will be made far more meaningful as a result of these lessons from other people and ships.

How can the “culture” which might lead to an individual keeping quiet about something that has gone wrong, be changed into one of frankness and openness? Much has been achieved by encouraging everyone to look out for everyone else and to intervene in the event of unsafe practices being observed. Safety is everyone’s business and responsibility, but it will only be effective if there is a genuine no-blame system. It will require the “observer” of a potential incident to feel able to intervene without recriminations, especially if the person making the error or non-conformance was senior to them. Moreover, it will require a certain degree of humility in the person who has been found at fault, especially if the incident may be analysed at a subsequent safety meeting. The fact that this is being raised for the common good and as a learning experience should be emphasised, if there is to be a wholly positive outcome.

The CHIRP director suggests that there is sometimes a degree of blindness in the many eyes that are supposed to be looking around a ship and its equipment every day. People ignore obvious faults, perhaps because they think it isn’t in their job description, or assume that somebody else will have intervened. Matters of simple “housekeeping” are thus overlooked, sometimes with potentially serious consequences.

The latest ‘Feedback’ tells of a ship aboard, where none of the life raft painters were attached to any part of the ship for automatic activation in the event of the vessel sinking. They had been ashore for annual servicing, but upon return this very elementary requirement was not followed.

In another ship, an alert boatswain discovered that a number of broken u-bolts had led to a cable pipe rack being at risk of being damaged by boarding seas. But the broken items had previously been painted over, suggesting that cosmetic appearance was seen to be more important than safety. Nothing here is very complicated, just a more systematic, proactive attitude to learning being recommended. If these reports make people think and encourage a more positive “culture”, they will surely have succeeded in their objective.

One careful owner

There is a brisk trade in second hand, used, or supposedly ‘refurbished’ parts, something that should not be surprising when looking at those operating recycling yards in the subcontinent, where nothing from a redundant ship is ever wasted. But how much of this stuff is appearing aboard newly built ships where the owner probably assumes that every component is fresh from the manufacturer?

Much, of course, will depend upon the degree of supervision the purchaser is willing to put into the shipyard, and possibly may even be a function of the price of the ship. If the owner is dealing with a yard that is building a notably cheap ship, perhaps it will not be surprising when the odd item of “previously owned” equipment turns up upon delivery. If it is properly refurbished, it may not be too great an issue to an owner who was under no illusions as to what he was buying, if it meets the specification in terms of its performance!

There have however been reports of this use of second-hand equipment being taken to the extreme. A couple of years ago, a pilot boarding a small chemical tanker just in from East Asia, was delighted to see that it appeared to be a brand new ship, straight from the builders yard. The outward appearance, as his boat got closer to the inbound ship, appeared to confirm its age, with a gleaming new paint scheme both outside and on the deck. However, as he walked into the accommodation island he was conscious of its worn appearance, the threadbare carpets and grimy curtains, while the bridge revealed an outfit of well-used navigational equipment.

The ship may have been new, from its hull to its freshly minted IMO number, but the entire accommodation block, so the master revealed, had been chopped off another vessel and welded into place, thus enabling the contracted price to be the bargain advertised. It appeared, suggested the pilot when recounting this experience that certain shipyards were clearly learning from the less reputable end of the used car trade!
BIMCO President honours seafarers involved in migrant rescues with a special award

BY GEMMA WILKIE

BIMCO President Philippe Louis-Dreyfus recently chose to give public recognition to all seafarers who have been – and still are – involved in rescuing people in distress at sea.

At BIMCO’s Annual Conference in Hamburg in November 2015, Mr Louis-Dreyfus awarded the BIMCO President’s Award to Columbia Shipmanagement Hamburg, for their “outstanding” work in rescue operations involving migrant boats in the Mediterranean. He asked Captain Horber from Columbia Shipmanagement to accept the award on behalf of their crews, but also on behalf of all seafarers who risk their lives in rescue operations.

Shipping professionals attending the event saw a video showing the events of an evening in September 2013 when a Columbia ship, the King Julius, responded to two calls to assist boats in distress in one night—bringing over 180 people to safety in a matter of hours.

Mr Louis-Dreyfus called these events “a classic example of the outstanding work done by our seafarers.” He went on to say: “BIMCO recognises the commitment and achievement of King Julius’ crew – and by all seafarers involved in similar rescue operations.

“No doubt the 350,000 people this year alone who have been rescued or assisted at sea during migration would also thank them if they could. Many of them owe their lives to the seamanship and skills of our seafarers.”

The winners of the BIMCO Awards 2015 BIMCO’s awards are intended to celebrate excellence in shipping. This year, they were presented at BIMCO’s Annual Conference in Hamburg on 18 November 2015.

President’s Award, Captain Horber accepted on behalf of Columbia Shipmanagement Hamburg

The BIMCO Shipping Company of the Year Award, sponsored by CCS, was won by Oldendorff Carriers
The BIMCO Education & Training Award, sponsored by Spectec, was awarded to the Institute of Chartered Shipbrokers.

The judges chose the Institute of Chartered Shipbrokers as the winner of this award because: “...it fulfils a unique role; providing global, professional shipping qualifications, holding all students to an equally high standard, but ensuring none are left behind.”

The BIMCO Contracts & Clauses Award, sponsored by Skuld was awarded to the Nordisk Defence Club.

The judges chose the Nordisk Defence Club as the winner of this award because: “For more than 80 years, it has lent its legal expertise to many major BIMCO contracts and clauses including NEWBUILDCON, BARECON, and NYPE 2015.

"As one of the BIMCO Documentary Committee’s longest serving members, Nordisk continues to demonstrate its commitment to BIMCO’s goal to develop and promote harmonised contracts and clauses for all sectors of the shipping industry."

The BIMCO Shipping Company of the Year Award, sponsored by CCS, was won by Oldendorff Carriers.

The judges chose Oldendorff Carriers to win this award because, “... despite their challenges as one of the biggest global operators and owners in the bulk segment– serving more ports and destinations than any other – they have remained profitable during the difficulties of the current market.”

The BIMCO Regional Shipping Personality of the Year, sponsored by ClassNK, was awarded to Dr Ottmar Gast.

The judges chose Dr Gast to win the award in recognition of his work to drive Hamburg Süd to economic success. The panel noted his strong business ethics, commenting on his “application of a value-driven policy about people, the environment and doing business.”

The next set of BIMCO Awards will be presented at the Annual Conference in Shanghai, in November 2016.
Insights for the maritime industry from the BIMCO Annual Conference

An Interview with Andrew Fitzmaurice, CEO Templar Executives

Maritime security and the cyber threat was the focal point of the BIMCO Annual Conference held in Hamburg in November 2015. CEO of Templar Executives, Andrew Fitzmaurice was invited to host the event and facilitate discussions around the “significant potential for cyber disruption and malicious takeover” of systems onboard ships.

Andrew Fitzmaurice is a global thought leader in cyber security and information assurance with an expert team working with governments and FTSE 100 companies; he is regularly invited to speak at industry conferences and in this article provides us with highlights from the BIMCO Annual Conference and further insights into the wider discussion around maritime security.

Q: Firstly, how did you get involved in securing the maritime industry from a cyber perspective?

A: Information assurance and cyber security is something which we call ‘sector-agnostic’ – cyber attacks permeate and affect every industry, even if the industry itself is not aware yet. The Templar team has been working closely with BIMCO advising on their cyber security guidelines for the maritime industry.

The maritime industry is an integral part of the world economy, as 90% of the world’s trade is estimated to be carried by ship. The delivery of many of our essential services would not be possible without the international shipping industry. As a result, the maritime industry has a responsibility to secure itself against potential attacks, including cyber.

We are all acutely aware that the maritime and offshore industry is going through a period of rapid technological development. Shipping companies are becoming increasingly reliant on technology to conduct their day-to-day operations, and are driven by the requirement to seek efficiencies and further improve the safety of both on and off-board personnel and address compliancy concerns. As a result, the maritime industry is rapidly becoming a component of the Internet of Things (IoT) – new assets are being built as fully connected devices and older vessels are linking systems that were never envisaged being controlled or communicated with via the internet. This is opening up companies to an unprecedented amount of attack vectors which may be exploited, especially as the threat is growing.

To mitigate against the ‘cyber risk’ which this opens companies up to, and ensure survival in this space, it is imperative that shipping companies start to address the cyber threat. At Templar Executives we have a diverse and agile team with a proven track record in providing expertise and capabilities which can support the maritime industry in achieving an enhanced level of cyber maturity.

Q: How ‘cyber aware’ and prepared is the maritime industry against attack?

A: Whilst ‘cyber risk’ is something which is spoken about regularly in the financial services and insurance industries, this is something which has received less traction in the shipping industry, despite the increasing threat.

Events like BIMCO’s Annual Conference are succeeding in raising awareness. 91% of delegates said they would take cyber more seriously, as a result of attending the conference. This is a great outcome but further work needs to be done to increase cyber awareness in the maritime industry. The media reports on the big cyber attacks against household names such as Sony, TalkTalk, and financial institutions including J.P. Morgan, forcing them to react and develop their education and awareness in the face of the threat. However, the expectation is that attacks will now move to softer targets including the maritime and shipping sector.

A recent report by the European Union Agency for Network and Information Security (ENISA) stated that maritime cyber security awareness is currently low, verging on non-existent, and that current maritime regulations only consider physical aspects of security. This low level of awareness, however, is not restricted to just the maritime sector. Other sectors in the transport industry, such as the civil aviation industry are also suffering from a lack of holistic awareness. From a cyber perspective, the issue is not widely understood and in many cases not prioritised.

If the maritime community is to effectively protect its people, ships and reputation from a determined and rapidly evolving cyber threat, the industry will need to drive organisational and cultural change starting with positive leadership at board-level.

Q: The BIMCO Annual Conference spoke about some of the potential vulnerabilities of ships to cyber attacks. What do you see as the big trends in this area?

A: There are a number of potential threats which are exploiting the vulnerabilities of ships to a cyber attack. The first and foremost being the ‘human element’. Information systems are only as good as the people who use them, and attacks can be either deliberate or accidental. A non-targeted attack could take the form of a phishing email, randomly sent to multiple email addresses – an employee or
crew member, without the necessary cyber awareness training, could activate a virus by clicking on the embedded link. The level of cyber risk posed by employees is significant and control measures need to be put in place.

In addition, through the sterling research of USMRC, it was found that many ships are taking unacceptable risks with their IT infrastructure. We were able to advise delegates that through the application of robust policies and procedures, coupled with expert technical advice and guidance, remediation could be quickly and relatively cheaply achieved.

Another prominent threat is that of the “insider”, those within the organisation who are able to take advantage of their access, or the organisation’s vulnerabilities. Given the international and transient nature of crews and maritime professionals, the difficulty in both vetting and monitoring personnel, and the number of third parties involved in maritime and offshore operations, the insider threat is of particular concern within this environment.

Lastly, there is a growing awareness of the significance of third-party suppliers. Weak links in the supply chain can provide the easiest route for those who want to attack a large organisation. The importance of a resilient and secure supply chain was highlighted during the attack on Target, which cost the company $162 million to clean up. Supply chain vulnerability will be a challenge for the maritime industry as it is a global entity which exchanges large amounts of information between different bodies, often in regions of the world with differing security standards.

Q: How should organisations who are concerned address this threat?

A: Understanding the issues is key and the BIMCO event in November was a good example of the industry raising awareness. The event highlighted the need for education and training initiatives to be at the forefront of the cyber agenda. Upskilling your people to address all aspects of the cyber agenda should be seen as welcome investment, rather than a cost. Creating that cyber awareness amongst your employees is a business enabler, providing an increased ‘return on investment’, competitive edge and reputational prestige.

Based on Templar’s experience, it is clear that there are three steps to ‘smarter’ cyber security. These are: firstly, understanding the risk and assessing the threat landscape you are operating within; secondly, deciding what matters – what are you trying to protect? What is important to the survival of the business? Thirdly, take action by implementing proportionate control measures. But, once these steps have been taken, don’t think the job is over. This is an ongoing process which requires continuous monitoring and improvement to stay abreast of the ever-evolving cyber threat landscape.

The maritime sector has a unique opportunity to cyber-proof its business before it becomes a victim to a serious cyber attack. Many other sectors have only taken action after a serious cyber incident has occurred and caused unprecedented, financial and reputational damage. To put it bluntly, the maritime sector can avoid a similar crisis by taking action now.

Templar Executives will continue to work with BIMCO and other maritime associations, in order to strengthen the cyber resilience of shipping companies, and ensure business prospers for the maritime and offshore sectors. II

The Guidelines on Cyber Security Onboard Ships are free to download from the BIMCO website: www.bimco.org
SUPERMAN: New third-party shipbuilding supervision contract available

SUPERMAN further extends the range of ship management-related standard contracts produced by BIMCO. It is a contract between ship managers and their clients to provide supervision services during the construction of a ship. It can, however, also be adapted for use for ship conversion and ship repair work. The contract has been written so that it can be easily used with BIMCO’s NEWBUILDCON, SHIPMAN and REPAIRCON contracts, although it is by no means restricted to these agreements. It’s closely modelled on SHIPMAN 2009, so those already familiar with BIMCO’s widely used ship management agreement will recognise many of SUPERMAN’s terms and conditions. Visit BIMCO’s website to download a sample copy of SUPERMAN and read the accompanying explanatory notes. When you are ready to use the contract it is available on BIMCO’s IDEA•2 on www.bimco.org just search for “SUPERMAN”.

BIMCO answers your queries over using GENCON 1994 with CONGENBILL 2007

BIMCO continues to receive enquiries regarding whether it is possible to use the 2007 edition of CONGENBILL where a fixture has been made using GENCON 1994, which expressly refers to the 1994 edition. The answer is that the wording of GENCON 1994 should not prevent the use of any later editions of CONGENBILL. The reference to CONGENBILL in Clause 10 (Bills of Lading) of GENCON is intended to include any subsequent editions issued by BIMCO. If parties want to place the matter beyond all reasonable doubt, BIMCO recommends that you simply delete the words “Edition 1994” in Clause 10.

CONGENBILL 2007 has been updated to reflect the signature box required of UCP 600 and to incorporate the International Group of P&I Clubs/BIMCO Himalaya Clause. The new edition, CONGENBILL 2016, may be used with GENCON 1994 consistent with the advice given above.
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<td>15-18 Mar. 2016</td>
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<td>One of Asia’s biggest exhibitions and conferences focusing on shipbuilding &amp; marine, workboat and offshore.</td>
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BIMCO’s anti-corruption clause for charter parties – why should you use it?

BIMCO recently launched its new anti-corruption clause for charter parties, an important development in an area that has caused much debate in the shipping and insurance industries.

With many countries having recently introduced or updated their anti-bribery and corruption laws, probably most notably in response to the introduction in 2011 of the UK’s Bribery Act, clauses have been incorporated into charter parties that were often heavily weighted in favour of one of the parties. The new BIMCO clause aims to bring balance and certainty to how the risks of global corruption and bribery that are frequently encountered in the shipping industry are to be apportioned. With the announcement of the clause, however, some have asked whether, by incorporating it or by concluding a charter party governed by English law, parties will somehow expose themselves to responsibilities under the UK’s act that they would not otherwise have. Is that correct? It is not, and we will explain why.

Scope of the act
The UK’s act has been described as the most draconian global anti-corruption regime. Together with other laws such as the US Foreign Corrupt Practices Act, it forms part of an international trend to tackle bribery and corruption. Extra-territorial in reach, the UK’s act applies not only to individuals committing bribery in the UK and bribery committed overseas by someone with a close connection to the UK, but also, broadly, to any corporate carrying on any part of its business in the UK.

Not only is the UK’s act extra-territorial, but its scope also extends to associates acting on behalf of a corporate. Any company subject to the UK’s act can receive a potentially unlimited fine if a person associated with it, bribes another person intending to obtain or retain business, or an advantage in the conduct of business, for that company. It does not matter if the bribe takes place outside the UK or if the company had no knowledge of the bribe. So, for example, if the agent of a shipowner that has an office in the UK bribes an employee of a bunker supplier outside the UK and that results in the owner benefitting from cheaper bunkers, the shipowner could be criminally liable as a result of his agent’s actions.

But it is a defence if the company can show that it had in place ‘adequate procedures’ designed to prevent people associated with it from acting corruptly. What this means is that companies must have in place policies and procedures that are proportionate to the company’s size and bribery risks, and are effective. There is no “one size fits all solution”, but incorporating the new BIMCO anti-corruption clause into charter parties is one of many steps companies should consider in order to reduce their risk of corrupt actions by associated persons leading to they themselves being prosecuted.

The BIMCO Anti-Corruption Clause
The BIMCO anti-corruption clause aims to provide the shipping industry with wording that balances owners’ and charterers’ responsibilities, and is itself compliant with the requirements of the UK’s act. The release of the new clause comes on the heels of recent guidance from the UK Chamber of Shipping that moves forward the difficult issue of reconciling the zero-tolerance approach to facilitation payments of the UK’s act, with the realities of the places where the shipping industry operates. We have also recently seen the widely reported suspension of a senior executive in a shipping company for alleged corruption (albeit when he was previously working in the telecommunications sector) and the UK’s first Deferred Prosecution Agreement, in which a bank acknowledged liability under the UK act’s corporate offence of failing to prevent bribery.

The clause is comparatively short and self-explanatory but, notably, it contains a mechanism for shipowners to issue a Letter of Protest, sent or copied to charterers, in the event that a demand for payment, goods or another thing of value is made by a third party and, despite the parties cooperating in taking reasonable steps to resist it, such a demand is not withdrawn. Ordinarily a letter of protest will be issued to local interests at the port in question. However, in each case the master will need to consider the relevant circumstances in order to decide to whom the letter of protest should be directed, as it may not be appropriate to address it to local interests if it is suspected that to do so may further complicate matters. Unless there is evidence to the contrary, it will be deemed that any delay will be, as the result of resisting the demand and the vessel will remain on-hire, or time lost, will count as laytime/demurrage. If either party fails to comply with anti-corruption legislation, it is to reimburse the other for any fines, penalties or other losses incurred as a result of the breach. It also allows (but does not require) the innocent party to terminate the charter in circumstances where the applicable anti-corruption legislation...
The anti-corruption clause and accompanying explanatory notes can be downloaded free of charge from BIMCO’s website www.bimco.org or be incorporated directly into charter parties in BIMCO’s online charter party editor tool, IDEA•2.

Kevin Cooper

has been breached by the other party and that breach has resulted in the innocent party attracting liability under the relevant anti-corruption laws. Any such termination must be made without undue delay and is without prejudice to any other rights under the charter party.

The UK Bribery Act and international best practice

The UK’s act is often cited as being the strictest international anti-corruption regime so compliance with its requirements is generally considered to represent best practice internationally and will protect parties in most jurisdictions. However, many countries have already either introduced domestic anti-bribery legislation or are in the process of doing so. In some cases, countries are enhancing their existing anti-bribery laws. Corporates operating internationally should therefore aim to comply with international best practice, but also be alert to the possibility that they will have to comply with multiple anti-corruption regimes when doing business, and the landscape is continually changing, so policies and procedures, in addition to companies’ contractual dealings, should be regularly reviewed.

The vast majority of charter parties provide for disputes to be decided by English law, in London, before a judge or a panel of arbitrators. English law and jurisdiction has traditionally been, and continues to be, the most popular regime for charter parties due to its certainty and reputation for due process.

The choice of law and jurisdiction of a charter party will not bring a company within the scope of the UK’s act, unless the company is already subject to its provisions because it is a UK company or carries on business or part of a business in the UK. However, whilst a company may not fall within the provisions of the UK’s act, it will often be an ‘associated person’ of a contractual counterparty that is caught by the act. For example, any insurer, broker or agent with a presence in the UK should be taking adequate steps to ensure its ‘associated persons’ is compliant with the act so that, in the event that a bribe was to occur that benefited them, they could show they had in place adequate procedures. They will often therefore require their ‘associated persons’ to meet the same anti-corruption standards as they do. These standards will, of course, be compliant with the UK’s act. So the benefits of the anti-corruption clause to a shipowner or charterer are twofold: it will help to ensure that their ‘associated persons’ are compliant; and it will also help to satisfy their contractual counterparties, to whom the shipowner or charterer will be an ‘associated person’, that necessary steps are being taken to limit the contractual counterparty’s exposure to prosecution.

Conclusion

Since the UK’s act represents one of the most stringent pieces of anti-bribery and corruption legislation in the world, as a matter of international best practice all companies should consider complying with its provisions. This is especially so because, even though your company may not necessarily be caught by the provisions of the act itself, its contractual counterparties may well be or have chosen to comply with its principles. If so, your company will be your contractual counterparty’s ‘associated person’ under the UK’s act and most likely will be required by your counterparty to comply with the UK act’s requirements anyway. The new BIMCO clause does not bring a company within the scope of the UK’s act when it otherwise would not be. Instead, not only does it support the important global fight against corruption but it also helps to protect the parties from possible exposure themselves, helps to satisfy the contractual obligations increasingly required by others in the industry and provides greater balance and certainty as to how the frequently-encountered corruption risks are to be apportioned in a charter party context. It is therefore to be welcomed as a significant step forward in dealing with this increasingly hot topic.
The declaration was first published in April 2015 and feedback from BIMCO members so far shows that they are very satisfied with its use. We welcome any further feedback from members using the declaration – whether it is being used in its original model form or amended to fit particular needs.

All the details of the declaration are below – and are intended to assist members in ensuring compliance with environmental rules and regulations in force around the world.

Guidelines and model Declaration on Seafarers’ Compliance with Environmental Rules and Regulations

This model is specifically designed to help shipping companies to ensure that their employees acknowledge and comply with the company’s policy to meet environmental regulations. Non-compliance can carry a high cost for companies alongside the obvious environmental implications and can also involve criminal proceedings. For example, the Act to Prevent Pollution from Ships (APPS) in the US is particularly strict on the discharge of oil-contaminated waste and keeping an accurate oil record book.

The declaration has two main purposes:

1. To ensure that employees are aware of their shipping company’s policy on compliance and that they comply with all relevant rules and regulations.

   Of course employees are already under an obligation to comply with applicable rules and regulations at work, but the declaration places an emphasis on this and should help to raise awareness and build a culture of compliance amongst employees. From the employee’s perspective, a greater awareness and culture of compliance should serve to protect them by making it less likely that they will, knowingly or unknowingly, be involved in non-compliance.

2. To provide a clear demonstration that employers/shipping companies are focused on ensuring that their employees stay compliant. This is especially important in circumstances where criminal investigations into possible violations take place. The existence of such declarations could possibly also work as a mitigating factor for the company and/or employees in cases where violations have taken place.

   Using the declaration is essentially a means of documenting employees who have been specifically and unambiguously informed about management intentions to comply and that this obligation has been understood by the individual employee by virtue of his/her signature.

   The model declaration, which should be signed by both parties, states that the employee is aware of his or her employer’s policy on compliance with environmental rules and regulations and will respect these at all times. The model also states that the employee will inform the master without delay about any non-compliance on board the ship.

   To further promote effective reporting, shipping companies should have an additional channel for reporting non-compliance directly to the company ashore. This channel would be used in cases where reporting to the master is not possible or may compromise the reporting employee’s position. This additional channel could be to the Designated Person Ashore (DPA), as mentioned in the ISM code. The DPA should be a person within the shipping company who would have the authority to take appropriate action, while respecting the duty of confidentiality of the reporting employee. The other benefit of providing a DPA as such a channel is to avoid delays in employees reporting any non-compliance on board the ship. For example, there have been a number of cases in the US in which whistle-blowers have waited until reaching a US port before notifying port state control authorities about violations. With this in mind, clear and direct contact information for the reporting channels should be included when filling out the declaration below.

   The model declaration may either be presented to the employee as a standalone document when signing on as crew on one of the employer’s ships or could be annexed to the employment contract itself.
Model

Standalone Declaration or Annex to Employment Contract:

Declaration on Seafarers’ Compliance with Environmental Rules and Regulations (to be filled in and/or amended as necessary)

1. This declaration reflects that commercial and environmental consequences of a lack of compliance with environmental rules and regulations is of great concern for the undersigned Employer. Avoiding non-compliance ensures the ship's continued ability to trade and reduces the risk of a negative impact on the environment resulting from the operation of the ship.

2. The undersigned Employee, by the signature of this Declaration, declares that he/she is fully informed about, and aware of, the undersigned Employer's policy on strict compliance with all relevant US marine environmental standards, including specific provisions in the US Act to Prevent Pollution from Ships (APPS) concerning discharges of effluents and/or oil-contaminated waste and maintenance of an accurate oil record book. The Employee has received a copy of the Employer’s policy on compliance to this effect.

3. The undersigned Employee undertakes to ensure compliance at all times with the above-mentioned rules and regulations and inform without delay the Master of the ship about any non-compliance on board the ship. Alternatively, in circumstances where reporting on board is not possible or may compromise the reporting Employee’s position, any non-compliance can be reported in full confidentiality to [a named shore-based entity, eg the chief operating officer (COO) or DPA of the shipping company]. This obligation applies regardless of by whom this non-compliance has been carried out.

4. It is considered a serious breach if this declaration is not respected by the undersigned Employee. It can have severe consequences for his/her future employment with the undersigned Employer, including termination of the employment contract in accordance with the terms of that contract.

______________________________
Employee

______________________________
Employer

______________________________
Place

______________________________
Place

______________________________
Signature and date

______________________________
Signature and date

Editor's Note:
Contact: international@bimco.org

– as is often done for similar declarations on compliance with drugs and alcohol policies. Presenting employees with a stand-alone declaration when they join the ship has the advantage of facilitating its introduction into the already existing terms of employment.

While the model declaration may, in principle, be used in all jurisdictions, its second paragraph has been drafted specifically for use in terms of employment involving US waters, in recognition of the particularly strict environmental compliance required in that area.

BIMCO fully recognises that some shipping companies will already have developed and use declarations on compliance similar to the model below and may have no need of this guidance. Rather, the model is intended to be useful to companies which do not have such declarations and may not have the capacity to develop them. Use of the model declaration is entirely voluntary, and BIMCO recognises that it will not be relevant for all companies to do so. BIMCO assumes no responsibility of any kind in relation to the model declaration’s use or non-use, and regardless of whether it is used in its original or a modified form.
Fraudsters and their schemes have long been present in the shipping world. The crudest examples of their work are when they fabricate false bills of lading and then attempt to cash them at unsuspecting banks. Another similar approach is to issue fake invoices to the owners for services never rendered to the ship. An example of this is the notorious hoaxers who have been operating in the Suez Canal for many years and seem impossible to eradicate.

A more subtle approach is when the fraudsters manage to copy genuine bill of lading forms which, using modern technology, makes it almost impossible for the victims to detect that it is, in fact, a fraudulent document.

With the ever-increasing use of IT, the risk of being attacked by fraudsters, hackers, etc has increased substantially and we are already confronted with various attempts to abuse the technology. For some individuals, the very challenge of trying to hack into a system is what motivates them. Leaving aside their psychological profiles, which could be of interest to professional psychologists, most of these individuals constitute a nuisance rather than a danger.

As IT develops and becomes capable of handling more and more tasks, the risk of being exposed to IT-based fraud has increased exponentially. A current tactic of the fraudsters is to hack into the mail account of one of the parties involved in a fixture, be it the brokers, the owners or the charterers. Having access to the train of email exchanges, the fraudsters will be in control of the correspondence and as such they will be in a position to channel payments (as may have been agreed by the targets of the fraud), into an account from where funds are transferred immediately upon receipt and disappear as quickly. Hence, when the charterers are requested to pay the freight into a different account than initially advised, they should contact the owners (and not via email as the account may have been compromised) to confirm whether the request for a change of bank account is, in fact, genuine.

Another fraud, which is less IT-driven but which we think should be mentioned is when the fraudster appears as broker holding a cargo for a reputable charterer. The interested owners will submit their offer and the negotiations then begin. A fixture will eventually be concluded on what appears to be fairly realistic terms. Shortly after completion of the fixture the bogus broker will approach the owners proposing part cargo from the same loading port to same discharge port that can be loaded on deck. In a number of cases this bogus part-cargo was said to be empty tanks at an attractive rate of freight based on “liner-in terms”.

Once the owners have accepted the loading of the tanks and the “fixture”, the broker will approach the owners requesting payment of the “liner” costs at the loading port, with funds to be paid to a named agent at the loading port, but with a bank account in another country. In the event the owners actually do remit the requested amount, they will realise – too late – that the agent at loading port does not exist nor do any of the cargoes, and the fake broker has disappeared into the blue.

Another approach is when the fraudster requests the owners to transfer funds into another account because the initial nominated account is unavailable. Often the explanation for the unavailability of the account is somewhat fanciful. Furthermore, the bank is located in a country that has no relation of any kind to neither the loading port, the discharge port nor the location of the bogus broker.

Of course, the fraudsters are usually one step ahead in that only they know where and when they will strike next. Vigilance is the key to managing the risk of fraud. The easier it is to perpetrate IT fraud, the more vigilant the potential victims in the shipping industry should be.

It is in fact surprisingly simple to stop the fraud. A well-tried and tested method is to contact the charterer named as the principal, although not through the bogus broker but rather direct, or through a broker the owners trust. Often this will be enough to expose the fraud as charterers will, in all likelihood, confirm that there is no cargo. Also phoning an agent and/ or the authorities at the would-be loading port and asking about the existence of the agent and the cargo is a quick way to unmask the fraud.

Queries on this issue can be sent to: frontoffice@bimco.org
Welcome to BIMCO!

BIMCO would like to extend a warm welcome to the following new members, admitted during the period from 1 September to 31 December 2015.

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- Blue Planet Shipping Ltd. Piraeeus, Greece
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- Chung Yang Shipping Co., Ltd. Busan, Korea, Republic of
- Ishima Pte Ltd Singapore, Singapore
- McDonough Project Services L.P. Metairie, LA, USA
- Petroserve Holding BV Monaco, Monaco
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- Sulaiti Trading & Marine Services Manama, Bahrain
- WIZA Shipping & General Trading Ltd. Istanbul, Turkey

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- IMGC Group Puerto Ordaz, Venezuela
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- Mehr Bandar Bushire, Iran
- Nexus International Shipping Port Said, Egypt
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- Oudkerk bvba Stabroek, Belgium
- Port Agency Services (Ceylon) Colombo, Sri Lanka
- Sahel Shipping S.A. Dakar, Senegal
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- Advanced Shipping and Trading S.A. Glyfada, Greece
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- Integra Fuels S.L. Alcobendas, Madrid, Spain
- Linkinpartner Europe GmbH Hamburg, Germany
- Medmar Multimodal Logistics S.A. Istanbul, Turkey
- Mini Project Shipping Ltd Richmond, Surrey, UK
- Port Hill Marine Ltd Blyth, Northumberland, UK
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- Clyde & Co. LLP London, UK
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- Dubai Maritime City Authority (DMCA) Dubai, UAE
- Europ Assistance Saint Denis, France
- Falck Global Assistance Smarrum, Denmark
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Challenges remain over container weights

On 1 July 2016, every container destined for a sea voyage must come together with its Verified Gross Mass certificate (VGM), in order to comply with the requirements of SOLAS Chapter VI Part A, Regulation 2.

It will hopefully bring to an end half a century of increasing scepticism about whether the declared weight of a container is an accurate reflection of the reality. It might even start to persuade shippers that it is unacceptable to under-declare the weight of a container, or merely to make a rough guess, on the grounds that as long as the doors could be closed, it probably was not overweight. The age of accuracy and certitude, it is hoped, may be dawning.

It has taken a very long time and much debate to arrive at this point. But, as with all new regulations, a good deal of uncertainty remains about the effectiveness of its implementation and how it is to be enforced. For years the arguments revolved around the question of who was to be responsible for this weighing, and how and where it was to be done. The regulations from the International Maritime Organization leave certain things to the satisfaction of the individual member states. Inevitably, such uncertainties virtually guarantee that there will be no globally agreed interpretation of such matters. Different parts of the world are at different stages of development, so while, for instance, the VGM may be part of the electronic documentation accompanying a container in some parts of the world, in others paper certificates will still be used.

How will anyone know whether the VGM really is an accurate reflection of a container weight? The VGM itself is the important “passport”, without which it is made quite clear that a container cannot be loaded aboard a ship. To a certain extent, as with the declared weight of any cargo, this is a matter of “utmost good faith”, which we have come to realise is often honoured in the breach, hence the whole problem of overweight boxes has arisen.

The test as to whether the regulations are making any difference will surely become obvious to sea carriers in the months after the July implementation. At present, the comparison of the declared weight of the manifested cargo, with the “reality” as indicated by the draught of the ship, regularly demonstrates the somewhat cavalier attitude of many shippers to this figure.

It is reported that with an 8000TEU vessel, undertaking such a comparison, an “overload” of 2500 tonnes would be nothing unusual. While the safety of such a ship may not be unduly prejudiced by such overloading, the fact that those stowing the ship will have no idea where these overweight boxes will have been placed does cause worry and can lead to damage or loss. On a smaller ship, the stability or structural strength might be prejudiced. A reasonable period after the implementation date, we would hope to see carriers reporting fewer discrepancies. It is worth noting that properly weighed containers, stowed according to the CTU Packing Code, have safety implications for the full length of the logistics chain. A further indication of effectiveness might emerge from road accident statistics, as overloaded and badly balanced loads are currently responsible for a considerable number of deaths and injuries on land, as they continue their journey by road to their destination. It has been argued that accidents caused by overladen boxes on the roads hugely outnumber those in ports or aboard ships and that a valuable outcome of the VGM regime ought to be a decline in such accidents.
Ports and terminals, of course, find themselves on the “front line” of the new regulations and might be expected to provide the check at the terminal gate as to whether the container is properly accompanied by its VGM. At a recent meeting of the General Stevedoring Council in London, Michael Yarwood of the TT Club suggested that there remained quite a number of uncertainties as to how the new regime would affect terminal operations. While there may be no doubt about the responsibilities of the shipper as to the need to obtain a VGM and communicate the information to the terminal, questions remain about how ports and terminals are going to cope with this new addition to their systems.

Communication, said Mr Yarwood, was of crucial importance, as was the issue of record keeping, with terminals acting effectively as the “conscience” to the shipping company.

Could the stevedoring organisations themselves offer a weighing service to the shippers, suitably charging for this? Or should they confine themselves to some sort of “spot testing” to ensure the veracity of the VGM as presented along with the container?

Stevedores, whose equipment and personnel are also at risk from overweight and badly stowed boxes, are still evidently making up their minds about these matters. If a shipper is found to be under-declaring the container on his VGM, how is this to be dealt with? Is it a commercial matter that can be sorted out by “education” and warnings not to let it happen again? It is, after all a SOLAS non-compliance and might be considered an offence worthy of prosecution by the authorities, in the same way that an overloaded ship or road vehicle will be prosecuted under the appropriate laws by maritime and highway authorities respectively. The attitudes of the authorities to enforcement will, it can be assumed, be clarified in time.

Certainly, the container, unaccompanied by its VGM, should not be allowed to go forward for shipment, but how, in practical terms, should it be treated? Presumably a terminal does not wish to see its apron congested with boxes “in dispute” over their weights, but where are they to go?

Mr Yarwood cautioned stevedoring firms against getting too deeply involved with their own weighing services. Should a container – perhaps on the other side of the ocean – be involved in an accident related to weight, whoever was responsible for the weighing might find liabilities descending upon them. Too much knowledge, he suggested, could be dangerous!

There remain doubts as to how the regulations are going to be implemented and interpreted by the 170 IMO member states. Few seem to have clear guidelines already established about such crucial matters as the requirement for absolute accuracy. Will a 5% variation be acceptable, or will greater precision be required? One can imagine a container being loaded in a regime with a 5% accuracy requirement, but travelling to a country where it is expected that variations of 1-2% are permitted. Is such a box deemed to be “overloaded” in the event of a check following an accident in the receiving country?

The weighing methodology is far from a “settled science” with no universal agreement on the calibration of weighing apparatus, or even how the box is to be weighed. Weighbridges may not be generally available and in many parts of the world are largely non-existent. It is suggested that these are, in many respects, a very “blunt instrument” and that the weight of the container might be confused with the tare weight of the trailer and the variable weight of a tractor unit with its fuel load.

There may be new and accurate systems emerging, such as load cells which, when used with the corner twistlocks on a lifting frame, can provide an accurate weight of the container, with variations around the four corners showing any hazardous imbalances. Used in conjunction with a reach-stacker, this might provide a simple and accurate determination and could represent a commercial opportunity, ideally well “upstream” of a terminal.

The next few months will hopefully see many of the existing “unknowns” clarified by authorities around the world, with the development of their own legislation or advice. But in the world of liner shipping, this is a big change and represents a real challenge if confusion or congestion is to be avoided, in a sector where speed of handling is always paramount.
Survival of the fittest

Throughout the past forty years, the shipping industry has seen considerable consolidation and the emergence of very large shipping companies, along with the disappearance of many others.

It has been said that the world of shipping has always been like a room with two doors, with people entering and exiting constantly. There is nothing remotely new about this; the attractions of scale have been manifested throughout the centuries, from the great trading monopolies and their empires, to the famous lines which emerged with mechanical force.

Today, of course, we equate globalism with size, and the consolidation process continues in a shipping world where scale economies are often seen as the only route to survival in an industry struggling to gain an economic rate of return from customers who have become accustomed to cheap maritime transport.

But is there any future for those ship operators of a more modest size, as they seek to make a living alongside the “mega” companies with their fleets of several hundred vessels? In the liner trades, conventional wisdom tends to assure us that the present rate of consolidation will see no more than half a dozen giant global shipping companies. And even in the far more fragmented tanker and dry bulk trades, it is suggested that the same trend will emerge.

The survival of any smaller shipping company in this frenetic atmosphere of corporate growth might be thought very uncertain. Such modest sized players have organisational handicaps, spending a greater proportional effort upon marketing themselves. They may be more dependent on their service providers such as shipbrokers, who may not work so energetically for the owner of a few ships as he does for a large and powerful shipowner. They will have less influence, whether it is in the negotiations for a freight contract, discussions with a port or terminal, or a powerful charterer who is capable of throwing his weight around. In such respects, the shipping industry mirrors life!

In the matter of financing new buildings or ship acquisition, size will matter, with the smaller operator comparatively disadvantaged in negotiating terms with shipyards, or cutting a deal with the banks, which will invariably adjust their terms on the perceived risk from a smaller borrower. The regulatory burdens increase for all operators, although the largest can spread the load with their own systems to deal with these.

There are the attendant regimes of enhanced ship inspection, port state control, charterers taking a closer interest in the condition and even the management of the ships they hire. Insurers and P&I clubs are similarly concerned with the ship as a potential liability and anxious to manage risks more closely.

Smaller shipping companies may find it a greater burden to satisfy those demanding financial bonds and funds against the likelihood of accident or pollution. The requirement for expensive technical updating and equipment retrofitting will invariably disadvantage the smaller player, who will find it relatively more costly to purchase new equipment to comply with retrospective rulemaking, as with, for instance, the requirements for exhaust scrubbers or ballast management equipment. Ships are becoming more sophisticated and demand on technical services greater. Invariably this will favour the biggest company and may be thought one of the significant advantages of size, which will continue to drive more consolidation.

Helpful husbandry

There is, however, help at hand for operators of smaller fleets to keep their operators in business. Nobody can underestimate the importance of a sizeable and growing third party ship management sector, which has been developed to help owners cope with these very same operational, regulatory, commercial and technical burdens they face.

Professional ship managers now husband between 12% and 15% of a world fleet of some 57,000 vessels, and this portion is growing as many smaller companies decide to use their comprehensive services. The ship management sector itself is consolidating, with the largest operations now providing the sort of economies of scale to their clients, which they could never hope for, managing their own smaller numbers of ships. And while the ship management sector is itself fiercely competitive, with small margins, the tendency has been for those undertaking outsourcing to add value and increase the range of services they have available, ranging from purchase and new-build supervision through to full technical and commercial management to crewing and operation of the vessels. So, by employing outsourcing, smaller shipping companies do have the opportunity to reduce some of the disadvantages of their reduced scale.

It is worth noting, however, that when compared to some industries, like aviation or the automobile manufacturing sector, much of marine transport remains very fragmented, with the main consolidation having taken place in the liner and oil company portion of the tanker trades. In the case of the former, this was a factor of the business, with the need to build container handling systems as much as assemble fleets of ships and cope with the enormous capital demands of a trade that has revolutionised sea transport in a relatively short period.

The same competitive pressures that caused the huge new global intermodal networks to emerge are encouraging mergers and acquisitions in other trades such as in crude or product tankers, and vehicle carrying, where sea carriers are finding...
that it is better to get together to get a better deal from the trade sector they serve. Offshore supply and support seems to be going the same way, with the emergence of some very large fleets and it might be expected that the present crisis will see the strongest prevailing in an exceedingly difficult market.

But in the dry bulk trades, representing some one-third of the world fleet, there remains a very large number of much smaller companies, which somehow manage to operate much as they have always done. Many are private companies and retain a flexibility in their operation that the giant global lines might sometimes envy.

They are, like others, at the mercy of the freight rates and the balance of supply and demand and obviously suffer during lean times. But they have the ability to buy and sell ships fast, to profit through the trade in ships, while others try and squeeze profits through the trade in transport.

**Speed and agility**

It is an important distinction, but nobody should underestimate the advantages when operating in an industry where timing is enormously important of being able to move fast and decisively. In a cyclical industry, the ability to take quick decisions without having to worry about the need to consult huge boards of directors, or the influence of analysts upon the shareholders, has a value in itself. This gift of timing, which seems to have been practised most effectively by individuals firmly at the helm of their own companies, seems to have been the key to both survival and prosperity of many modest sized operations.

While the very large companies are rationalising their port calls to suit their giant ships, there will continue to be opportunities for smaller operators to intervene in niche trades or the marginal ports abandoned by the giants. The smaller companies can and do operate satisfactorily in harness with the global giants, providing them with ships to operate feeder and distributive services, help adjust imbalances and provide extra capacity when needed.

**The specialists**

Another fertile field for the survival of smaller operators is in an industry more discretely divided into specialised services than ever before, to provide niche services which are highly focussed upon a particular market sector. Examples that come to mind might be heavy lifts, project cargo carriage, diving and sub-sea operations, research and oceanography, cable laying and maintenance, cement and specialist bulks, ferries, livestock transport, river-sea operations, and short sea oil distribution. It is a long list and one which includes a reasonable number of small or medium sized companies, which exist because of their expertise in these discreet trades, which would be difficult for the newcomer or “casual caller” to enter.

Size may matter, but there is nothing that is intrinsically “armour-plated” about the biggest shipping companies that will protect them from serious problems. In this ultimate service industry of derived demand, the quality of management will be critical in determining a company’s survival, whether it is large, medium sized, or small. 

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**Editor’s Note:** Michael Grey is BIMCO’s Correspondent in London. He is a former Editor of Lloyd’s List and a regular contributor to many maritime publications.
Support for LNG bunkering gathers momentum

Although the take-up of LNG bunkering has proceeded slower than originally envisaged, governments are building their commitment to gas fuel.

It is hard to imagine where the LNG bunkering industry would be today were it not for the enlightened approach taken by the Norwegian Government at the beginning of this century.

Under Norway’s Environmental NOx Agreement, affiliated enterprises are entitled to exemptions from the country’s fiscal nitrogen oxide (NOx) emissions tax and to date over 750 enterprises have joined the scheme. Shipping company members are only required to pay less than one-quarter of the levy.

Norway’s NOx Fund makes about €75 million available per annum in the support of measures to reduce NOx emissions and in recent years about 50% of this sum has gone to LNG-related schemes.

The NOx Fund has granted support to approximately 80 LNG-fuelled, Norwegian-flag ships that are not LNG carriers over the past decade. The total, which includes current newbuilding contracts, equates to 55% of the global in-service and on-order fleet of LNG-powered vessels.

Since its inception, the fund has worked to improve the functioning of the LNG market in Norway. The country has the world’s most elaborate coastal network of small-scale LNG production sites and receiving facilities, and natural gas now accounts for approaching one-quarter of the marine bunker fuel used in Norway. The resultant reductions in NOx emissions are measured in tens of thousands of tonnes per annum.

LNG challenges remain
LNG has much in its favour as a bunker fuel, not least the fact it is the cleanest burning fossil fuel. At a time when increasingly strict controls governing ship atmospheric emissions are being implemented both regionally and worldwide, the environmental factor is a major driver.

LNG is also now a low-cost source of energy as a result of major new supplies coming on-stream via 14 world scale export projects in Australia and the US through to 2018. The current reduced demand for energy amongst the world’s leading industrial economies is also serving to dampen LNG and natural gas prices.

The environmental advantages of LNG were touted at the successful 21st Conference of the Parties to the UN Framework Convention on Climate Change (COP21) held in Paris in December 2015. Governments acknowledged that natural gas has a key role to play in the longer term transition to a fossil fuel-free energy world.

Despite the undoubted attractions of LNG as a marine fuel, there are nevertheless substantial challenges standing in the way of greater acceptance of this energy source. A September 2015 report, LNG Applications for Short Sea Shipping (LNGSSS), compiled by 17 organisations and companies in the Netherlands, highlights these obstacles. The document is the result of a 30-month
study project by the team members on the prospects for LNG bunkering.

The bottom line in any comparison of the propulsion system alternatives available to shipowners is cost. Despite the relatively low LNG and natural gas prices pertaining at the moment, the lowest crude oil prices in a decade have also driven down the cost of heavy fuel oil and middle distillates. The options of using existing oil-burning engines in tandem with either low-sulphur marine diesel oil or a combination of heavy fuel oil and an exhaust gas scrubber, offer a payback period that is about 50% shorter than is possible with a gas-powered engine.

The introduction of IMO Tier III requirements governing NOx emissions from new ships in North American coastal waters, from 1 January 2016, will require the fitting of either selective catalytic reduction (SCR) or exhaust gas recirculation (EGR) systems on ships with oil-burning engines. However, even with this extra equipment, at current fuel prices oil-burning engines represent a more attractive solution on a purely cost basis.

At the moment LNG-fuelled ships cost anywhere from 10-25% more to build than a conventional oil-fired vessel. A key cost item for gas-powered ships is their comparatively large and expensive bunker tanks. Quite aside from the direct cost of these insulated units and their associated fuel gas supply systems, the location of LNG tanks raises several issues, including venting arrangements, safety distances, ship stability and the possibility of cargo-handling space being compromised.

Uncertainties about the extent to which the maritime industry will welcome gas as a fuel, in turn, places potential investors in the LNG bunkering infrastructure necessary to supply the ships in a quandary. Infrastructure, like LNG-powered ships, calls for significant expenditure and financiers are unlikely to commit to one without the assured presence of the other.

**Government action**

The LNGSSS report concludes that when it comes to gas-powered vessels, newbuilding projects make more commercial sense than the conversion of existing ships. However, even newbuilding projects face significant hurdles and the cause of LNG bunkering will derive immense benefit from government support, including a continuation of that already on offer in various locations and the introduction of new schemes inspired by initiatives such as Norway’s NOx Fund. The fund approach, whereby operators are charged for their emissions and the funds so generated are used to finance abatement technology, research and new projects, has proved its worth.

The LNG industry is that despite sluggish economic performance in a number of key regional markets, and the resultant cost pressures, nations worldwide are prepared to step up their commitment to a cleaner environment. The positive out-
come of the UN-backed COP21 climate change event in Paris is a case in point.

In December 2015, the same month as COP21, the US Congress backed the passage of an alternative fuel tax credit that will continue to support the use of LNG and compressed natural gas (CNG) as transport fuels over the next two years.

Two months earlier the US Maritime Administration (Marad) awarded a US$730,000 grant to the Pittsburgh Region Clean Cities (PRCC) project for use in converting a diesel-powered towboat to also run on LNG. The initiative has been launched to demonstrate the development and availability of LNG conversion technology for small-scale tug, tow and harbour vessels working on US inland and coastal waterways. A broader aim is to promote LNG as marine fuel to meet tightening US Environmental Protection Agency (EPA) standards. Progress in this area will also require assistance from the US Coast Guard (USCG) in extending the regulatory regime. The USCG classes many tugs and towboats as uninspected towing vessels and there are currently no safety criteria governing LNG fuel systems for this vessel type. This gap will have to be plugged.

Chinese emission control zones
China’s Ministry of Transport also took action in December 2015, announcing the introduction of three emission control zones (ECZs) in the country as part of a drive to reduce levels of atmospheric pollutants, most notably sulphur oxides (SOx), from ships.

The first ECZ is the northern Bohai Sea area, encompassing the ports of Tianjin, Qinhuangdao, Tangshan and Huanghua while the second is the Yangtze River Delta, most notably the ports of Ningbo-Zhoushan, Suzhou and Nantong. The third ECZ is the Pearl River Delta and the ports of Shenzhen, Zhuhai and Guangzhou. Similar arrangements for Hong Kong and Macau, which fall within the third ECZ, will be negotiated separately.

The ECZs embrace seven of the world’s 10 largest ports. From January 2017 ships at berth in these zones will not be able to burn fuel with a sulphur content greater than 0.5%. From January 2019 the waters in which the restrictions are in place will be extended to a boundary 12 miles from the coast.

China’s ECZs represent the first imposition of such restrictions since the implementation of the North Sea, Baltic Sea

Shell organised the summer 2015 Teesside LNG bunkering of Anthony Veder’s gas-powered ethylene carrier Coral Sticho, prior to the commissioning of a dedicated bunkering facility in the port
and North American emission control areas (ECAs) under Annex VI of IMO’s Marine Pollution Convention. The initiative is expected to promote the cause of LNG-fuelled shipping both globally and in North Asia and will be supported by China’s rapidly expanding LNG distribution infrastructure. The country has 11 major LNG import terminals as well as several small-scale facilities in service and is currently taking delivery of a number of coastal LNG tankers.

China will carry out a review of its new ship emissions policy by the end of 2019 to determine if stricter fuel quality requirements should be imposed going forward. The options being considered include a further reduction in the fuel sulphur standard to 0.1% - matching the European, North American and Caribbean ECA limit - and expanding the coverage of the ECZs.

Europe presses ahead

European governments are channeling their support for LNG bunkering through the European Commission. Current transport policy is aimed at transforming the region’s infrastructure into a unified Trans-European Transport Network (TEN-T) that improves connections, strengthens the economies of member nations and contributes to achieving climate targets. TEN-T funding for the construction of LNG infrastructure is an integral part of the overall programme and, on average, 15 such feasibility studies and projects per annum have received support in the recent past.

Notable recent recipients of TEN-T funding are LNG Masterplan and the ports of Rotterdam and Gothenburg. Initiated by Pro Danube Management and involving a number of coastal and inland ports amongst its 34 partner organisations, the LNG Masterplan project is concerned with promoting gas-powered vessels and LNG bunkering infrastructure on Europe’s inland waterways. The scheme has received European subsidies totalling €40 million and several pilot projects have been carried out using this backing.

Rotterdam and Gothenburg have been granted €34 million of TEN-T funding between them for use in the construction of small-scale terminals in the two ports. The Rotterdam terminal is a breakbulk facility for loading small coastal LNG carriers, LNG bunker vessels and LNG road tankers and is being built adjacent to the Gate LNG import terminal at the entrance to the harbour. The new Gothenburg terminal will be amongst the destinations for LNG cargoes loaded at the Rotterdam breakbulk facility. The latter installation is also likely to play a key role in meeting the fuel needs of the LNG Masterplan participants.

Building on this commitment, the Port of Rotterdam Authority has recently announced that it is introducing a new incentive for ships to bunker LNG. The scheme will offer seagoing vessels that bunker LNG in Rotterdam a 10% discount on gross seaport dues until 2020.

The LNG shipping industry now has its first LNG bunker vessel newbuildings under construction and one of the handful of such ships ordered so far is a 6,500m³ tanker for Shell that will use the Gate breakbulk terminal as its home base. On its delivery in 2017 the vessel will serve not only LNG-powered ships calling at Rotterdam but also those visiting neighbouring ports in North West Europe.

Future use of LNG as marine fuel

Approximately 90% of the current in-service fleet of 440 LNG carriers burn cargo boil-off gas in their propulsion systems. According to the brokers Poten & Partners, these vessels consume approximately 15 million tonnes of LNG per annum as propulsion system fuel.

As yet, the fleet of gas-powered ships that are not LNG carriers burn only a fraction of this volume. However, over time this contingent has the potential to grow substantially in numbers and come to rival the LNG carrier fleet in terms of LNG fuel consumption.

Worldwide there are now nine LNG bunkering stations in operation, 16 under construction or committed and more than 30 planned. In addition many facilities in the global network of 140 large-scale LNG export and import terminals have the potential to supply LNG as marine fuel. Infrastructure is taking shape that will be able to supply not only the 145 LNG-fuelled vessels existing or on order but also many others.

A number of brave shipowners are following the lead of those in Norway and making the commitment to LNG-fuelled vessels. These include TOTE, Crowley, Harvey Gulf and Société des Traversiers du Québec (STQ) in North America and Container ships Oy, Viking Line, Terntank, Anthony Veder and Carnival’s AIDA and Costa Cruises in Europe.

Shipowner efforts are being assisted by energy companies, not least Shell, and the engine manufacturers. MAN Diesel & Turbo, Rolls-Royce, Wärtsilä and Winterthur Gas & Diesel (WinGD) have all developed ranges of gas-burning engines to augment their conventional oil-fired propulsion units.

From an environmental point of view LNG fuel offers the best of the current solutions available to owners as a means of powering their ships. As highlighted by COP21 and growing environmental concerns worldwide, the attractiveness of this advantage will only increase with time.

Editor’s Note: Mike Corkhill is a technical journalist and consultant specialising in oil, gas and chemical transport, including tanker shipping. A qualified Naval Architect, he has been the Editor of LNG World Shipping for the past 10 years and from its inception. Although recently retired from the post, he remains involved with the publication as Consultant Editor.
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Global economics
2016 continues where 2015 ended, with all eyes on China. This is mainly because of uncertainty surrounding the development of the world’s second-largest economy. When the first day of the Shanghai Stock Exchange of 2016 closed prematurely, the trading results echoed around the world. It warned us that we are in for a rough ride in 2016.

IMF has just revised its view on 2016 and 2017, down by 0.2% for each year. Now being more in line with BIMCO’s view of challenging global economics, where the pickup in activity is more gradual than earlier IMF estimates.

The lifting of Iran’s sanctions will impact shipping. As Iran is now fulfilling its obligations under international agreements, the suspension of sanctions will increase the country’s foreign trade, making a positive impact on international shipping. Large-scale investments are needed for Iran to make a significant impact on all shipping segments. Investments in the oil and gas industry are needed to facilitate a growth in exports, as well as increasing the purchasing power of the 80 million Iranians before imports can be boosted.

US
The US have finally started hiking interest rates. This much anticipated event, announced by the US Federal Reserve Bank (FED) on 16 December 2015, may have been “a close call” according to the minutes of the FED meeting. Nevertheless, job creation was still strong in December with 292,000 new jobs, cementing the unemployment rate at 5%.

The US GDP grew by an annual rate of 2.0% in the third quarter. It was comforting to see that private consumption and imports both went up. What did not go up was the inflation rate, but that is not all bad news, as it means that real wage increases are seen across the board, enhancing consumers’ purchasing power.

Asia
2016 started with China at the epicentre of volatility. During the first week of the year, the Shanghai Stock Exchange closed for trading twice after falls of 7% in the leading index. A poor reading of the key indicator in the manufacturing sector added to the overall struggles that the economic transition presents for the government. The slow-down in China echoes in most of the emerging and developing economies (EM) from South America via Africa to its closest neighbours. China has in recent years spurred growth in EM, and as economic growth slows down for China as the “main engine” – so it does for others who normally benefit.

The ongoing devaluation of the Chinese Yuan against the US dollar is a two-edged sword. Exports may go up, which will be good for containerised imports into Europe, but imports will become more expensive in China, which may hamper the tanker and dry bulk markets.

Despite lacking fundamental reform in India, the country’s economic performance stood out in 2015, (as measured by the new methodology of calculating GDP in India, implemented in January 2015). GDP grew by 7.4% in Q3-2015 year on year, up from 7.0% in Q2-2015. For 2016, it’s going to be interesting to see if the Modi administration can deliver another year of strong growth, capitalising on the huge rebranding effort by India in being a good place to do business.

Japan is still making its way back from several decades of bleak economic performance. Prime Minister Shinzo Abe seems to be going the right way after implementing the first two of his “arrows” which focused on fiscal and monetary policies. What remains to be done in this matter, is work on the “third arrow” of structural reform, the significant but missing piece of the puzzle. The successful liberalisation of the energy markets may benefit shipping, but more work is still needed to deregulate the labour market to make the economy stronger.

As we are still to see the anticipated positive effects from the original “three arrows”, PM Abe announced during 2015, “three additional arrows” to move the nation forward: strong economy, support for families and social security. Whether those arrows will create a turnaround is yet to be seen. What has shown itself is that the original “arrows” so far, have failed to turn around its economy as Japan went into its fourth recession in five years, with Q2-2015 GDP growth at -0.7% and Q3-2015 at -0.8%.

Europe
The sluggish inflation rates remain a global issue, not just a European one. December inflation for the Eurozone showed an increase of just 0.2%
against the European Central Bank’s (ECB) target of around 2%. We have not seen inflation at or above the target level since 2011-2012.

Over the past year, the Euro has lost 8% against the US dollar and 3% against the Chinese Yuan. Exchange rate volatility is, once again a big influence on international trade.

Europe remains split, with struggling economies in the south and stronger economies in the north. On top of that Europe is finding the refugee and migration crisis difficult to handle and politicians are at risk of losing focus on improving the economy this year. Luckily, the ECB continues to support the market, handling low inflation, and low interest rates.

Households in the European region saw consumption rise by 2.2% in Q3-2015, unchanged from the previous quarter. If consumers keep spending while governments increase spending as they take care of the refugees and migrants, we could see stronger growth in Europe in 2016. BIMCO sees Europe and Japan as potential positive stories in 2016, standing out from an otherwise dismal outlook in most regions.

neighbouring regions. Underlying all this bad news - fortunately - is the fact that the world economy is moving forward.

It’s not only politics that shape the future, changes to commodity prices and economic structures may do so too. Saudi Arabia has aired a 5-year plan to restore its economy. The drop in oil prices means that revenue has dropped significantly and huge public deficits mean that Saudi Arabia is now considering a new way to run its economy. In 2015, they tapped into the global bonds market for the first time and now look to float a part of the state-owned Saudi Aramco, which is the world’s largest oil company. A lot of commodity exporting nations are facing challenges like this.

According to the World Bank, major advanced economies are going to increase their contribution to global GDP growth during 2015-2018 - but the opposite is true for commodity exporters who are suffering due to low commodity prices.

Historically, growth in advanced economies has generated more trade than growth in emerging markets but that is not guaranteed going forward. What we know from the last few years is that the trade multiplier on economic growth has decreased from the level we saw before 2008 and we have yet to see any improvement on that.

Global seaborne trade is dependent on global growth, thus it is vital if general shipping demand is to go forward that a smooth transition from a sustained recovery to normalized demand become successful. The article was finalised on 18 January 2016. Read about the impact on shipping on the following pages...
Dry Bulk Shipping

A miserable start to a new year, where the market struggles to grow at all

Demand
The global production of steel dropped in 2015 compared to 2014, to a larger extent outside China, as China exported its surplus of steel to destinations across the globe; it is too complex to single out whether this is positive or negative for the seaborne dry bulk transport demand. Going forward, the Chinese steel industry is set to grow its global market share, currently at 50%. Depending on domestic steel consumption in China, use of domestically mined iron ore and profitability in the steel industry, the dry bulk market will be impacted. Chinese steel prices have risen since mid-December and currently, sit at the highest level since October 2015. International iron ore prices could slide further during 2016, as supply exceeds demand.

Since August 2015, dry bulk freight rates have continuously been eroded by deteriorating market conditions. As of 11 January 2016, daily freight rates ranged from USD 3,361 per day for a panamax ship to USD 4,416 per day for a supramax.

The brief lift in capesize rates at the end of November may be explained by the record-high import of relatively cheap iron ore into China. More shipments from Brazil contributed to this lift, squeezing out more domestically produced ore. No less than 96.3 million tons of iron ore were discharged in China in December 2015. This brought the full year total up to 952.7 million tons, 2.2% more than in 2014.

Whereas total transported volumes in 2015 are estimated to have stayed unchanged from 2014, some commodities set new records, while others dropped in significant volume. One of the highlights was soybeans, which also saw a new record high of imports into China in 2015. While soybean import into any other country hasn’t grown for two decades, Chinese imports went from barely anything to 81.7 million tons. China took 9.1 million in December alone, primarily for animal feed.

Despite these record numbers of imported commodities, dry bulk freight rates remain very low. This demonstrates the serious problem of the current market conditions for dry bulk shipping.

Supply
The prices offered to owners who wanted to sell their ship for demolition in the past year were very disappointing. All of the shipbreaking nations have been offered cheap new Chinese steel and accepted the offers. This floored the prices for scrap steel in nations that used to rely on it for around 80% of their steel demand.

Nevertheless, the freight market remains the most significant factor behind the decision to scrap a ship or continue trading. During 2016, BIMCO forecasts that dry bulk shipping capacity of 40 million DWT will be sold for demolition, making 2016 the busiest year on record for shipbreaking.

Despite devastating market conditions in 2015, “only” 30 million DWT were demolished. Considering the factors mentioned above, this illustrates that the pool of ready-to-break ships is not vast, but even a modest improvement in the freight rates causes demolition to halt.
China remains the key driver of the dry bulk market, for better or worse. Volumes are still huge but growth rates are likely to be very low and probably negative for some commodities.

BIMCO forecasts coal imports into both India and China will go down in 2016, following the trend of 2015. Volume losses into India in 2015 were not originally predicted. This went against a multiyear growth trend over the previous years. But, the domestic coal production rose on the back of some political decisions, which seem to work against dry bulk imports.

2016 is also likely to see a return of India to the iron ore export market – something that will be a positive for seaborne demand if market share is taken from Australian exporters, but a negative if it limits Brazilian Asia-bound exports.

For the coming months: January-April, BIMCO expects transported volumes to diminish as they traditionally do from the fourth quarter to the first. This increases a fundamental imbalance as the delivery of new ships in recent years has followed the opposite pattern. That is more new ships are being delivered early in a year rather than late in the year just about to end, achieving the newest “year of built” for the record. As we move into the second quarter the downward pressure should ease somewhat.

BIMCO remains worried about the sustainability of freight rates in 2016. The demand side seems unable to buoy profits as both Chinese and Indian growth cools off and the rest of the world is still importing smaller volumes than before the financial crisis of 2008.

A new record of shipbreaking volumes in 2016 could limit fleet growth to just 10 million DWT, so in fact “all we need” is an increase in transported volumes to around 60 million tons to balance out the inflow. As little as this may seem, growing from a base of 4,700 million tons – it can prove to be a high bar to jump before we start eating into the significant oversupply of ships.
Tanker Shipping

Still a strong market as demand stays high

Demand
One of the most characteristic developments in 2015 was the declining price of crude oil during the second half of the year. Brent crude oil dropped from USD 57 a barrel (bbl.) on 1 July to hit USD 37 a bbl. on the last trading day in 2015. Going into 2016, the trend has continued and for the first time since April 2004, Brent crude oil and WTI light has traded below USD 30 a bbl.

More than anything else, the healthy refinery margins that have followed in the wake of the lower input price has stimulated oil products trading and refinery throughput. This has been a strong boost to overall oil tanker demand. Freight rates would not have reached the highest levels seen since Q4-2014, especially for crude oil tankers without it. This positive result was achieved via a prudent multi-year slowdown in fleet growth.

The production of crude oil is still higher than consumption and many are seizing the opportunity to increase their inventories while the prices are perceived as low. According to the US Energy Information Administration (EIA), the current US crude oil inventories of around 482 million barrels is at a level unlike any of the previous winters going back 80 years. Current inventories are about 100 million barrels above the normal seasonal levels.

China has also been stocking up on crude oil. In December, they imported a record 7.8 million barrels a day of crude oil, 9.3% more compared to December 2014. Overall for the whole of 2015, China’s crude oil imports rose 8.8% reaching a total of 6.7 million barrels a day.

Going forward, this large-scale stockpiling poses a threat to tanker demand once they stop stockpiling and start running down inventories. BIMCO expects that a “correction” in demand may be fairly steep once it arrives. Several factors come into play when that will be: the end of the winter season, flattening or increasing oil price development, run-down of stocks or economic changes in key consuming regions.

In the shorter-term, the oil market’s producers/refiners are being affected by the exceptionally warm winter currently impacting heating oil demand across the Northern Hemisphere this year. In the US, lingering effects of El Nino has resulted in an unusually warm start to the winter months. The US weather authority (NOAA) reports the demand for this “heating season” which runs from October through March, and starts in July, to be 23% lower than normal.

Despite lower demand, the refineries are still going strong due to the low price of crude oil. While vast amounts of the oil products go into stockpiles, much of it is being traded, benefitting the oil product tanker market. China’s oil product exports - consisting mainly of gasoline and diesel- grew by a whopping 53% in December reaching 4.3 million tons. Looking at 2015 as a whole, China exported more than 36 million tons of oil products, equivalent to an increase of 22% compared to 2014. The export’s growth originate from overcapacity in the refinery market as well as permissions given to independent domestic “teapot” refiners to export more oil products. This permission is extended into 2016.

Supply
Fewer new ships have been ordered over the last few years and this has played an important role in creating the current ‘positive’ market. During the final four months of 2015, this trend ended and new orders were placed twice as fast, and the total for the year ended at 11.4 million DWT for oil product tankers. All sizes got a fair share.

For the crude oil tanker segment, the newbuilding market was busy throughout the year. 35 million DWT was ordered, out of which 66 were VLCCs. But most significant was the sudden return of interest in aframax crude carriers. Following a decline in the aframax crude oil tanker fleet from 2013, no less than 57 new orders were placed in 2015. This was the highest number of Aframax crude oil tanker orders since 2006- when 101 were ordered. 2016 marks the end of a multi-year slowdown in fleet growth for crude oil tankers.

This slowdown made a freight market recovery possible as it coincided with an increase in tanker demand starting in mid-2014 when oil prices started to drop and inventories started building. Crude oil tanker supply growth peaked at 6.5% in 2011 and slid to 0.5%
in 2014. BIMCO expects the crude oil tanker fleet to grow strongly in 2016. As demolition activity is likely to stay subdued, the fleet is estimated to grow by 4.3%. Most of the new tankers will be delivered in the second half of 2016.

Outlook
BIMCO expects to see prudent owners and operators starting to order long-term charters as the 3-year time charter freight rate for a modern VLCC has reached USD 44,000 per day and the 1-year time charter rate stand at USD 58,250 per day.

Considering that these are the best time charter rates since the crisis and the freight market for crude oil tankers is expected to soften sometime during 2016, the current market presents an opportunity for some, to secure solid revenue and earnings streams for a fixed amount of time.

The spot market may be very tempting at USD 100,000 per day, but the strong time charter market may be the window some owners and operators are looking for to change their strategy for the coming year’s deployment mix of their fleets.

Moreover, in terms of the asset value at stake - the return on investment is much-improved from 2006-2007 when charter rates were at the same level. In today’s market, you can buy a brand new “resale” for USD 100 million, whereas in 2006-2007, a resale of a new 310,000 DWT VLCC would cost you USD 140 million.

Moving further into the winter months of 2016, the tanker markets are expected to remain strong for the time being. However, with a substantial quantity of crude oil pouring into stockpiles around the world, there is a limit to how long this trend can continue. As stocks fill and the end of winter causes reduced demand for crude oil, oil shipments cannot continue to grow the way they did in 2015 and the tanker markets will feel the effect.

The International Energy Agency (IEA) expects the demand for crude oil to grow by 1.2 million bbl. a day in 2016. Despite this being a significant increase for the year, growth in 2015 was substantially higher at 1.8 million bbl. a day.

After 40 years of banning exports of crude oil, the US lifted the ban in December. The effect it will have on shipping in the coming months will be minimal as the market is overly saturated with oil as it is. Additionally, Iran’s expected increase of oil exports in coming months, following the suspension of sanctions, is also expected to have a fairly neutral impact on the tanker market – albeit some trade patterns may change.

The much-anticipated structural shift in the Chinese economy – away from heavy industry, housing, infrastructure and exports towards a domestic consumer-driven economy – is so far not hindering net oil demand, as consumption of oil products has merely shifted.

More shipping market analysis online at www.bimco.org
Container Shipping

A difficult market is helped along by low supply growth in 2016

**Demand**
Overall, container volumes being moved around the world have grown by an average GDP-to-trade multiplier of just 1.1 since 2010 and we expect this to continue in coming years. With IMF expecting GDP growth of 3.4% in 2016, this translates into container demand of 3.5-4%. The “new normal” level of demand is somewhat lower than originally expected – just as global GDP growth keeps disappointing us. From 2000-2008, the GDP-to-trade multiplier stood at 2.2, delivering container demand growth at 8-9% from a GDP base of 4% on average.

Freight rates across the board saw lower levels more or less all year, with trading into the US East Coast in the first four months of 2015 being the exception. The China Containerized Freight composite Index (CCFI), which covers ten major ports in China and includes long-term contractual rates in addition to spot freight rates, declined 19% in 2015, on average, from the year before. Trades into Europe declined 29% on average, while rates for ships bound for the US West Coast lost 8% on average from the previous year.

In the spot market, the depressing development and the accompanying volatility in 2015 were, even more, apparent (see graph). Spot rates on the Shanghai to Europe trade lost 47% on average from 2014-2015. As the deployed capacity in this trade is leading the industry up and down, growth in volumes needs to return. As this trade went into reverse in 2015, the redeployment of non-competitive ships into other trades hampered freight rates there as well.

**Supply**
There is no way to hide it, nor any reason to. The fundamental imbalance of the containers shipping market worsened in 2015. While the demand side delivered only a sluggish growth level, the supply side jumped by an astonishing 8.1%. We are not making it easy for ourselves.

No wonder the system of cascading broke down, as all trades were already awash with ships ready to be filled up with cargo but still sailing underutilised. 2015 saw the injection of 208 brand new ships with a combined transport capacity of 1.67 million TEU. The highest supply side capacity expansion ever, including 46 ultralarge containerships (more than 13,870 TEU), 66 feeders (up to 3,000 TEU) and 99 other ships with an average size of 8,160 TEU.

Mercifully, 2016 is expected to bring around only 850,000 TEU of new capacity. Yet, it will be a year where all fleet growth will happen in the size-segments larger than 8,000 TEU, just as it has been the case every year since 2012. The only solace is that the work done by owners and investors managed to postpone the original agreed delivery dates. Over the past year, BIMCO estimates that the postponement rate of orderbook has gone up from 15% to 30% with agreed delivery dates. Over the past year, BIMCO estimates that the postponement rate of orderbook has gone up from 15% to 30% with most of the work done in the first half of 2015.

2015 saw a total of 2.1 million TEU of newbuild capacity being ordered. 2016 will see a lower level.

Towards the end of 2015, the amount of idle capacity climbed to 1.36 million TEU (Alphaliner), only to go down again on the expectation that transport demand would go up prior to the Chinese New Year.

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**Container supply growth**

*Source: BIMCO estimates on Clarksons raw data*

A is actual. F is forecast. E is estimate which will change if new orders are placed. The supply growth for 2016-2018 contains existing orders only and is estimated under the assumptions that the scheduled deliveries fall short by 10% due to various reasons and 30% of the remaining vessels on order are delayed/postponed.
That does not seem to be the case, as the demand primarily from Europe is not going anywhere for the time being.

As goes for the permanent reduction of capacity, 2015 was not an upbeat year. 90 ships were sold for demolition, 2/3 being ships smaller than 3,000 TEU. A total of 193,156 TEU.

What a difference a year makes, one year ago there was hardly any idling seen. As if the market was just about in balance with all ships ready for the anticipated cargo rush in January. Like it or not, the container shipping fleet can cater for a much higher transport requirement than it does today, without growing at all for a few years.

**Outlook**

The lower bunker costs are very welcome to an industry struggling to make a profit. The lower fuel price, however, may not be such a blessing, as some may have forgotten that slow-steaming originally was a way to deploy more ships without increasing capacity on the strings.

As we have seen, even in the tramp shipping segments, speed has gone up now that the fuel is much cheaper. By mid-January 2016 HFO 380 cSt was quoted at USD 112 per tons in Rotterdam and USD 152 per tons in Singapore (Marine Bunker Exchange). This compares to USD 242 and 281 respectively one year ago. A drop in prices of 50%.

Viewed in the light of how difficult 2015 turned out to be, how can it be that less than 200,000 TEU was taken out of the active fleet? Could it be because 75% of the fleet is 10 years or younger? OR is it that we need to see all ships built before 1994 broken up before we could set a new record beating the 444,000 TEU from 2013? It’s not easy parting with your assets these days. Even if banks stopped propping up entities to prevent bankruptcies, the eventual sale of assets in this market would only intensify the chase for lower cost levels. It would not change the fundamentals at all – which need to become better at it is the only way to improve asset values for the better for both owners and banks. Over the past year, containerships have lost 6-16% of their value according to Vesselsvalue.com. We must get past the Chinese New Year celebrations taking place in the week of 8 February 2016 before export volumes can rise again. As demand for Chinese manufactured goods is weak, many factory workers have already started to go on holiday.

We need European retailers and wholesalers to stop running down inventories and start importing containerised goods to a large extent again. The ongoing declining value of the Chinese Yuan against the US dollar may inspire some to go back to its Chinese suppliers for goods. Private consumption in Europe has been steady over the past year so eventually demand should come back. At what level and what time remains uncertain. What remains certain is “the sooner the better”.

According to SeaIntel, deployed capacity in Asia to North European trades was down by 0.43% in 2015 from the previous year. For freight rates to rise, a return in demand is not enough, we need the supply side to support the fundamental balance too.

BIMCO expects imports in the US to present an upside to the industry as the economy is constantly improving and demand from the consumer is very solid.  

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Shipping trims operating costs but stiff challenges lie in wait

The past twelve months have served to underline the inherent volatility of the shipping industry.

The quarterly Moore Stephens Shipping Confidence Survey showed industry confidence declining at the start of 2015, then picking up before falling again slightly towards year-end. But shipping is nothing if not resilient.

Buffeted by declining freight rates and over-capacity in many tonnage sectors, and suffering to varying degrees the effects of geopolitical developments (most notably those involving Syria and the EU migrant crisis), shipping nevertheless recorded an average confidence rating of almost 5.6 out of a maximum possible 10.0 in the 12 months ending November 2015. There was no shortage of companies willing to consider new investments, and no lack either of willing investors to underwrite a strategically sound deal.

This, however, is not to underestimate the difficulties which shipping will have to contend with in 2016. The struggle to achieve higher freight rates will be played out against a background of excess tonnage and insufficient ship recycling, as well as continuing political uncertainty and a number of regulatory compliance requirements, which are likely to include the entry into force of the Ballast Water Management Convention.

The good news is that total annual operating costs in the shipping industry fell by an average of 0.8% in 2014, according to the findings of OpCost 2015, Moore Stephens’ unique ship operating costs benchmarking study. This compared with the 0.3% average fall in costs recorded for 2013. All categories of expenditure were down on those for the previous 12-month period, and no lack either of wishing investors to underwrite a strategically sound deal.

OpCost 2015 revealed that total operating costs for the tanker, bulker and container ship sectors were all down in 2014, the financial year covered by the study. On a year-on-year basis, the tanker index was down by 2 points (1.1%), while the bulker index fell by one point (0.6%). The container ship index meanwhile, was down by 2 points (1.2%). The corresponding figures in last year’s OpCost study showed a rise of 2 points in the tanker index, and falls of 2 points in the bulker and container ship indices.

There was an 0.1% overall average fall in 2014 crew costs, compared to the 2013 figure, which itself was 0.2% down on 2012 (by way of comparison, the 2008 report revealed a 21% increase in this category). Tankers overall experienced a fall in crew costs of 0.4% on average, compared to the 1.8% increase recorded in 2013. Within the tanker sector, suezmax tankers reported an overall increase of 1.6% in crew costs, while for operators of handysize product tankers the increase was 0.2%. All other vessels in the category showed a fall in crew costs for 2014.

For bulkers, meanwhile, crew costs were unchanged, having recorded a 0.5% average fall in the previous year. The operators of handymax bulkers and handysize bulkers paid 2.3% and 0.5% more, respectively, in crew costs than in 2013, but there was a 2.0% fall in this respect for capesize bulkers, and an 0.5% drop for panamax bulkers.

Expenditure on crew costs was unchanged in the container ship sector, having stabilised in 2013 at the previous year’s level. The 2.5% increase in crew costs recorded for container ships in the 1,000 - 2,000 teu category contrasted with the 1.4% fall in such costs for bigger container ships (2,000 - 6,000 teu).

Expenditure on stores was down by 2.4% overall, compared to the fall of 1.9% in 2013. The biggest fall in such costs was the 5.3% recorded by operators of handysize bulkers, closely followed by container ships in the 1,000 - 2,000 teu range (5.1%). For bulk carriers overall, stores costs fell by an average of 3.7%, compared to a fall of 4.1% in 2013, while in the tanker and container ship sectors the overall reductions in the cost of stores were 0.7% and 3.0% respectively. The

Source: Moore Stephens OpCost 2015
only increases in stores expenditure were those recorded by panamax tankers and suzemax tankers (each 1.2%), and by the operators of dry cargo vessels in the 5,000 - 25,000 dwt range (0.8%).

There was an overall fall in repairs and maintenance costs of 0.6%, compared to the 0.4% reduction recorded for 2013. The most significant cost reductions here were those recorded for tankers of between 5,000 and 10,000 dwt (3.3%), and for 1,000 - 2,000 teu container ships (3.2%). Bucking the trend, VLCCs recorded an increase in repairs and maintenance costs of 2.5%, and capesize bulkers of 1.8%.

The overall drop in costs of 0.4% recorded for insurance compares to the 0.3% fall recorded for 2013, and is the lowest in this category for a number of years. There were wide divergences, even within general tonnage categories. Whereas operators of capesize bulkers paid 5.1% more for their insurance in 2014, panamax bulkers paid 3.8% less.

This is the third successive year-on-year reduction in overall operating costs in the shipping industry, although a longer-term analysis of the OpCost figures paints a rather different picture. At year-end 2001, for example, the average daily operating cost for a panamax bulk carrier was US$3,565. In 2014, it was US$6,046. For a handysize product tanker, the comparable figures were US$4,164 and US$7,931.

Looking further ahead, vessel operating costs are expected to rise by 2.8% in 2015 (for which year actual figures are not yet available for analysis) and by 3.1% in 2016, according to the findings of the latest Moore Stephens Future Operating Costs survey.

Crew wages are expected to increase by 2.4% in 2015 and by 2.3% in 2016, with other crew costs thought likely to go up by 2.0% and 1.9% respectively for the years under review. The cost of repairs and maintenance is expected to escalate by 2.3% in 2015 and by 2.4% in 2016, while drydocking expenditure is predicted to increase by 2.6% and 2.3% in 2015 and 2016 respectively.

The cost of hull and machinery insurance is predicted to rise by 1.8% in 2015 and by 1.9% in 2016, while for P&I insurance the projected increases are slightly lower – 1.7% and 1.8% respectively.

Expenditure on spares is expected to rise by 2.3% in 2015 and by 2.2% in 2016, while for stores the corresponding projected increases are 1.8% and 1.9%. The increase in outlay for lubricants, meanwhile, is predicted to be 1.1% and 1.7% in 2015 and 2016 respectively, and that for management fees 1.7% in each of the two years under review.

The predicted overall cost increases for 2015 were highest in the offshore sector, where they averaged 3.4% against the overall survey increase of 2.8%. For 2016, it was the tanker sector which was predicted to experience the highest level of increases – 3.4% compared to the overall survey average of 3.1%. The container ship sector, meanwhile, was not far behind at 3.3%.

Overall, the factors deemed most likely to influence the level of vessel operating costs over the next 12 months were finance costs at 22% (compared to 21% in last year’s survey) and competition also at 22% (up from 18% last time). Crew supply was in third place with 17% (down 3 percentage points on last time), followed by demand trends (down by one percentage point to 16%) and labour costs, unchanged at 13%. The cost of raw materials was cited by 8% of respondents (compared to 10% in last year’s survey) as a factor that would account for an increase in operating costs.

It is no surprise that crew wages feature near the top of the predicted operating cost increases for both 2015 and 2016, not least because of the rise in freight rates and to allow for a reasonable profit margin remains the challenge for the foreseeable future.

The level of increases anticipated for 2015 and 2016 are low in comparison with many witnessed in recent years. Shipping has seen much worse and prevailed, and many of the companies which endured a 16% rise in operating costs in 2008 are still operating successfully today. Pushing up freight rates sufficiently to cover operating expenses and to allow for a reasonable profit margin remains the challenge for the foreseeable future.

![Table: Cost type (mean) 2015 2016](image)

<table>
<thead>
<tr>
<th>Cost type (mean)</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crew wages</td>
<td>2.4</td>
<td>2.3</td>
</tr>
<tr>
<td>Other crew</td>
<td>2.0</td>
<td>1.9</td>
</tr>
<tr>
<td>Lubricants</td>
<td>1.1</td>
<td>1.7</td>
</tr>
<tr>
<td>Stores</td>
<td>1.8</td>
<td>1.9</td>
</tr>
<tr>
<td>Spares</td>
<td>2.3</td>
<td>2.2</td>
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<td>Repairs &amp; maintenance</td>
<td>2.3</td>
<td>2.4</td>
</tr>
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<td>H&amp;M insurance</td>
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<td>1.9</td>
</tr>
<tr>
<td>P&amp;I insurance</td>
<td>1.7</td>
<td>1.8</td>
</tr>
<tr>
<td>Management fees</td>
<td>1.7</td>
<td>1.7</td>
</tr>
<tr>
<td>Dry docking</td>
<td>2.6</td>
<td>2.3</td>
</tr>
<tr>
<td>Total operating costs</td>
<td>2.8</td>
<td>3.1</td>
</tr>
</tbody>
</table>
History lessons

Will carriers repeat the same tactics that saved them in 2009, or will they wait until things reach boiling point?

Carriers are repeating some of the mistakes that got them into such hot water in 2009, but the industry is not facing a crisis on the same scale as then and its finances are in better shape to survive the current crisis.

There is a cruel anecdote about frogs that will immediately leap out of hot water but stay and be cooked alive if the water is heated slowly. The message – that it takes a moment of shock to elicit a response – could be used as metaphor for container lines. With many facing oblivion in 2009 – leading some commentators to refer to a gang of ‘zombies’ – they jumped (relatively) quickly, employing a wide range of tactics that ultimately saved them from extinction. Now that the industry is heading into another unprofitable period, the question is whether they will take similar action or slowly stew in the pot.

Today’s market does share some similarities to the 2009 crisis: carrier staff redundancies, ultra-low freight rates and the rapid increase in the number of ships being idled.

It’s never easy second-guessing carriers’ actions and much will depend on how bad things get and how much cushioning they have. So it’s worth examining the similarities between then and now and to look at the relative financial health.

The 2009 crash was ultimately the result of the industry being hit by the after-shock of the global financial crisis, which saw demand for their services plummet by an unprecedented 9%. The pain was intensified as carriers, desperate to cling on to their dwindling loads, were too ready to offer non-compensatory prices, leading to a massive cash drain that took some very close to the abyss.

Figure 1 highlights that the operating cash flow for a sample of 14 major shipping companies was reduced to virtually zero by the end of 2009. Of the 14 companies, eight were cash-negative.

The liquidity crisis forced carriers into some desperate measures. The first step was to ramp up the slow steaming of vessels, but much more was needed to match supply with faltering demand and eventually carriers had no alternative but to go to the next level: off-hiring charter vessels, laying-up some owned ships and even re-routing ships to avoid canal tolls.

Even these stringent capacity measures weren’t enough for some lines, which had to call upon shareholders, governments and new investors for financial support. Terms with banks, shipyards and charter owners were renegotiated to limit the immediate cash drain and many needed to sell off assets such as ships, terminals and some non-core units to repair their balance sheets.

The supply-side retrenchment and cash-generating tactics bought carriers time and they were handed a lifeline when demand returned in 2010 almost as quickly as it had disappeared. Had it not, almost certainly a number of those zombies would not have regenerated.

| Table 1: Then and now: what similarities exist between 2009 and 2015? |
|-------------------|-------------------|-------------------|-------------------|
| **What?** | **2009** | **2015** | **Better, same or worse now?** | **What happened next?** |
| Average revenue/teu | Fell by 27% against 2008 | Down by about 9% as of 3Q but nearly of equal dollar value to 2009 | Better (just!) | Rates surged by just over 33% in 2010 |
| Supply | World fleet swelled by 6% before any capacity measures undertaken | Growth likely to be 8%; idling is less but increasing fast | Worse | Increased slow-steaming and idling of around 10% of fleet in 2009 cut effective capacity by 5% |
| Demand | Loaded container traffic fell by nearly 9% | On course to not be little more than 1%: the lowest rate since 2009 | Better | World traffic shot up around 14% in 2010 |
| Income | Industry operating loss in region of $19-20 billion | Rapidly deteriorating margins but most carriers will end 2015 in the black | Much better | Clawed back all of 2009’s losses and more with industry profit of $21-22bn in 2010 |
| Costs | Bunker prices dropped by around a quarter | Bunkers on course to finish year with a half-price discount | Much better | Marine fuel rose in 2010 by as much as it had fallen in 2009 as demand returned |
| Balance sheet health | Cash flow virtually nil by end of year | Cash flow up by 3% after 9 months | Much better | Return to profits and asset sales helped cash flows rise to pre-crisis level |

Source: Drewry Maritime Research (www.drewry.co.uk)
The shock of 2009 also caused carriers to finally convert to the principles of yield management and ditch their obsession with grabbing market share. At the time, Drewry wrote that some good might come from the events of 2009 (in terms of carrier profitability) if this new approach could be maintained. It couldn’t. After a record year for profits in 2010, business returned to normal and the industry slumped back into the red in 2011.

Carriers’ apparent short memories and willingness to ditch profitable tactics suggest that, like our frog, they need the situation to reach a critical level before they move.

As bad as the market currently is, things are nowhere near as woeful as they were in 2009, which suggests that carriers will continue to tinker around the edges with short-term capacity adjustments such as missed voyages to improve matters. The

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**Table 2: Z-score of container shipping companies or parent companies - 9 months 2015**

<table>
<thead>
<tr>
<th>Company</th>
<th>Period Ended</th>
<th>Unit</th>
<th>Net Sales</th>
<th>EBIT</th>
<th>Assets Total</th>
<th>Current</th>
<th>Book Value of Equity</th>
<th>Liabilities Total</th>
<th>Current</th>
<th>Retained Earnings</th>
<th>Z-Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>AP Moller-Maersk</td>
<td>9 months</td>
<td>million US$</td>
<td>31,183</td>
<td>4,566</td>
<td>64,684</td>
<td>11,106</td>
<td>38,042</td>
<td>20,042</td>
<td>8,918</td>
<td>34,948</td>
<td>2.64</td>
</tr>
<tr>
<td>CMA CGM</td>
<td>9 months</td>
<td>million US$</td>
<td>12,101</td>
<td>888</td>
<td>14,062</td>
<td>4,664</td>
<td>5,462</td>
<td>6,610</td>
<td>3,795</td>
<td>4,617</td>
<td>2.34</td>
</tr>
<tr>
<td>OOIL (parent of OOCL)</td>
<td>6 months</td>
<td>million US$</td>
<td>3,044</td>
<td>271</td>
<td>9,973</td>
<td>3,181</td>
<td>4,839</td>
<td>5,135</td>
<td>1,233</td>
<td>2,169</td>
<td>2.26</td>
</tr>
<tr>
<td>K Line group</td>
<td>6 months</td>
<td>billion Yen</td>
<td>668</td>
<td>16,221</td>
<td>455</td>
<td>406</td>
<td>679</td>
<td>259</td>
<td>261</td>
<td>2.06</td>
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<tr>
<td>Hanjin Shipping</td>
<td>6 months</td>
<td>billion Yen</td>
<td>197</td>
<td>3,904</td>
<td>21,224</td>
<td>32,224</td>
<td>35,966</td>
<td>45,577</td>
<td>19,297</td>
<td>12,005</td>
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<td>Matson, Inc.</td>
<td>6 months</td>
<td>million US$</td>
<td>1,330</td>
<td>130</td>
<td>1,373</td>
<td>348</td>
<td>431</td>
<td>1,306</td>
<td>298</td>
<td>163</td>
<td>1.81</td>
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<tr>
<td>NYK group</td>
<td>6 months</td>
<td>billion Yen</td>
<td>1,198</td>
<td>39</td>
<td>2,670</td>
<td>842</td>
<td>881</td>
<td>1,689</td>
<td>537</td>
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<tr>
<td>Hanjin-Lloyd Holding</td>
<td>6 months</td>
<td>billion Yen</td>
<td>6,808</td>
<td>349</td>
<td>10,705</td>
<td>1,438</td>
<td>4,673</td>
<td>6,077</td>
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<td>China Shipping Container Lines</td>
<td>6 months</td>
<td>million RMB</td>
<td>15,961</td>
<td>216</td>
<td>54,112</td>
<td>12,212</td>
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<td>million US$</td>
<td>905</td>
<td>8</td>
<td>2,514</td>
<td>496</td>
<td>1,584</td>
<td>1,640</td>
<td>500</td>
<td>529</td>
<td>1.36</td>
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<tr>
<td>Evergreen Marine Corp</td>
<td>9 months</td>
<td>million NT$</td>
<td>103,141</td>
<td>-473</td>
<td>193,789</td>
<td>81,960</td>
<td>66,486</td>
<td>127,304</td>
<td>40,440</td>
<td>15,449</td>
<td>1.20</td>
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<td>Evergreen Marine Corp (parent of APL)</td>
<td>6 months</td>
<td>million US$</td>
<td>1,000</td>
<td>1,000</td>
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<td>1,000</td>
<td>1.14</td>
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<tr>
<td>China Cosco (parent of Cosco Container Lines)</td>
<td>6 months</td>
<td>million NT$</td>
<td>29,922</td>
<td>2,863</td>
<td>155,136</td>
<td>56,131</td>
<td>45,364</td>
<td>108,772</td>
<td>37,727</td>
<td>15,950</td>
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Note: OOIL, China Shipping Container Lines and China Cosco either do not provide interim statements or provide insufficient data to produce a quarterly assessment.

Source: Drewry Maritime Research (www.drewry.co.uk), from company reports
The Shipping Market Overview and Outlook

Editor’s Note: Source: Drewry Maritime Research (www.drewry.co.uk), Sea & Air Shipper Insight report.

A rising number of idle ships does suggest they are getting more worried, but only if the market turns as sour as 2009 (highly unlikely) do we expect lines to jump in the same way.

Carriers have done a lot to repair their balance sheets. Operating cash flows have bounced back strongly since 2010 and at the nine-month stage of 2015 the cash flows of our sample group were 3% up on last year. However, they remain significantly below where they stood before the 2009 crash, meaning there is less in reserve to handle another downturn of the same magnitude. Following the array of asset sales, carriers also have less of the family silver to sell if the need arises.

To provide a quick reference to the financial fitness of selected service providers, Drewry initiated a Z-score freight operators’ financial stress index, which is updated in the monthly Sea & Air Shipper Insight report (see Table 2). Based on the latest available financial reports, the Z-score table shows that six of the 17 companies languish in the so-called cautionary ‘grey zone’, with the remainder struggling (some more than others) in the red-highlighted ‘distress zone’.

This is better than was the case in 2009 when the average Z-score reading for these lines was just 1.24 (see Figure 2) but the flat-lining witnessed since 2011 suggests there is still much work to do before carriers can declare themselves fighting fit.

Inevitably, some carriers have performed better over time than others, and following the Z-score ratings provides a handy way to spot companies on the rise or heading in the opposite direction. The cases of CMA CGM and NOL, currently engaged in potential merger or takeover talks, are good examples. CMA CGM was on its knees in 2009 but has strengthened its balance sheet dramatically in the last few years to the point that it can now consider such a bold move. NOL, on the other hand, has slipped down the Z-score rankings following consistent losses.

### About the Z-Score

The Z-score is calculated as follows:

- \( T_1 = \frac{\text{Current assets-current liabilities}}{\text{total assets}} \)
- \( T_2 = \frac{\text{Retained earnings}}{\text{total assets}} \)
- \( T_3 = \frac{\text{Annualised earnings before interest and taxes}}{\text{total assets}} \)
- \( T_4 = \frac{\text{Book value of equity}}{\text{total liabilities}} \)
- \( T_5 = \frac{\text{Annualised sales}}{\text{total assets}} \)

A Z-score bankruptcy rating = \( 1.2T_1 + 1.4T_2 + 3.3T_3 + 0.6T_4 + 1.0T_5 \)

A Z-score at or above 2.99 indicates that the company is safe, based on these financial figures only. A Z-score between 1.8 and 2.99 indicates that one should exercise caution (grey zone) based on these financial figures only. A Z-score below 1.8 indicates a higher risk of the company going bankrupt (distress zone), based on these financial figures only.

Drewry publishes the Z-score table – also including other freight transport companies from other sectors - in its monthly Sea & Air Shipper Insight report.

Contains contact information and details for Bunker Suppliers, Traders and Brokers worldwide.

Find your best Bunker option searching by Country, Port or Company.

Please type in port name: Rotterdam

Found 20 companies operating in Rotterdam

**Primary list**

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SAFETY, ENVIRONMENTAL PROTECTION AND CREATING VALUE FOR CLIENTS AND SOCIETY
In order to curb air pollution, the Chinese government recently launched an implementation act for three Emission Control Areas (ECAs) covering major shipping hubs in China, which is designed to promote green shipping as well as ship efficiency.

Ships concerned
In accordance with the Emission Control Area Implementation Act for the Pearl River Delta, the Yangtze River Delta and Bohai Rims (Beijing, Tianjin and Hebei provinces) issued by the Ministry of Transportation on 4 December 2015, this applies to all merchant ships sailing within the ECAs.

Scope of ECA
The ECA covers relevant key ports areas that are defined by the following scope:

A. The Pearl River Delta ECA
Maritime boundary:
All sea areas within the line connected by the following six points of A, B, C, D, E and F (see diagram below) (excludes all areas governed by Hong Kong and Macau)

A: Coastal line junction point between Hui Zhou and Shan Wei
B: Extends 12 miles from the Zhentou Rock
C: Extends 12 miles from the Jiapeng islands
D: Extends 12 miles from the Jiawei Island
E: Extends 12 miles from the Dafanshi Island
F: Coastal line conjunction point between Jiang Men and Yang Jiang

Inland waterways cover all domestic navigable waters administrated by Guangzhou, Dongguan, Huizhou, Shenzhen, Zhuhai, Zhongshan, Foshan, Jiangmen and Zhaoqing (9 cities).

The key ports within this ECA are Shenzhen, Guangzhou and Zhuhai.

B. The Yangtze River Delta ECA
Maritime boundary:
All sea areas within the line connected by the following 10 points of A, B, C, D, E, F, G, H, I and J. (see Figure 1 below)

A: Coastal line junction point between Nantong and Yancheng
B: Extends 12 miles from the Waikejiao Island
C: Extends 12 miles from the Sheshan Island
D: Extends 12 miles from the Hai Rock
E: Extends 12 miles from the Dongnan Rock
F: Extends 12 miles from the two brother islet
G: Extends 12 miles from the Yushan islands
H: Extends 12 miles from the Taizhou islands (2)
I: Extends 12 miles from the coastal line junction point between Taizhou and Wenzhou
J: Coastal line junction point between Taizhou and Wenzhou

 inland waterways covers all domestic navigable waters administrated by Nanjing, Zhenjiang, Yangzhou, Taizhou, Nantong, Changzhou, Wuxi, Suzhou, Shanghai, Jiaxing, Huzhou, Hangzhou, Shaoxing, Ningbo, Zhoushan and Taizhou (16 cities).

The key ports within this ECA are Shanghai, Ningbo-Zhoushan, Suzhou and Nantong.

C. Circum-Bohai-Sea (also called Bohai Rims including Beijing, Tianjin and Hebei) ECA
Maritime boundary:
All sea areas within the line connected by the coastline conjunction point Dalian-Dandong and the coastline conjunction point Yantai-Weihai.

Inland waterways cover all domestic navigable waters administrated by Dalian, Yingkou, Panjin, Jinzhou, Hutudao, Qinghuangdao, Tangshan, Tianjin, Cangzhou, Binzhou, Dongying, Weifang and Yantai (13 cities).

The key ports within this ECA are Tianjin, Qinghuangdao, Tangshan and Huanghua.

Control Requirements
1. As of 1 January 2016, all ships must adhere to international conventions as well as domestic regulations regarding SOx, particulate matter and NOx emission’s requirements. Some ports who come under the conditions within the above ECAs, may use a sulphur content in fuel oil not exceeding 0.5% m/m, which is above the current requirement during the ship’s dock mooring.

2. As of 1 January 2017, all ships that moor in the docks within key ports (both one hour...
after mooring and one hour before leaving are excluded) ought to use a sulphur content in fuel oil not exceeding 0.5% m/m during the whole period.

3. As of 1 January 2018, all ships that moor in the docks within ECAs ought to use a sulphur content in fuel oil not exceeding 0.5% m/m during the whole period.

4. As of 1 January 2019, all ships that sail within ECAs ought to use a sulphur content in fuel oil not exceeding 0.5% m/m.

5. The regulator will assess the above measures prior to 31 December 2019 to decide whether to take the following further actions:

   (1) all ships that sail within ECAs ought to use a sulphur content in fuel oil not exceeding 0.1% m/m
   (2) expand geographical area of ECAs
   (3) other further measures.

6. Alternatively, ships can use the shore power connection during docking, use clean energy, tail gas treatment etc that are equivalent to the said discharge control requirements.

Safeguards

(1) Strengthen the organisation and leadership
Transport authorities at all levels should strengthen organisational leadership and coordinate all detailed task measures with a clear division of responsibility; actively coordinate relevant state departments and local governments with a view to releasing new regulations and developing technical standards; promote information sharing, conduct joint inspections, establish a joint supervision and management mechanism to promote effective enforcement towards the Emission Control Area programme.

(2) Fortify supervision and management
Maritime administrations should organise research about monitoring technology for ship air pollution and constantly improve monitoring capabilities to improve air pollution monitoring; establish a supervisory inspection management mechanism, promote testing equipment and capability-building; strengthen inspection with ship air pollution prevention certificates, oil record books, bunker supply orders and fuel-quality documents; supervise the vessel inspection agency to improve ship engines and other related marine products’ quality inspections; and verify the effectiveness of alternative measures.

(3) Promote policy guidance
Transport authorities at all levels should actively coordinate national authorities and local government to introduce incentives and support measures, such as strengthen the production, supply and use of low sulphur fuel, for ships, shore power, ship upgrading and application of clean energy by implementing a financial subsidy, convenient transportation and other incentives.

(4) Establish improved communication between Hong Kong and Macao
Establish improved communication between Hong Kong and the Macao Special Administrative Region. In particular, its aim is to strengthen the work of the Pearl River Delta and Hong Kong and Macao waters ship emission’s control area. In addition to coordinating and implementing emission control standards and measures, implementation time, and experience sharing with different applications with a view to integrating Hong Kong and Macao ship emissions.

Bumpy road ahead for S. Korean shipyards
As some analysts are suggesting, the South Korean shipbuilder’s heyday has gone, and they are now bearing the brunt of order cancellations and increased costs, with tough restructuring in store for the sector in the coming years.

In the third quarter of the year, the country’s major shipbuilders, led by Hyundai Heavy Industries Co, logged massive losses, largely due to a series of order cancellations and a delay in the construction of offshore facilities. The country’s biggest three shipyards — Hyundai Heavy, Samsung Heavy Industries Co and Daewoo Shipbuilding & Marine Engineering Co — racked up a combined operating loss of 2.1 trillion won (US$1.85 billion) during the July-September 2015 period. The combined operating loss by the country’s biggest three shipyards is estimated to be 7.8 trillion won for the year, marking for the first time that the top three shipyards have suffered operating losses for the year.

Creditors of the state-run Korea Development Bank (KDB) are set to inject 4.2 trillion won in financial aid to Daewoo Shipbuilding in their latest bid to salvage it. Daewoo Shipbuilding has suffered more than a 4 trillion won loss in the first three quarters, largely due to a delay in the construction of offshore facilities and a series of order cancellations.

With its loss ballooning, the creditors have been working on a rescue plan for the shipbuilder. In return, the shipyard’s labour union agreed not to seek pay hikes or go on strike in return for the massive rescue plan. Creditors are also considering massive cash injections into another shipyard, STX Offshore & Shipbuilding Co, and other smaller shipyards, which are teetering on the brink of collapse. The sobering reality, according to analysts, is that they are facing a protracted slump down the road with new orders likely to plunge 27 percent this year.

According to the report compiled by the KEXIM Overseas Economic Research Insti-
tute, local shipbuilders received a combined US$19.05 billion in the first nine months of the year, down 19.4 percent from the previous year. In terms of volume, their new orders also declined 2.5 percent to 8.77 million compensated gross tons (CGTs) in the January-September period. The report estimates this year’s orders to be $24 billion, compared with $32.71 billion last year. In terms of volume, new orders are also expected to decline 13 percent to 10.9 million CGTs. Their combined order backlog is forecast to dip 9 percent to 32.4 million CGTs this year, the report said. In the first three quarters of the year, new orders placed around the globe dropped 42 percent to $53.76 billion. In terms of volume, the corresponding figure was 23.34 million CGTs, down 33 percent over the cited period.

The report said the shipbuilding industry will continue to face challenges next year due to a decrease in demand for offshore facilities and a downward trend in the global shipping industry. Due to a severe slump in the offshore facility segment, the shipbuilding industry will continue to struggle. Demand for LNG carriers, one of South Korean shipbuilders’ cash cows, is also likely to dip for the time being. Oil prices do not show any sign of a sharp recovery, reducing demand for oil drilling rigs and other offshore facilities.

**IMB calls for global information sharing centre to combat piracy and illegal migration**

The International Maritime Bureau (IMB), has called for a global information sharing centre to combat piracy. The IMB has said that to improve this situation participants considered how a common worldwide information sharing framework would expedite coastal state and naval responses to incidents helping to protect seafarers and catch the criminals involved.

As noted by IMB, information sharing and coordinated action between concerned coastal states is crucial in responding to this threat. However, the proliferation of reporting centres in some regions could create a degree of confusion that can leave seafarers and ships unnecessarily at risk. For crimes at sea, rapid response is crucial if there is to be any possibility of prosecuting the pirates.

**Liners in China are under pressure to slash surcharges by up to 50 per cent**

Major liners have decided to slash surcharges in China from October 2015 by up to 50 per cent to boost traffic, but industry insiders doubt it will make any difference to dwindling trade.

The cuts follow the Ministry of Transport’s decision to compel shipping lines to end arbitrary surcharges to give relief to Chinese importers and exporters, especially in the pre-Christmas peak season. Surcharges, different from freight rates, are collected on land for various purposes such as customs clearance and documentation.

According to the China Shippers’ Association, shipping companies today impose more than 20 kinds of surcharges in the country. So far, 11 international and domestic shipping companies have announced reductions in surcharges. However, the freight forwarders are hardly excited. Not much difference could be observed from the industry practitioners, let alone to realise its designed effect to spur the Chinese trade. Trade has taken a hit as the mainland economy slows, with exports falling 1.8 per cent and imports down 15.1 per cent in the first nine months of the year. As a reality, total surcharges in general amount to 2,000 to 3,000 yuan per container in China. With the market in a downturn, many shipping companies have already cut freight rates sharply, which can result in more savings than surcharges.
What does China and India mean to the world coal trade?

Global trade of coal grew dramatically from 2008 to 2013, but in 2014, it declined for the first time in 21 years. China and India accounted for 98% of the increase in world coal trade from 2008 to 2013, but declines in China’s import demand have led to declines in total world coal trade in 2014 and, based on preliminary data, in 2015 as well.

Nearly all of the 47% growth in total world coal trade between 2008 and 2013 was driven by rising coal import demands by countries in Asia, specifically China and India. Coal trade in the rest of the world declined over the same period. However, data for 2014 and 2015 indicate a reversal of this trend, with declines in China’s coal imports currently on pace to more than offset slight increases in other countries in both years.

China imported 341 million short tons of coal in 2013, up from 45 million short tons in 2008, while India imported 203 million short tons, up from 69 million short tons. About 75% of China’s coal imports and 90% of India’s coal imports was steam coal, used primarily for electricity generation. Coking coal, used in the manufacture of steel, made up the remaining volumes.

While China’s coal imports have been declining in 2014 and 2015, India’s imports continued to rise in 2014 and through the first half of 2015 as coal demand increased at a faster pace than domestic supplies. In China, rising output from domestic mines, improvements in coal transportation infrastructure, and slower growth in domestic coal demand have resulted in lower domestic coal prices and reduced demand for coal imports.

Additionally, the Chinese government introduced a number of measures in late 2014 and early 2015 aimed at supporting China’s coal industry. These measures include re-establishing taxes on coal imports; placing limits on allowable sulphur, ash, and trace elements for imported coal; and issuing a directive to major utilities to reduce their annual coal imports by approximately 55 million short tons.

In India, efforts are underway to substantially increase domestic coal production over the next few years and to complete three major rail transportation projects for facilitating increased shipments of coal from major producing regions in north-eastern India, to demand centres in other parts of the country. Although India’s coal producers have already increased domestic production in 2014 and through the first few months of 2015, the first of India’s three major coal railway projects, the Jharsuguda-Barpali railway link, is not scheduled to be completed until approximately 2017.

Increases in exports from Indonesia and Australia met most of the expansion in international coal trade between 2008 and 2013. Indonesia’s exports increased by 247 million short tons, accounting for 56% of world coal export growth. Australia’s exports increased by 106 million short tons, accounting for an additional 24% of the global increase. Additional exports from Eurasia (49 million short tons) and the United States (36 million short tons) accounted for almost all of the remaining increase in coal exports during this period.

Lack of growth in global demand for coal imports in 2014 and 2015 has led to significant declines in coal export sales from Indonesia and the US. Export sales from other countries/regions, including Australia, Eurasia, southern Africa, and South America, are on track to be near or slightly higher in 2015 compared with 2013. US coal exports are down primarily because of their higher production costs relative to other coal exporting countries. The decline in Indonesian exports is attributed primarily to China’s reduced demand for imported coal, accompanied by a reduced demand in both China and India for Indonesia’s lower-quality export coals.
Latest EU regulatory news with focus on migrants and environmental issues

Industry involvement in search and rescue for migrants at sea
Reacting to a humanitarian tragedy involving over 700 migrants last April, the EU tripled the resources of its maritime border control operation. Following this, the number of ships called upon by the authorities to assist in search and rescue operations has decreased considerably.

Meanwhile in the European Parliament, co-rapporteurs were appointed on a Civil Liberties and Home Affairs (LIBE) Committee report focusing on the situation in the Mediterranean. The draft report will be released shortly after incorporating input from the Transport (TRAN) Committee.

In TRAN, the procedure took an unexpected turn in October as some MEPs tabled very worrying amendments to the draft TRAN opinion. Some MEPs called for a compensation scheme for shipowners, additional safety equipment and medical personnel on board as well as additional training in Search and Rescue (SAR) for seafarers. These proposals were counterproductive as they implied a greater involvement of the industry in SAR operations instead of a gradual disentanglement. Following intense political discussions and exchanges with the shipping industry, the amendments in question were dropped. The final TRAN opinion puts emphasis on the need for solutions to the humanitarian situation that rely as little as possible on the shipping industry and advocates an increase of national and European resources to conduct SAR operations at sea.

Query over shipping’s inclusion in the revision of the Emissions Trading System (ETS) Directive
The 2003 ETS Directive established a system for greenhouse gas (GHG) emission allowance trading within the EU in order to promote reductions of GHG emissions in a cost-effective and economically efficient manner. This general ETS currently does not include shipping. To tackle climate change effectively and achieve the EU’s long-term decarbonisation objectives to cut emissions by at least 80% by 2050, the European Council agreed in October 2014 on the 2030 policy framework for climate and energy, which aims at reducing overall EU GHG emissions by at least 40% domestically below 1990 levels by 2030. To achieve this, the sectors covered by the EU ETS will have to reduce their emissions by 43% compared to 2005, while non-ETS sectors will have to reduce their emissions by 30% compared to 2005. The European Council confirmed that a well-functioning, reformed EU ETS would be the main European instrument to achieve this target.

In the European Parliament, there is pressure on Members of the European Parliament (MEPs), mostly from environmental NGOs, that shipping should be included in the Directive. This would, however, be incompatible with the already adopted EU Regulation 2015/757 on the monitoring, reporting and verification (MRV), which aims at ascertaining the real contribution of shipping to global CO2 emissions and feeding into the work of the IMO on this particular matter. The draft report is scheduled to be presented in April 2016 while the final vote in plenary will take place in November of the same year.

Uneventful first year for 0.1% sulphur limit in the European SECAs
Since the beginning of 2015, ships trading in the designated European SECAs, comprising the Baltic and North Seas, as well as the English Channel, have had to comply with a maximum sulphur level of 0.1% in ships’ fuel as laid down in the EU Sulphur Directive (2012/33/EU). This sulphur limit came into effect in Europe to mirror the International Maritime Organization’s (IMO) requirements under the International Convention for the Prevention of Pollution from Ships (MARPOL), and it’s Annex VI (Regulations for the Prevention of Air Pollution from Ships).

The European Commission appear satisfied with the implementation, as do ECSA members. The enforcement seems to have been strict and pragmatic, without causing:

• any major economic impact
• a modal shift to land-based transport modes,
• or loss of volume.

BIMCO is pleased with this development. A level playing field is crucial because the potential savings are huge on fuel. However, there is fear that the EU Sulphur Directive may not have shown its full impact yet. Lastly, lack of clarity still surrounds the use of certain compliance methods, while financing alternative compliant technologies represents a major challenge.

The work in the European Sustainable Shipping Forum (ESSF), which was established in 2013 to facilitate the implementation of the directive, is still ongoing.
EU Port Reception Facilities Directive – revision process started

The European Union adopted Directive 2000/59/EC on port reception facilities with the aim of substantially reducing discharges of ship-generated waste and cargo residues into the sea. However, European shipowners report that there is a lack of adequate Port Reception Facilities (PRFs) and capacity to meet current ship requirements.

Therefore, a revision process of PRFs has started, aiming to align the EU Directive with the revised MARPOL Annex V “Prevention of Pollution by Garbage from Ships”, which introduces a stricter garbage management plan and generally prohibits the discharge of garbage into the sea. A separate subgroup under the umbrella of the European Sustainable Shipping Forum (ESSF) has been established to provide input and facilitate the revision process. In this context, the European shipping industry has identified problem areas that need to be addressed in view of this revision and is calling for adequacy of reception facilities at EU ports. With proper enforcement and appropriate improvements of the EU PRF Directive allowing the fulfilment of the MARPOL requirements, all necessary measures will be in place to better manage ship-generated waste and cargo residues in the EU.

Latest news on future regulation of ports in the EU

During the last part of 2015, intense discussions in the European Parliament took place on the proposal for a regulation on port services and financial transparency. One of the main changes the MEPs have already agreed upon is that the focus of one of the main chapters has changed from “a chapter on market access” to a “chapter on the organisation of port services”. This reflects the MEPs’ aim to recognise different ways to organise ports without emphasising the need for market access. In practice, the result is getting close to an empty shell not resulting in any major impact.

End of January the Transport (TRAN) Committee did not give a mandate for going into triilogue discussions to reach a quick result. Instead, the proposal will go through the traditional and more lengthy process in the EU. Nevertheless, the Dutch Presidency (January-June 2016) will probably be able to start the discussions on the file during the first half of 2016.

Status for negotiation of Trade in Service Agreement (TiSA)

For a while now a substantial number of WTO parties have been discussing a Trade in Services Agreement (TiSA) in Geneva. Maritime transport is one of the topics on the negotiation table with Norway leading the talks on this chapter. After a stock-taking exercise over the summer, it was decided that efforts to include maritime transport should continue and even be stepped up. While there is consensus on some general principles on international maritime transport services, there is also resistance in committing to issues such as movement of empty containers or feeder services. During the TiSA round scheduled for February 2016, it is expected that the parties will discuss maritime services again in view of finding an agreement on the main elements regarding international maritime transport, while accepting the different views on some elements (such as on feederings for example).

In the meantime, the European Parliament is drafting its priorities regarding TiSA as an input to the European Commission (who is sitting at the negotiation table on behalf of all EU member states). It is anticipated that MEPs will recommend that TiSA covers international maritime transport services.

Editor’s Note: This report has been produced in co-operation with the European Community Shipowners’ Associations (ECSA).
Latest US regulatory news with focus on the troublesome ballast water situation for shipowners

The impact from the US on the difficult ballast water situation for shipping

USCG does not accept the Most Probable Number methodology

The USCG has issued a decision on the use of the Most Probable Number (MPN) methodology for assessment of Ballast Water Management Systems (BWMS) efficacy. The USCG decided that MPN is not an acceptable alternative measurement methodology for assessing BWMS efficacy as it only measures viability/non-viability versus the USCG required living/dead assessment method.

This is a significant decision because thus far all manufacturers of UV-based systems have used some form of the MPN methodology to measure efficacy in gaining their type approval from other national governments. Clearly this decision places in jeopardy the ability of UV systems to gain US type-approval unless they utilise the living/dead test methodology applied in type approvals for other BWMS types.

Ratification of the IMO Ballast Water Convention

During the 29th IMO Assembly, three countries (Morocco, Indonesia, and Ghana) deposited instruments to IMO for the Ballast Water Management (BWM) Convention. When Indonesia deposited its instrument of ratification on 24 November 2015, the IMO Secretary-General announced that conditions for entry into force of the BWM Convention may have reached sufficient tonnage. The current actions bring the total number of ratifying States to 47 (the convention needs 30 states for entry into force). However, there is uncertainty as to whether the threshold tonnage (35% of the world fleet) has been fulfilled for entry into force of the convention. Normally, end-of-year data is used, but because the percentage needed for entry into force is small and the next year is approaching, IMO has requested that IHS Fairplay confirms tonnages of the world fleet and that of the 47 ratifying states, to determine if the 35% threshold tonnage has been achieved. The verification process has not yet been concluded. The precise figures will be announced after the verification process is complete, which is likely to be early 2016. If the ratifications by Morocco, Indonesia and Ghana add sufficient tonnage, the BWM Convention would enter into force on 24 November 2016.

A ballast water mess for shipping

The lack of type approved equipment in the US and the apparent imminent ratification of the IMO Ballast Water Convention is creating a very difficult situation for shipowners. Access to the US market is very important for many shipowners, which is why installing equipment only approved by the IMO does not make a lot of sense for many shipowners.

Many, including BIMCO, had hoped that US-type approved systems would be available by now so shipowners could install US type approved equipment instead of IMO approved only equipment... If US type approved systems were installed now, the ship would be ready when the IMO Ballast Water Convention steps into force. Now the situation for shipowners could end up being the other way around.

It is all a question of timing and the situation was looking ok a year or two ago, but the slow development in the US, combined with ratifications of the IMO Ballast Water Convention coming in at a steady pace recently has created a highly undesirable situation for the shipowners. A worst-case scenario could play out where shipowners have to install IMO approved ballast water treatment systems that may not meet global regulatory requirements in all parts of the world.

BIMCO will encourage all relevant parties to look for a solution to this mess. In a perfect world the IMO, and the US, among others, should expedite their efforts to allow shipping to invest in ballast water treatment systems that will perform robustly in all jurisdictions in the long-term.

Extension of implementation schedule for approved ballast water management methods

Lack of US-type approved equipment is not the only challenge for shipowners. Another is confusion about the rules in the US.

The United States Coast Guard (USCG) has finalised the second revision of a guide (CG-OES 13-01), which seeks to clarify some of the confusion surrounding determination of compliance dates with USCG ballast water regulations. For eg a better definition of “first scheduled drydocking” and to clarify certain aspects of the extension request and granting process. Below are observations that are important to be aware of when planning drydocking of ships calling the US.

It is important to note that while this document provides helpful clarifications to USCG regulations, the industry remains in the undesirable position where the US Environmental Protection Agency (EPA) will consider the extension but will not be bound by the USCG decision. EPA has tried to minimise the discomfort level in this respect by issuing the “low enforcement priority” document provided last year. To date, BIMCO and the US Chamber of Shipping are not aware of any compliance actions taken against ships by EPA who have a bona fide USCG extension letter in hand.
Noting that the regulations clearly define "original compliance date" as the first drydocking after the ship's implementation date (new ships which must comply on their delivery date), questions have arisen on how these provisions will be applied to the definition of "first scheduled drydocking".

A couple of specific points are worth noting on "original compliance date and first scheduled drydocking":

- Contrary to prior interpretations, a ship's "first scheduled drydocking" is now defined as the date the ship enters the drydock. Previous interpretations suggested that this term would be defined as the drydocking date noted on required ship documentation such as surveys and certificates. For example, if a ship's compliance date is the "first scheduled drydocking" after 1 January 2016 and the ship enters the drydock prior to that date, but departs the drydock after that date, that drydock would no longer be considered the first scheduled drydocking for compliance purposes. Rather, in this case, the first scheduled drydocking would be the next drydocking when the ship enters the drydock after 1 January 2016.

- While we appreciate the positive development described above, it now becomes critical that the ship retains onboard documentation in the form of contracts, records or log books indicating the date of entry/departure of the last drydocking. This is important given that many of the ship's certificates and survey reports may note the drydocking date at or near the end of the drydocking period, which may actually occur after the original implementation date. The key here is that USCG will apply the drydock entry date and not the drydock dates as listed in various surveys and/or certificates.

- A drydocking ("unscheduled"), which began after the ship's compliance date necessary for emergency repairs is not considered the first scheduled drydocking for compliance purposes.

- A scheduled drydocking which began after the ship's compliance date to meet statutory requirements or to complete planned work such as retrofits for any purpose, including those unrelated to ballast water management is considered the "first scheduled drydocking". As an example, a ship schedules a short drydocking solely for the purpose of retrofitting exhaust gas cleaning equipment. After much discussion, USCG decides that this would be considered the first scheduled drydocking after its compliance date since the drydocking was planned in advance, thus giving the ship owner/operator sufficient time to plan for ballast water management upgrades subject to availability or to apply for an extension.

A couple of specific points are worth noting on "Extension Requests and Supplemental Extension Requests":

- Extensions will be granted for no longer than the minimum time needed as determined by the USCG when the extension request is evaluated.

- Extension requests should be submitted at least 12 months before the ship's compliance date. However the USCG recognises that this advance submission date may not be possible in some circumstances and in these situations, the request should be submitted as early as possible.

- Ships that have been granted extensions may request additional time if compliance by the original extension date is still not possible. In this case, the date specified in the supplemental extension grant will be the next scheduled drydocking after its current extension date, although if that date is less than two years away, USCG may grant the supplemental extension to the second drydocking after that date.

US Crude oil export ban and the Jones Act

President Obama signed a law on 18 December 2015 that repeals the 40-year old general restriction on US crude oil exports. The new rules however maintain that the president retains the power to prohibit exports in the case of emergencies and war, and specifically, with regard to certain countries or people.

During the debate in Congress, proposals were made to apply a US flag requirement to such exports but this was not included. It means there will be a level playing field in the future for the world fleet to compete for this transport of US crude to the rest of the world. It will also ensure that US crude oil will be transported more cheaply than if it had been forced to be transported on US-flagged ships.

Oil industry experts say that it is unlikely there will be a significant increase in US oil exports for some time, maybe even years, because of the current market glut. But eventually this new development will lead to extra loads for the shipping industry.
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THOME GROUP OF COMPANIES
16 Raffles Quay, #43-01 Hong Leong Building,
Singapore, 048581
Telephone: 65-6220 7291
Email: communications@thome.com.sg
Website: www.thome.com.sg

Professional Development is a continuous part of our project management career
Knowledge isn’t power until it is applied

The contract dilemma
All firms involved in trading freight and commodities have access to extensive networks of knowledge. The way a company harnesses and applies this knowledge to its business activities is central to its success. Unfortunately, much too frequently there is no systemic way or process to ensure that this knowledge is gathered and applied consistently during some of a company’s most risky activities. The process of creating and issuing freight and commodity contracts is one of these activities: there is always the possibility that contract creation will put a company at unknown or unplanned risks. Often, the identification and management of risks during contract negotiations have relied on experienced and watchful people, consistently applying their knowledge and understanding to mitigate these risks. But is that good enough? If they have an off day it could cost the company millions.

And it’s not just having to rely on the knowledge of individuals that creates unnecessary risks. It’s a fact that risks can and do change both during and after contract issuance; assessing open contracts for emerging risks can be very problematic and expensive. Being able to identify contracts which have become more or, possibly, less risky allows a company to take the appropriate measures to manage risks.

So having manual systems begs the question, ‘would you risk millions on the off-chance that humans are perfect?’ Your answer would, of course, be a very emphatic ‘no!’ So why are so many companies willing to risk millions on legacy technology, manual processes and luck? And for some companies in the global shipping industry, this approach to contract creation and risk management, together with a reluctance to embrace new methods, has resulted in significant setbacks in achieving anything close to efficiency or risk awareness, let alone the ability to reduce risks to a minimum.

The devil’s in the detail
One area that is repeatedly a cause for concern is poorly drafted contracts and an industry reliance on out of date, incorrect or risky clauses. The idiom “the devil is in the detail” could not be more appropriate to our industry and this time, as it refers to a catch or an element of surprise hidden in the details. Our industry is built on a mass of contracts, clauses and sub-clauses and just “getting the detail right” is a full-time job for many people. This is where the unwillingness to embrace new approaches and the low appetite for innovative solutions is making the whole contract creation process much harder than it should be and which, in turn, allows unknown risks to become part of an agreement – and if you have an unknown risk, you can’t even begin to manage it.

With many market participants managing their contract creation processes using a combination of manual actions and desktop software such as Microsoft Word, email, faxes, shared drives, etc, what was once “the way forward”, perhaps twenty years ago, is now so limiting as to be a significant risk point.

Organisations in the shipping industry have not historically been good at sharing information across the business; this is rarely automated and extracting useful information from a sea of data, on an ad-hoc basis, becomes very expensive and time-consuming, assuming it’s even possible. This approach can result in errors, and incur high costs, as well as having to rely on experienced individuals utilising their knowledge to spot and resolve issues.

With more and more litigation over contracts, costly settlements and changing regulation, using manual systems and processes is quickly becoming untenable. Relying on manual systems also makes it extremely difficult to identify and manage risk. For example, should a trader really be expected to go through a 50-page contract and try to extract useful information out of it, in a timely manner? This is inefficient, slow, prone to error and undoubtedly very frustrat-
On the other hand, having a secure platform which allows the trader to see a high-level summary of the key points of the contact, not only makes for a much more secure process, but it also allows for real-time contract and risk management.

How do you ensure that your teams of traders, brokers and the back-office have the latest information to hand and know how and when to use it? Best practice is not just an abstract term for the industry but, most importantly, for your own organization it means ensuring that your teams across the world, or even just across the room, understand how and when to apply clauses according to your organization’s own standards base, for instance, on BIMCO clauses.

Change is normal, progress is hard, and managing it is harder still. Technology provides the potential to meet these challenges. There is a lot of technology out there and we already rely on it in our personal life – be it watching videos on the phone on the commute home, ordering the groceries to be delivered or researching the best price for next year’s holiday – so why are we slow to get the most out of technology for our businesses? It is strange that we turn to sub-optimal technology within manual processes to ensure we correctly draft contracts worth many millions of dollars.

**Corporate learning is the answer**

So what’s the answer? Companies like BIMCO put a lot of time and effort into creating standard clauses, which are clear, up-to-date and safe to use. The problem comes in communicating these changes and ensuring that the right, up-to-date clauses are used at the right time. Capturing knowledge about the use of clauses from within the business and from external providers is crucial to understanding when and how to use a certain clause. Sharing that knowledge during the whole contract creation process from beginning to end, means that all users can make informed decisions on any element of the contract, clearly understanding, and thereby significantly reducing, the associated risks.

Incorporating corporate learning into systems means that all the lessons learnt by everyone in the organisation are there for everyone’s use, and it means that an organisation is able to reduce its dependence on the experience and knowledge of an individual employee. When this is applied to contract creation, everyone involved in the process has real-time access to relevant, centralised information and can make an active and informed decision about any possible risks.

The best solutions will ensure that all the stakeholders in the company have access to the same information, the same clauses, and a full audit-trail. It also means that corporate learning is embedded into the process of creating contracts. Technology really can deliver on its potential and promise when it helps to inform decision-making in a consistent and repeatable manner, and it creates an environment which supports true collaboration, connectivity and visibility. This removes uncertainty between counterparties and makes the negotiation process easier, quicker and more efficient. This also strengthens valuable working relationships and enables lessons learned to improve future performance in contract negotiations and risk management.

**Editor’s Note:** Colin joined Chinsay in 2013 to launch Chinsay’s Commodity Contracts Manager to complement the existing Recap Manager for freight contracts. As Director of Product Strategy it is Colin’s role to define and deliver Chinsay’s product strategy and roadmap. Most recently before joining Chinsay Colin worked at London Clearing House and Cleartrade Exchange as Business Development Manager after fifteen years’ experience delivering IT solutions in various industries.
The vessel, a geared dry bulk cargo vessel of 56,753 mt deadweight, was chartered on an amended NYPE 1993 form with additional clauses for a time charter trip via Vietnam to the US Gulf. In the event, the charter lasted for three months and 10 days.

A number of disputes arose under the charter. The owners claimed a balance of account in their favour of US$32,445.77, whereas the charterers claimed a balance in their favour of US$16,096.10.

The charterparty provided for arbitration under the LMAA Small Claims Procedure, 1989 version. However, at the time the owners commenced arbitration the 2012 version was in force.

There were six items in dispute, namely:
- C/V/E
- MGO LS on delivery
- IFO HS on re-delivery
- IFO LS on re-delivery
- Owners’ expenses – stevedore standby charges at New Orleans and Mobile
- Address commission on owners’ account items

Held:
C/V/E

The charter provided for C/V/E services to be provided for a fee of US$1,500 per month pro rata. The owners said that the figure due from the charterers was calculated. The owners had calculated their figure on the amount payable for each month on a month-by-month basis. The owners’ approach appeared to be on a calendar month basis although the charter provided for simply a per month basis. The tribunal’s approach would have been to start with the fact that the charter lasted for three months 10 days and then calculate what that worked out at US$1,500 per month. However, that was all academic because, given the small difference, the charterers had accepted the owners’ figure.

MGO LS on delivery

The charterers initially used an incorrect value per tonne for MGO LS on delivery in their statement of account, which showed a value of US$680 per tonne, when it should have been US$950 per tonne, as shown in the recap. The charterers accepted the latter figure before arbitration was commenced, but failed to remit the additional US$3,663.63 to the owners. It followed that the figures in the owners’ final hire statement were correct.

IFO HS on re-delivery

It was agreed that the vessel was redelivered with an additional 272.427 mt of IFO HS on board. The vessel had taken on bunkers during the charter. It was not disputed that the master had asked for 450 mt of IFO HS. The charterers had queried whether that was too much but the master had confirmed his figure so the charterers duly arranged for that quantity to be supplied at a price of US$408.50 per mt. That it was too much was self evident from the fact that the vessel ended up with 272.427 mt more on re-delivery than the charter required, even after allowance had been made for the term “about”.

The charterers said that they should be paid for the additional quantity at the charter price of US$500 per mt, rather than the US$408.50 per mt actually paid. The owners said that the price to be paid should be US$328.50, the market price in the re-delivery area. The tribunal noted that each side’s submission would, if correct, result in it receiving a windfall.

The owners had cited The Good Helmsman [1981] 1 Lloyd’s Rep 377 and BMA Special Opportunity Hub Fund Ltd v African Minerals Finance Ltd [2013] EWCA Civ 416, the former relating to the price to be paid for bunkers where the charter did not specify a price, unlike the present charter.

Neither side had referred to paras 13.1 and 13.3 of Time Charters and the cases cited therein, which the tribunal found of assistance. In The Pantanassa [1958] 2 Lloyd’s Rep 449, Diplock J held that the owners should be responsible in relation to bunkers for a mistake by the master, and in The Captain Diamantis [1977] 1 Lloyd’s Rep 362; [1978] 1 Lloyd’s Rep 346, Lord Denning MR and the other judges who considered the case disavowed making an unjustified profit, in that case by the charterers. The tribunal considered all the judicial decisions mentioned, but they did not persuade the tribunal that it had to reach an unfair decision, which would be the case if the tribunal accepted the arguments put forward by either party. The cases, particularly The Good Helmsman, could be distinguished in that in the present case the reason for the oversupply lay with the vessel and therefore the owners.

This arbitration award is discussing (or dealing with as you see fit) a number of issues, which are probably some of the most common dispute-breeders in time charter.
The owners’ submissions had referred to “business common sense” and the tribunal believed that the outcome to this part of the case which accorded with business common sense was that the owners should pay for the additional bunkers at cost price. That meant that the charterers were entitled to an additional US$21,794.16 (272.427 mt x (US$408.50 – US$328.50)) to that shown in the owners’ final hire statement.

IFO LS on re-delivery
The vessel had on board both HS and LS IFO. The speed and consumption figures given in the fixture simply referred to consumption of IFO without differentiating between the two. The question to be decided under this heading was whether in addition to the accepted consumption of IFO HS, the vessel also consumed 0.825 mt IFO LS over the several months that the charter lasted. No reason was given by the owners why there should have been that very minor consumption. They simply relied on an alleged difference between the recorded quantity on delivery and that on re-delivery.

The tribunal noted that there was no measurement taken on actual delivery. The bunkers on board were actually measured three-and-a-half days later at Hong Kong after the vessel had bunkered. However, as the vessel did not consume IFO LS between or load IFO LS at Hong Kong, the same figure of 173.035 mt was used.

Prior to sailing from Mobile, the re-delivery port, the IFO LS was measured and found to be 172.510 mt.

Was that an error in one of the measurements or was there an actual consumption? If the latter, there was no doubt that the charterers had to pay for it. If the owners had given any reason why or how that minor consumption might have occurred, the tribunal would probably have accepted it. However, in the absence of such, the probability was that one of the figures was wrong and there was an error in measurement. The tribunal would accordingly rule that the same figure should be used for the value of IFO LS on delivery and re-delivery. That meant a reduction of US$288.75 in the amount due to the owners.

Owners’ expenses – stevedore standby charges at New Orleans and Mobile
The charterers’ statement of account showed two items for stevedore standby charges in the sums of US$822.34 at New Orleans and US$672.36 at Mobile. The owners did not dispute that potentially those were recoverable under clause 28 of the charter, but said that insufficient evidence had been produced to substantiate the deductions.

The tribunal would accept that the charterers had proved the US$822.34 at New Orleans, but an error in extracting times from the Vessel Activity Report to the relevant invoice meant that the charterers were only entitled to claim US$620.64 (rather than US$672.36) at Mobile.

Address commission on owners’ account items
Clause 11(d) of the charter provided for 2.5 per cent to be added to cash advances made by the charterers.

The owners’ case, which the tribunal had rejected, was that they were not responsible for the stevedore standby charges claimed by the charterers. Although the tribunal had found that the owners were responsible for those, nevertheless the owners were right that 2.5 per cent commission should not be added. That was because those were not cash advances. The owners’ final hire statement was therefore correct in respect of address commission.

Summary
Accordingly, the balance claimed by the owners fell to be adjusted as follows:

Balance claimed by the owners: US$32,445.77.
Awarded to the charterers: C/V/E: nil.
MGO LS on delivery: nil.
IFO HS on re-delivery: US$21,794.16.
IFO LS on re-delivery: US$288.75.
Owners’ expenses: Stevedore standby charges: US$822.34.
Address commission on owners’ account items: nil.
Total: US$23,527.89.
Balance due to the owners: US$8,917.88.

Accordingly, the tribunal would award US$8,917.88 to the owners together with interest.

Costs
When arbitration was commenced and when claims submissions were served, there were six contested issues. The owners’ figures in their final hire statement had been upheld on three areas of dispute. In the other three, sums had been awarded to the charterers, meaning the owners had been awarded less than claimed. In monetary terms, the end result was close to the halfway point between the amount claimed by the owners and that claimed by the charterers.

The tribunal had been given sealed envelopes by each side to open after it had ascertained the balance due and to whom. At no point were the owners prepared to accept less than US$30,000 for an amicable settlement, and the most the charterers were prepared to pay was US$8,830.97 (although that was said to be “on an inclusive full and final basis”, presumably therefore including interest and costs).

There was always a problem in dealing with sealed envelopes in the context of the Small Claims Procedure because most costs, including payment of the arbitrator’s fee, were incurred early on before any offers fell for consideration and the costs incurred after the sealed offers were minimal. In the tribunal’s view, therefore, the offers should not affect the apportionment of the arbitration and administration fees that the tribunal would otherwise have made (see below).

A question arose as to which version of the LMAA Small Claims Procedure applied. The charter provided for the 1989 version. However, when the owners put forward three names for appointment as sole arbitrator, they also proposed that the reference be conducted under the 2012 version. The charterers did not appear to have agreed to that. Nevertheless, when the owners applied to the LMAA for the appointment of an arbitrator, they said that the 2012 terms applied. However, when the tribunal was appointed by the LMAA, they did so on the basis that the 1989 version applied but that the current fee would be payable. At the end of the day, it was doubtful whether it made any difference.

The main issue was the value of IFO HS on re-delivery. Based on their submissions as presented in the reference, neither side had secured the amount claimed in their submissions, although the outcome was one that the charterers would have been prepared to accept for the purpose of an amicable settlement. The remaining items were comparatively trivial and the best description of the outcome as a whole was a draw.

The owners said that the tribunal should in any event award them the £250 administration fee paid to the LMAA on the tribunal’s appointment, because the charterers had failed to accept one of the names they put forward as sole arbitrator or propose alternatives. The tribunal did not accept that.

Given the outcome of the case, each side should bear its own costs and the fee paid to the tribunal, plus the LMAA arbitration administration fee, should be split equally between them.

Editor’s Note: The above is a summary of a London Arbitration Award (No. 17/15) which appeared in Lloyd’s Maritime Law Newsletter No. 939 of 24 November 2015 and which is reproduced by the kind permission of the publishers, Informa Law.
On 31 October 2014 the owners of the vessel *Res Cogitans* (the owners) placed an order for the supply of bunkers with OW Bunker Malta Ltd (OWBM) at a price of US$443,800.

The order was confirmed by OWBM’s Sales Order Confirmation of the same date, which named OWBM as “Seller” and gave a delivery date of 3 or 4 November 2014. It provided that the physical supplier of the bunkers would be “Rosneft” and that payment would be made within 60 days from the date of delivery upon presentation of OWBM’s invoice. OWBM assigned its right to payment to its bank, ING Bank NV (ING). Notice of the assignment was duly given.

On the same day OWBM contracted with its Danish parent company, OW Bunker & Trading AS (OWBAS) to supply the bunkers. OWBAS in turn contracted with Rosneft Marine (UK) Ltd (Rosneft), a UK company. The OWBAS/Rosneft contract required OWBAS to make payment in the sum of US$416,000 within 30 days of delivery. Rosneft in turn contracted with its Russian subsidiary, RN-Bunker Ltd, and it was the latter company which supplied the bunkers to the vessel at Tuapse in the Black Sea on 4 November 2014. As was usual in the bunker supply trade, all the transactions included retention of title clauses, and gave permission for the shipowner to consume the bunkers in the meanwhile.

In the circumstances, payment from OWBAS to Rosneft in the sum of US$416,000 was due by 4 December 2014 (30 days after delivery) while payment from the owners to ING was due by 3 January 2015 (60 days after delivery). Neither payment was made, although Rosneft paid RN-Bunker on 18 November 2014.

On 6 November 2014 OWBAS announced that it was commencing insolvency proceedings. OWBM was not currently in insolvency proceedings.

ING brought arbitration proceedings against the owners claiming payment of the US$443,800 due under the contract between OWBM and the owners in its capacity as assignee of OWBM’s rights under that contract. ING’s case was that the sum fell due for payment on 3 January 2015 and was recoverable as a debt. Rosneft had also demanded payment for the bunkers from the owners and had asserted that it retained property in them. However, it was not a party to the arbitration. The owners denied liability to OWBM or ING. They did not object to paying for the bunkers, but do not want to have to pay both ING and Rosneft.

The owners submitted that the contract was a contract of sale of goods to which the Sale of Goods Act 1979 applied. Because OWBAS did not pay Rosneft, Rosneft retained the property in the bunkers pursuant to the retention of title clause in the Rosneft/OWBAS contract, with the consequence that OWBM never had such property and was not in a position to transfer property to the owners. Moreover, ING could not maintain a claim for the price because the conditions in section 49 of the Act were not satisfied. Even if the contract was not a contract of sale of goods to which the Sale of Goods Act 1979 applied, terms equivalent to those contained in section 12 of the 1979 Act had to be implied. OWBAS’s failure to pay Rosneft meant that OWBM was in breach of obligation to pass
property in the bunkers to the owners at the time of payment, which afforded the owners a defence to a claim for payment.

On the determination of preliminary issues the arbitrators held that the bunker supply contract was not a contract of sale to which the Sale of Goods Act applied. ING’s claim to payment was a straightforward claim in debt which was not subject to any requirement as to the passing of property in the bunkers to the owners at the time of payment. If, contrary to their conclusion, the contract had been a contract of sale to which the Sale of Goods Act applied, the conditions in section 49 of the Act were not satisfied because the provision for payment to be made within a fixed period after delivery did not satisfy the requirement that “the price is payable on a day certain”.

On the owners’ appeal to the High Court Males J held that the bunker supply contract was not a contract of sale because OWBM had not undertaken an obligation to transfer the property in the bunkers to the owners. The true nature of the bargain was that the owners were paying for the right to consume the bunkers and not an unlawful possession which exposed them to the risk of an action at the suit of the true owner. On the facts, OWBM obtained the necessary permission from the owner of the bunkers so there was no breach by OWBM of its contract with the owners. If, contrary to its conclusion, the contract had been a contract of sale to which the Act applied, the court would have accepted ING’s alternative submission that the conditions of section 49(2) were satisfied ((2015) 931 LMLN 1).

The owners appealed to the Court of Appeal.

Held, that although the courts had consistently regarded a contract for the sale of goods containing a retention of title clause as a contract of sale falling within the scope of the Sale of Goods Act 1979, even in cases where the buyer was given a licence to use or dispose of the goods before he had paid for them, in none of those cases was the court concerned with the question whether the contract provided for property to pass retrospectively at a time when the goods or part of them had ceased to exist.

The owners’ submission that, on payment in full, title passed retrospectively from OWBM to the owners, alternatively that OWBM became estopped from denying that property in the bunkers had been vested in the owners at the time when they were consumed, would be rejected as an artificial analysis which reflected neither the terms of the contract nor commercial reality. Whatever label one attached to the contract (and there was nothing incongruous in describing it in commercial terms as a contract for the sale of goods) its essential nature was reasonably clear. It was a contract under which goods were to be delivered to the owners as bailees with a licence to consume them for the propulsion of the vessel, coupled with an agreement to sell any quantity remaining at the date of payment, in return for a money consideration which in commercial terms could properly be described as the price. That might not satisfy the definition of a contract of sale of goods in section 2(1) of the Sale of Goods Act 1979, but there was no reason why the incidents of a contract of sale of goods for which the Act provided should not apply equally to such a contract at common law, save to the extent that they were inconsistent with the parties’ agreement.

Since the contract provided for the transfer to the owners of property in any part of the bunkers remaining at the time of payment, it was to that extent a contract for the sale of goods to which the Act, including the implied condition in section 12, applied. A failure to pass title to any residue remaining at the time of payment would therefore involve a breach of contract, but it would not be one which entitled the owners to treat the contract as a whole as discharged, unless (contrary to all expectations) it represented such a large proportion of the quantity originally delivered that there could be said to have been a total failure of consideration.

Accordingly, the judge was correct to hold that the transfer of property in the bunkers from OWBM to the owners was not the essential subject matter of the contract and that a failure to transfer property in the bunkers, all of which had been consumed when the period of credit expired, did not relieve the owners of the obligation to pay for them.

The judge had held that the contract implicitly imposed on OWBM an obligation to ensure that the licence to use the bunkers immediately upon delivery became binding on whichever entity in the supply chain would become the owner of the goods. The owners had submitted that the judge ought to have held that the contract was subject to an implied term equivalent to that contained in section 12(1) of the Sale of Goods Act, but that imposed on the seller an obligation to ensure that he had a right to sell the goods at the time when property was to pass. It did not help to identify when or in respect of what goods that was intended to occur.

The judge should not have determined whether OWBM had succeeded in obtaining the permission of Rosneft for the owners to consume the bunkers because that was not an issue that had been raised before the arbitrators on the hearing of the preliminary issues. However, having formed the view that it was necessary for him to decide the question, the judge had held that Rosneft was bound by the licence to use the bunkers for the propulsion of the vessel given to the owners by OWBM. The owners had not sought not to challenge that aspect of the judge’s judgment. Their grounds of appeal had been directed entirely to the issues surrounding the construction of the contract between themselves and OWBM.

The appeal would be dismissed to the extent of holding that the failure of OWBM to transfer title in the bunkers did not release the owners from their obligation to pay for them.

Stephen Cogley QC, Jeremy Richmond and Liisa Lahti (Ince & Co LLP) for the owners; Robert Bright QC, Marcus Mander and Clara Benn (Allen & Overy LLP) for OWBM and ING. 11

Editor’s Note: The above is a summary of a London judgement which appeared in Lloyd’s Maritime Law Newsletter No. 937 of 30 October 2015, and which is reproduced by kind permission of the publishers, Informa Law.
On 6 January 2011 the vessel MTM Hong Kong, an oil/chemical tanker, was chartered on an amended Vegoil form for the carriage of vegoil from two safe ports/berths within a range of load ports in South America, to one safe berth at 1-4 safe ports in the Gibraltar-Rotterdam range. The vessel’s previous employment had taken her to Boma on the River Congo in the Democratic Republic of Congo, where she suffered a grounding. That led to some delay, and exchanges between the parties, which eventually led to the owners accepting the charterers’ latest message as a repudiatory breach which brought the charter to an end.

The vessel completed discharge at Boma and commenced her ballast voyage towards the charterparty loading range in South America on 19 January 2011. The charterparty came to an end on 21 January 2011. Thereafter the vessel continued to sail towards South America, which the owners considered to be the most promising area in which to find substitute business. The vessel arrived at Punta del Este in Uruguay on 2 February 2011. However, the vessel was not fixed until 24 February 2011, when she was fixed to Glencore for a voyage from San Lorenzo in Argentina to Rotterdam with a cargo of sunflower oil and soya methyl ester. The substitute fixture with Glencore was completed on 12 April 2011 when the vessel completed discharge at Rotterdam. If the voyage charter had been performed, the voyage would have taken 43.6 days, completing on 17 March 2011. The vessel would then have carried a cargo of urea ammonium nitrate (UAN) from the Baltic to the United States, followed by a chemical cargo from the United States to Europe.

The owners brought arbitration proceedings asserting that the charterparty had been terminated by the charterers’ repudiatory breach, and claiming damages of US$1,212,316.50. That figure represented the difference between: (a) the profit which the vessel would have earned if not only the contract voyage but also the next two voyages (UAN to the United States and a chemical cargo back to Europe) had been performed; and (b) the profit actually earned on the Glencore substitute charter to Europe.

The charterers said that if there had been a repudiatory breach, damages should be awarded in accordance with the principle in Smith v M’Guire (1858) 3 H & N 554, which would result in an award of US$478,386.80. The arbitrators held that the charterparty was repudiated by the charterers. As to damages, the arbitrators found that the owners’ decision to direct the vessel to South America in an attempt to obtain a substitute cargo and to wait there until the Glencore fixture was concluded was reasonable.

The arbitrators accepted the owners’ case on damages. There was no rule of law which prevented the full application of the compensatory principle by limiting damages by reference to the period when the contract voyage would have come to an end.

The charterers appealed. Held, that the fundamental principle in assessing damages was the compensatory principle; the innocent party was so far as possible to be placed in the same financial position as if the contract had been performed.

The Smith v M’Guire measure represented the prima facie measure of damages for loss of the profit which would have been obtained by a shipowner from performance of the repudiated charter. As such it reflected and gave effect to the compensatory principle and to the related principles of causation and mitigation. That was the purpose and effect of a prima facie measure, whether the Smith v M’Guire measure or the principle in sale of goods law that damages were prima facie assessed by reference to an available market. Such measures were adopted because in general they gave effect to the compensatory principle.
and were in accordance with the reasonable contemplation of the parties. In most cases, therefore, it would not be necessary and would be wrong to look beyond the damages resulting from the application of the prima facie measure.

However, the Smith v M’Guire measure was only a prima facie measure and, on appropriate facts, it might be necessary to depart from it in order to give full effect to the compensatory principle (see eg The Elbrus [2010] 2 Lloyd’s Rep 315 where the owner received a benefit arising from mitigation which needed to be taken into account, and which had the effect of reducing the owner’s damages).

Where the owners’ claim for damages was the loss of the profit which would have been obtained from performance of the repudiated charter it was hard to imagine circumstances in which the damages would exceed the net freight (and if applicable demurrage) which would have been earned if that charter had been performed. An owner could not lose more by way of lost profit from a charterer’s repudiation than the freight (and any demurrage) which he would have earned by performing the charter. In that sense the net freight and demurrage represented a cap on the owners’ damages.

However, the position was different if the owner suffered a different kind of loss, ie something different from loss of the profit which would have been obtained from performance of the repudiated charter. In such a case, there was no reason why such loss should not be recoverable in damages in addition to damages for loss of the profit from performing the charter, subject to the principles of causation, mitigation and remoteness. On the contrary, failure to award such damages would be contrary to the compensatory principle.

Caution would be necessary in considering such claims, bearing in mind that such losses had to be sufficiently proved. If proof of such losses required complex hypothetical calculations about the future employment of a vessel, the tribunal of fact was likely to conclude that they were too speculative to be recovered. The more complex the calculation, the less likely the claim was to succeed.

An example of such a different kind of loss arose when a vessel was undelivered to an owner in the wrong location or when a substitute fixture was completed at a discharge port which was not (or which was some distance from) the discharge port under the contract voyage. The ability of a vessel to earn freight for an owner would depend to a large extent on the vessel being in a place where appropriate cargoes might be had. Cargoes typically shipped from one location might command higher rates of freight than cargoes shipped from another location. Such differences might exist permanently, or only in particular market conditions. Those were important commercial considerations which the law of damages needed to recognise. The package of rights for which an owner contracted when concluding a voyage charter included not only the freight to be earned from performance of that charter but also the right to have his vessel back again and ready for her next employment at the stipulated discharge port or range. The Smith v M’Guire measure of damages compensated the owner for loss of the freight, but did not address any loss which might be suffered if the vessel was less advantageously positioned as a result of the charterer’s repudiation. The previous cases did not address such losses (Smith v M’Guire, The Concordia C [1985] 2 Lloyd’s Rep 55, The Noel Bay [1989] 1 Lloyd’s Rep 361, The Elbrus, The Achilles [2008] 2 Lloyd’s Rep 275, Siemens Building Technologies FE Ltd v Supershield Ltd [2010] 1 Lloyd’s Rep 349, John Grimes Partnership Ltd v Gubbins [2013] EWCA Civ 37 and The Sylvia [2010] 2 Lloyd’s Rep 81 considered).

In the present case the vessel’s previous employment completed at Boma in West Africa. The owners could have directed the vessel back to the European market where higher freights were available to be earned, but that would have involved a long ballast voyage from which they would derive no earnings at all. Instead they chose to contract with the charterers for a voyage from South America to Europe. That involved a considerably shorter ballast voyage to the vessel’s next load port in South America, followed by a freight-earning vegoil cargo voyage to take the vessel back to Europe.

Performance of the contract voyage would not only have enabled the owners to earn the freight payable under the voyage charter, but would have positioned the vessel in Europe without delay, ready to take advantage of the higher freights available in the North Atlantic market. The consequence of the charterers’ repudiation was therefore twofold. The owners lost the charter freight and had to make do with the lesser freight earned under the Glencore charter. But they also suffered a delay in repositioning the vessel in Europe and thereby lost the benefit of the two transatlantic voyages which, on the arbitrators’ findings, the vessel would have been able to perform in about the same time as was taken up by actual performance of the Glencore fixture. Those were two distinct heads of loss, both of which were caused by the charterers’ breach.

Once it was recognised that the arbitrators were awarding damages for the consequence of the vessel’s delay in returning to the North Atlantic market, and that that was a different kind of loss from loss of the profit which would have been earned from performing the contract voyage, the application of the relevant principles was straightforward. The arbitrators had found that the loss in question was actually suffered by the owners, that it was caused by the charterers’ breach, and that there was no failure to mitigate by the owners. It was not suggested that the loss claimed was too remote. There was no finding, and no reason to suppose, that the damages awarded by the arbitrators constitute an unquantifiable, unpredictable, uncontrollable or disproportionate liability. On the contrary, they consisted of damages for loss of employment on the spot market, the same spot market on which the vessel would have been engaged if the contract had been performed. Nor was there any finding that such a liability would be contrary to market understanding and expectations. On the contrary, the experienced arbitrators clearly regarded their award as a conventional application of the compensatory principle.

The arbitrators had not erred in law and the appeal would be dismissed.

Michael Collett QC (Bentleys, Stokes & Lowless) for the charterers; Steven Berry QC and Yash Kulkarni (Lax & Co LLP) for the owners. II

Editor’s Note: The above is a summary of a London judgement which appeared in Lloyd’s Maritime Law Newsletter No. 934 of 17 September 2015, and which is reproduced by kind permission of the publishers, Informa Law.
The vast majority of seafarers will go through their whole careers without ever having to abandon a sinking ship. It is a sort of theoretical exercise in the minds of most people as they participate in courses and drills designed to prepare them for the statistically rare event they hope will never happen to them. However, this rarity is no reason to be unprepared, or fail to take sensible precautions seriously. Knowledge, backed up with some practice, has proven to be a real lifesaver when the chips are down.

It is also unarguable that lifesaving equipment is a good deal more complicated than it was once. Seafarers of an earlier generation were probably more accustomed to boatwork and what might be described as "old fashioned seamanship". Today, there is more to learn and certainly more regulations with which the mariner must be familiar. Sea survival depends upon mastering this knowledge and applying it in practice.

"Brown's Guide to Survival at Sea" is an entirely new volume covering the subject comprehensively. Written by Captain C. MacSweeney and produced by the established publisher, Brown, Son and Ferguson, this provides guidance to every aspect of the sort of emergencies that could result in having to abandon a ship. It is a sensible, practical guide, which would be of particular use for ship's officers whose job it will be to teach their crews about lifesaving appliances and their use, and to conduct realistic drills. Combining a close understanding of the appropriate regulations with their practical implementation, the book provides detailed guidance on the use of equipment, survival techniques and all the factors that may affect survival in the event of this serious emergency.

Well illustrated with detailed diagrams and pictures that help the reader to understand the mechanisms of launching equipment, the book emphasises the need to understand clearly how this equipment works, noting the many fatalities and injuries that have taken place in drills that have gone wrong. It is also a fact that seafarers, who may drill regularly, rarely get a chance to actually look inside a packed life raft or drill with a self-launching boat, in the way that they were able to get to know their more basic equipment in days long gone. This book helps to fill in some of the gaps that can only be experienced for real on rare shore-side courses.

The book covers the competencies prescribed by Standards of Training, Certification and Watchkeeping (STCW) for survival craft and rescue boats, the certification that is necessary and the need for refresher training. It deals with the possible reasons why a ship might need to be abandoned, the preparation necessary and the factors that affect survival. Survival equipment is viewed in terms of the regulations and their operation, with detailed guidance being given on the use of life rafts, personal survival equipment, location aids, lifeboats and rescue craft. It is recognised that there are many different makes of this equipment, but the author has worked hard to provide advice on a number of these.

There is a highly practical and advice-filled chapter on the four phases of survival, in the preparation, getting away from the ship, subsequent survival at sea, beaching and rescue. There is also a detailed chapter on the use of the fast rescue boat carried by some ships, their equipment, launching and recovery and their use with helicopter operations. The text is made more readable by the use of actual case studies, which have led to both the best possible outcome and something less desirable.

It is a readable, useful book that could be left lying around in messrooms, serve as a text for training and might encourage a more proactive view of something that seafarers might prefer to keep at the back of their minds, while hoping they will never have to need such knowledge. It is also designed to assist seafarers in understanding the requirements of both Safety of Life at Sea (SOLAS) and STCW Code, the basics of survival craft and as a guide to refresher and other courses. It is also worth remembering that ignorance of these matters could cost lives, but also result in embarrassing confrontations with port state control officers who like to ascertain that crews know what they are about. The truth is, you will probably never know how useful it is, until you have to use it!
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