The Shippers' Perspective

1. Introduction

Earlier articles in this series have very much concentrated on the container carriers operating within the liner shipping industry and the approaches which should be adopted at this time of economic recession in order to both improve efficiency and reduce operating costs. Whilst some of the lines have taken action to reduce the number of vessels which serve particular services and trade lanes, little if anything has emerged with regard to the lowering of their equipment fleet levels and operating costs. To suggest that this is a lost opportunity is putting it mildly when all of the major carriers and most of their smaller sized competitors are verging on the point of bankruptcy. This in turn has witnessed the unsightly spectacle of an ever increasing number of these companies seeking solvency salvation from banks and financial institutions, not to mention national governments. Surely this should be the course of last resort when other cost saving measures could have been initiated to reduce the cash flow haemorrhage from an earlier stage. Maybe today's financial salvation comes with too low a price tag!

Although much has been written about the parlous state of the carriers, the drop in cargo volumes, declining freight rates and the remorseless delivery of new mega carriers, all too little has been said about the plight of the cargo interests during the world's present economic downturn. Since container traffic on most of the world's trade routes declined by 25 to 30% between the second half of 2008 and a similar period in 2009, this would indicate that a substantial number of shippers have been as financially disadvantaged as their service partners. One hears from both sides of the carrier/shipper divide, the often repeated axiom of 'cooperation not confrontation' but how much of this sentiment is just 'so many sound bites', uttered for the benefit of supporters and media coverage alike?

In the past, Cambridge Academy of Transport (CAT) has developed and delivered programmes for both carriers and shippers, but not courses which have focused on combining both parties, with the objective of narrowing the 'great divide'. CAT has now joined forces with the Singapore National Shippers Council (SNSC) in the promotion Singapore's own Shippers' Academy. Many of the Shippers' Academy's courses will focus on the issues which are common to both the cargo interests and their service partners. The first of these programmes will indeed concentrate on the question of 'cooperation not confrontation'.

2. Cooperation not Confrontation

Before any meaningful dialogue can take place towards the objective of 'cooperation not confrontation', both sides of the debate must test the stability of the platforms from which their verbal broadsides are launched. All too often, repetitive criticism, without the accompaniment of a possible solution, tends to fall on 'deaf ears' and as such, becomes counterproductive at best, albeit that it may offer short term cheer for the supporters of the motion.

From the shippers' viewpoint, their victory in Europe in canvassing for the abolition of liner shipping conferences has given them a fresh impetus to pursue a similar embargo in other parts of the world. Equal ferocity has been exhibited towards freight surcharges and falling service standards. However, little has been mentioned about the container as the main catalyst for global expansion and the fact that freight rates, including the seeming imposition of surcharges, have remained at 'bargain basement' levels since the advent of containerisation.

So far as the carriers are concerned, they have not really helped themselves since the demise of shipping conferences in Europe, with their insatiable appetite for 'market share' and the resultant necessity for frequent freight rate increases and frivolous expansion of surcharge levies. A recent shippers' survey conducted by Containerisation International, did in fact confirm that the carriers' attitude towards their customers had changed little since the abolition of liner conferences involved with the European trades.

So are the two sides of the great shipper/carrier divide as far apart as ever, or can commonsense prevail, with 'cooperation not confrontation' being the ultimate objective for the future?

3. Carriers' Dilemma

The world's container carriers, having been faced with unprecedented commercial pressures as a result of reduced cargo volumes and substantive deliveries of mega capacity vessels, have in the main opted to maintain utilisation levels by 'buying market share'. This has materially reduced their revenue streams, and since costs have not been cut by the same magnitude, the carriers' cash flows have been transformed into rivers of 'red ink'.

- consolidation of service strings
- slow steaming
- deferred new build deliveries
- vessel lay ups
- reduced charter hire payments

  and
- lower administrative costs

have all made an impact, but in most instances, they have lacked the severity which is necessary to return to financial solvency - and fresh elements are appearing on the horizon to exacerbate these negative cash flows. Higher bunker prices, increased insurance premiums to cover security risks, and the anticipated impact of environmental emission taxes, all ensure that a return to operational profit making is still a long way off.

Further cost cutting measures must therefore be enacted.

4. Shippers' Demands

Despite the economic downturn in their fortunes, the shippers' demands from their service partners have remained fairly constant. Their main requirements have always been:

- reliability of service
- strict schedule keeping
- direct port calls
- fixed and stable freight rates
- no surcharges
- efficient e-commerce processes
- swift cargo claim settlements

  and
- attentive customer service management

Alas, many of these demands have been diluted as the majority of the larger container carriers have cut costs in order to remain functional and survive the worst extremes of the economic recession. Whilst shippers have found some measure of solace in the reduction of freight rates, ironically, these may well be a contributory factor in the carriers' eventual financial demise - so long term solvency now becomes a pertinent question in the choice of their transportation partners.

Despite the air of despondency which seems to have settled upon the liner shipping industry and its cargo supporters, there are however, a few voices in Europe and Asia which have focused on more lasting solutions.

From the European Shippers' Council come the thoughts that 'crisis is a good time to innovate', and they have long held the view that 'there is a need for cooperation between carriers and shippers'. At the same time, Jean-Louis Cambon from Michelin has called on carriers *"to develop new business models, where initiatives are taken to develop service standards and service clusters and where carriers should focus on different aspects of service as a competitive tool"*. He has always held that 'one size does not fit all', so far as service standards are concerned. The 'Cri de Coeur' from the ASEAN Shippers' Councils has long advocated 'all-in freight rates' with no additional surcharges. In passing, one must wonder whether this might be a prelude to a return of 'port to port' commodity tariffs.

Much food for thought, but does it bring the two sides any closer together towards the ideal of 'cooperation not confrontation'?

5. Towards Cooperation and Partnerships

As the world has discovered to its cost, following the failure to make any tangible progress at the Climate Change Conference in Copenhagen, there must be a sincere desire by all parties involved, to reach a mutually acceptable compromise solution. This means that a degree of flexibility must temper any avowed pre-conditions, or put in the context of this paper, both carriers and shippers should be prepared to offer an accommodation if lasting and sustainable partnerships are to be forged.

From the container carriers this translates so far as is legally possible, into much closer cooperation on the main trade routes in the way of both 'grey ship' and 'grey box' operations. Many millions of dollars can still be saved through closer alliance or consortia partnerships and vessel sharing agreements. To date however, no material efforts have been made for any of the major alliances to even consider operating 'neutral' container equipment pools. Experience would suggest that for two of the world's larger carrier groupings, the Grand and New World Alliances', annual container fleet savings of between US$550 to $615 million are achievable - and there are other alliances or VSAs which are equally large.

It is little wonder therefore, with such potential cost savings available, that the various shippers' councils react so vehemently to the unilateral imposition of general freight rate increases and a succession of new surcharges.

As previously indicated, the shippers have been hypercritical of the carriers' service standards and the observation that 'one size does not fit all', but they in turn have been studiously silent on making many positive suggestions as to how the necessary improvements might be achieved. Although independent service contracts may well differentiate freight levels between a range of shippers, all other aspects of the transportation are basically the same. So what elements of the contract should both parties explore in order to achieve the desired level of distinction? Ironically it may well be that external elements might intervene to provide an answer which could prove acceptable to both carries and shippers. These external factors relate to the rising price of oil fuel and increase in security insurance premiums - and now there is likely to be a UN controlled 'global tax on ship bunkers' as a means of raising funds to combat climate change. At least two of these elements will undoubtedly lead to the carriers introducing super slow steaming schedules into their service patterns to further reduce operating costs.

Now would therefore seem to be an opportune time to consider the implementation of a multi-speed service pattern, especially on the main east-west trade routes. In conceptual terms, the major alliances and VSA groupings would offer the trade two, or even three different types of service. These might be marketed as:

- Express
- Regular
- Standard

and to be differentiated by port to port transit times, range of vessel deployment and last but not least, variations in freight rates. Whilst schedule frequencies would provide shippers with the requisite 7 day interval between sailings, the transit times, due to the vessel speed differentials would vary. Point to port and vice versa hinterland collection and delivery services would also vary for the express and regular categories, whilst the standard service may only cover port to port movements.

Even quite elementary analysis would suggest on services such as these operated on the Asia/Europe trade route, that by offering the following vessel configurations:

- Express (5500 teus x 8 V/Ls @ 24 kts)
- Regular (7500 teus x 11 V/Ls @ 17.5 kts)
- Standard (10000teus x 15V/Ls @ 14.75kts)

optimal bunker consumption and reduced emission pollution can be achieved, whilst giving the shippers their required service differentials. The 'sting' of course will of necessity, be in the 'tail', for the freight rates would be graded in 3:2:1 ratios - in other words *'you pays your money and takes your chance'*.

The express service might well be offered with 'point to point' transit time guarantees and full electronic commercial interfaces, whilst at the other end of the spectrum the NVOCCS and 3P/L operators may have a field day. If greater sophistication and transparency is introduced into the individual rating negotiations for any of the proposed services, then there should be no need for the subsequent imposition of surcharges, in whatever guise they are introduced. CAFs could be considered to be of historical interest if more freight tariffs were negotiated in local currencies, especially since approximately 50% of the carriers' costs are invoiced in the currencies in which they are incurred. Whilst bunker prices may well fluctuate over relatively short periods of time, they should be accommodated within the agreed period of the service contract - which in the present volatile economic circumstances may at best, only cover a 3 months time fame. The emphasis must again be on a partnership transparency between carrier and shipper. THCs, long the focal point of the shippers' concern, should be incorporated in the overall terminal gate to terminal gate element of the port to port freight rates - after all, the acronym FIRE (find incremental revenue everywhere) should be considered an anathema in any truly lasting partnership arrangement.

6. The Way Forward

Although the present global economic circumstance has shed light on the financial plight of the container carriers and to a less publicised extent, the world's shippers and consignees, there has never been a period in the history of liner shipping when both sides of the seeming 'great divide' should be seen to work together. The carriers need the shippers to slake their thirst for revenue, whilst the shippers must rely on the carriers to transport their goods across the world's oceans.

However, carriers and shippers alike, will only progress towards a meaningful and long lasting partnerships, if they retreat from their publicised 'soap boxes' and begin to respect that the 'other side' does have issues of real concern which can best be resolved by compromise and cooperation rather than conflict and confrontation. Unfortunately as with so many 'Mexican stand offs' of this nature, the most expeditious settlement for a mutually acceptable 'route map' is to appoint an arbitrator of international standing. Since this is unlikely in the short term to gain the approbation of either side, then perhaps the establishment of educational programmes such as those being embarked upon by CAT and SNSC in Singapore and which encourage the participation of managers from both sides of the industrial divide should be a venue for the exchange of views and the establishment of beneficial networks. This may well be the best way of ensuring future understanding and lasting partnerships.

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