The 'Grey Ship' Concept

Background

For those of us with a vested interest in the survival of the liner shipping industry, the unfolding melodrama is analogous to the 'free surface effect' on the stability of a vessel. In extreme conditions the vessel has only to roll as little as four times in quick succession before finally capsizing. The liner shipping industry has already experienced two periods of roll with the global credit crunch reducing container volumes and the resultant over-capacity driving freight rates down. The industry is presently in the throes of the third roll in the way of manifestly depleted cash flows. Unless drastic action is taken without further delay, then for many companies the fourth and final roll will result in their bankruptcy. At sea, the prudent ship's master, when confronted with a similar predicament will order a wide alteration of course, with the expectation that by so doing, the changed dynamics between the ship and the prevailing sea conditions would save his vessel.

Surely, similar drastic action must now be taken by today's leaders of the liner shipping industry if all is not to be lost. Unfortunately there seems little evidence that any such action is being considered and much less any steps being taken to steer the industry clear of the fourth roll. As with most global events of this magnitude, the customary 'blame culture' seems to have clouded our leaders' thinking and whilst 20:20 vision is an admirable seafaring characteristic, it is best used to look ahead rather than astern.

Clearly significant costs must be taken out of the liner shipping business, but the present measures, when taken in isolation by the major carriers, are only playing with the problem. Much more has to be done to achieve the savings which are so necessary. However, even as one utters the words 'collective action', the crescendo of warning alarms from the carriers' corporate lawyers about the political implications and the resultant financial penalties imposed on 'consorting carriers' becomes quite deafening. The inevitable fact remains, that when their adopted carrier experiences the fourth roll and they are swimming for the life rafts, it then becomes too late to seek a temporary release from the political ties which, if not slackened, will ultimately strangle any chance for the survival of the liner shipping industry. In the present economic climate, all the parties involved in the transportation of goods, which includes the politicians, must form a common bond to achieve mutual salvation. However, somebody must take the lead towards this united front and since the carriers are most likely to be the prominent casualties of the 'free surface effect', then they should play the role of lead broker in bringing all parties to a communal table.

The Grey Ship Concept

In late 1973, the price of oil experienced a 4-fold increase effectively jeopardising the viability of the newly emerging container companies. As a remedy, the senior managers of the various transatlantic carriers met in Hamburg to seek a solution to the problem of their operating cost spiralling out of control. After four days of intense discussion, the carriers had formulated a plan, which if implemented, would have reduced their collective annual budgets by some 25%. Unfortunately, the plan was never actioned due to the threat of political retribution from the Federal Maritime Commission of the USA. The resultant financial impact for the carriers was particularly severe, with more than a few ceasing to trade and the rest suffering significant operating loses which scarred their results for many years.

The basis of the survival plan was to better balance the supply and demand equation between ship capacity and the shipper's cargo flows on a port-pair matrix. The ships were treated as a single fleet, which thus allowed surplus capacity to be laid up - in effect all carriers became party to an extended vessel sharing agreement. Each carrier looked after the documentary and logistical requirements of their own containers and since the transatlantic trade at that time was virtually 100% conference orientated, common freight tariffs prevailed. It was from these talks in Hamburg that the concept of the 'grey box' emerged with the result that this approach to equipment management has been successfully tried by both carrier groups and leasing companies ('neutral container pools') during periods of the industry's periodical cyclical downturns.

At that time in the early 1970s, it was possible that the world was smaller then and fewer countries were affected by the effects of the rise in oil prices and the political lobbyists were perhaps too strong, but the result of not taking any collective action was that a number of long established liner shipping companies and container operators became insolvent and ceased to trade. Now however, the situation is far more severe in terms of both its global impact and the financial depth to which most corporate businesses have plunged. The EU's Competition Directorate, ably abetted by the spokespersons of the various shippers' councils, holds sway over the liner shipping industry. Even the composition of the consortia's regulation 823/2000 is coming under increasing scrutiny. Yet, in today's turbulent times, Europe itself is one of the worst affected regions of the global recession. Is it not time therefore, before many more container carriers reach the point of financial no-return, to at least examine some of the positive steps which could be taken to help alleviate the industry's cash flow problems? Much has been said in the past about the container carriers' propensity for cartel-like characteristics and controversial tariff structures, but what of the future when the companies either disappear or even worse are nationalised and become a public monopoly? All the carriers should now be seeking the chance to meet with importers and exporters, preferably under the umbrella of political immunity, to discuss a range of cost saving survival measures, one of which would be the 'grey ship' concept based upon similar collective rationalisation as the 'grey box'.

Unless major costs, and this really means many of the ships themselves, are taken out of service, then a number of the top 20 container carriers (and they 'control' over 85% of the business) will cease to trade within the next few months. Individually, carriers and alliances have already pared their services to the bone - but still there is a costly and significant over capacity. Any further reduction of a line's vessel deployment, if taken in isolation, will disrupt the weekly service patterns upon which so many supply chains depend The logical next level of rationalisation would be for consortia, alliances and independents to unite in order to save costs and to better balance the supply and demand ratios, whilst at the same time preserving port pair frequencies.

However, for the carriers even to be able to discuss such action, it must be necessary for the natural reactions of the regulators to be stayed. The recent, rather half hearted, initiatives to hold inter-carrier discussions on this very subject in the transpacific trades probably failed because insufficient lobbying of both the politicians and shippers' councils had taken place before the carriers' announced intent was promulgated to the world at large. It is therefore imperative that Shippers' Councils recognise that their members' best interests are served by joining with the carriers in an alliance to reverse or reduce the burden of competition regulations.

Impact of the Grey Ship Concept

Based on the overtly optimistic premise that common sense might prevail amongst the interested parties and that there is a genuine overriding need to stop the financial haemorrhage, then the impact of the grey ship concept might be the following:

- Operations
    - spinal schedule patterns between the key ports on each major trade route suitably supplemented with radial feeder services
    - deployment of the appropriate number of very large container vessels from each of the carriers operating on the trade route
    - utilization of a common pool of equipment (containers and chassis) with the boxes being strategically stored at appropriate locations
    - maintenance, if practical, of the existing terminals arrangements
    - centralised logistical control management for each of the hub ports to direct and monitor the shipping arrangements and the allocation of loaded/empty containers to the appropriate terminals prior to overseas shipment
    - landside logistical functions to be conducted and organised by the intermediaries or carriers' own dedicated logistical subsidiaries
- Commercial
    - documentary processes to be carried out by the carriers own customer services staff in line with the cargo interests' requirements
    - pricing and tariffication to be undertaken by a joint carrier/shipper team. For the duration of the 'emergency response' this may well entail the reversion to commodity categorisation and acknowledgement of volume discounts for the large shippers
    - marketing and customer services would initially be handled through existing channels, although the necessity to maintain separate organisations will disappear as the commonality of the service patterns emerges

- increasingly the systems side of the present services offered by the carriers will be conducted through their own websites, or the infomediaries' portals

- Finance
    - For most revenues and costs, the individual carriers will undertake their own accounting functions
    - Wherever possible, a system of standard allowances would be established for each trade lane. This will be particularly appropriate for the 'slot costs' associated with every mainline and feeder carrier.
    - An early opportunity should be taken to establish a revenue/cost pool for each trade route
    - The balance remaining after deducting standard allowances from a carrier's revenues will be used to fund the cost of laying up incurred by owners/charterers collectively. Essentially this is a 'subsidy' for the good of the common venture.

It will be seen that the 'grey ship' concept is tantamount to the placing the operation of each trade route on to a 'war time' footing. When survival is at stake, this is perhaps what is required.

Conclusion

The liner shipping industry in general and that of the container services in particular are facing desperate times and in such circumstances drastic actions must be taken. Nobody can predict with any certainty when the world's current economic climate will bottom out and begin the long hard slog back to some level of normality.

What is certain however, is that as with the analogy of the free surface effect on the stability of a ship, so some carriers are starting to experience the fourth roll - and their capsize is imminent. Already the position is too late for many companies, but unless concerted action is taken with immediate effect, then in addition, more carriers, including the premium branded corporations will follow.

However, to be effective, this concerted action must be joined by all the interested parties - carriers, cargo interests, intermediaries and last but certainly not least, the politicians. Political parties can come and go, but the life blood of the majority of nations is related to trade. Without global trade, then no liner shipping company or container operator will exist - but without these companies, then no goods will be moved. So both sides are interdependent on each other. Let the parties for once stop bickering and adopt a mature and professional approach to the resolution of some of today's main problems - before it is too late

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