

THE COMMERCIAL ASPECTS OF SHIPPING

by

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Shipping is an industry.

The commercial aspects of providing a shipping service are those that apply in any industry. They cover the provision of a required service, or product, to a standard which meets the requirements of those using the service; at a price which enables those using the service to carry on business; enables those involved in the industry to provide sufficient return to attract funds; and creates worthwhile employment for those in and associated with the industry.

There is no fundamental change in this definition, whether the industry is run by private enterprise, seeking its investment from privately funded sources, or whether it is run by government, where the investment is obtained, through taxes, from the common wealth of the people.

The return sought by private enterprise will certainly be that which enables the industry to sensibly obtain funds and to create a track record of performance and return which enables that process to be continued in terms of replacing equipment and fixed assets. This may arise for reasons of age or of advancing technology. It must also maintain the standards of those employed in the industry.

In an equal for equal situation governments would have the same objectives and desires irrespective of their political persuasions, but together with additional requirements where the surrounding circumstances are such that a straight financial return cannot be made. The most obvious example here is the provision of services to remote areas, whether by land or by sea. There are several ways of ensuring that these services are supplied.

- One is by government being involved in the overall provision of the services on a fairly wide scale, in such a way that the bulk of the service can support those operations that are not self-standing - that is profitable operations cross-subsidising unprofitable ones, but both government operated.
- Another is by government simply providing the services in the particular areas concerned, for the benefit of the society that requires them, but on behalf of all tax payers.
- A third is by subsidising an operation undertaken by private enterprise either through a direct government subsidy, or by private enterprise developing a tariff which accepts an obligation to trade development despite non-commercial returns.

It is interesting to note that the last two have a different effect on the distribution of the burden of providing those services rendered to areas that cannot support themselves. In the first instance the burden is distributed across all tax payers in the community, in the second the burden is distributed across all those in the community who specifically require the service.

Conference shipping is organised along lines of the second instance. Services are provided which, taken in isolation, would not be commercial - covering outlying ports and areas, pricing to meet the needs of low value products and contributing to the development of port facilities through direct investment.

The shipping industry requires heavy investment in equipment both afloat and ashore, whether it is handling general cargo or bulk commodities, dry or liquid. The cost of a container ship, and the containers that go with it, is in excess of \$50 million. The return on that outlay has to be such that the initial investment can be attracted, such that those employed in the operation of the ship can be properly remunerated, and such that money is available for the replacement of assets when this is required, remembering that this cost will be greater than the first investment. All this has to be done at a price which will attract business.

Australia survives by trade, and shipping is a vital part of trade. A functional and efficient relationship between trade and shipping is essential to the welfare of Australia and all those who live in Australia. It follows that it can be argued that, in Australia, shipping is more a part of trading responsibilities and objectives than straight-out transport ones.

Australia is a richly endowed nation. The standard of living which we now enjoy, and, more importantly, that which we pass onto our children, is dependent on the commercial decisions and attitudes which we, throughout the community, now take.

Australia's wealth is realised through trade. Gone are the days when any community could afford to regard itself as self-sufficient, requiring no support from elsewhere. The pace of life, the advance of technology, the demands which individuals place on that technology for their own benefit and welfare and the increasing dependence of each and every individual on the community around him makes any doctrine of self-sufficiency an anachronism bordering on the ludicrous.

Australia has to face the harsh reality of a highly competitive consumer orientated world. The international considerations, whether they involve developed or less developed countries, East and West, or the recently termed North-South dialogue, do create pressures and responsibilities which impinge directly on the commercial aspects of the operation.

The welfare of those involved with an industry, be it shipping or any other, is directly related to productivity. A factor from which we cannot resile is that, in a commercially competitive situation, an industry can generally remunerate well those involved in it whilst still offering an attractive service, provided productivity is maintained. What it cannot survive is lack of productivity or lack of certainty and confidence in the standard and regularity of its services. In international trade the importance of this is absolute.

Each link in the total chain is completely dependent on all the other links. International trade will not take place if the goods are not provided to an acceptable standard, are not moved in an acceptable period and do not flow in a continuous chain, in such a way that people have commercial faith in the operation. Whilst this applies equally to general cargo and bulk shipping, it is most easily discernable in the latter.

The demands of modern society are such that the movement of commodities in high volume and as a continuous flow are fundamental precepts of the survival of the industries concerned and the welfare of the communities being served. Disruption to this flow can cause widespread hurt. This facet has become so predominantly important that in many instances a rather less satisfactory commodity, with an assured delivery pattern, may well come to be preferred and out-bid its competitors.

This underlines that one of the most important commercial aspects of both trade and shipping is that of the relationship and goodwill between all those, whether individuals or organisations, involved in the operation of the industry. The prosperity of Australa is directly related to the goodwill of our trading partners. The goodwill of our trading partners is directly related to our standards of performance and dependability - that is straight-out commercial reliability - and the degree to which our ability to perform, or our disinterest in performing, helps or hinders these trading partners in achieving their own goals and looking after their own people.

Much of this seminar is involved with highly technical aspects, largely beyond my ken. But I guess that it is proper to make some comment on the commercial aspects of age and obsolescence. Technology is advancing at a compounding rate as each decade goes by and the problems of making the commercial decisions resulting from the availability of that technology become more complex. Commercially the future becomes more, rather than less, obscure. Bluntly, the technocrats themselves are no better at these decisions than any one else involved in them. The changing emphasis and wealth of nations puts added burdens on that decision-making process. For many years business interests, whether private enterprise or government, were at least able to survive, if not with the greatest degree of credit, by making investment decisions that were very largely repetitive of those that had been made before. Replacement decisions generally resulted from something being worn out rather than questions of comparative efficiency.

This no longer applies. The lead time associated with making large investments in the transport industry is such that one may be forced to consider technological advances of which one has no experience, or may result in further advances taking place after the decisions have been made, but before the investment becomes a reality.

Investments made now may reach the end of their commercially useful life well before the end of their anticipated normal working life, because of either advances in technology or a change in the price structure of some element essential to the operation.

When this occurs during the life of an asset there is only one calculation and decision that can be made, assuming a desire to continue in business. That is an assessment of whichever provides the lesser of two costs for an ongoing period; modernisation or replacement of the asset, or continuing with the existing one as it is for a period.

Because of increasing fuel prices the move from steam turbine to diesel at sea is an example of this situation. The cost of fuel itself has become a commercial consideration not only in sea transport but in international trade generally. The international trader has to weigh the cost and speed of the service offered him against the money cost of being in possession of the goods during their transit. The increase in oil prices after the second oil shock (the first one was \$5 a barrel to \$11 a barrel and the second one

was \$13 a barrel to \$34) was such that slower transit may well be cheaper for the ultimate user.

Whilst on energy resources it is worth noting the point that, in an increasingly resource scarce world of high energy costs, the inter-relationship between different modes of transport and the infrastructures required to sustain the operation of these modes becomes increasingly important. Australian trade is supported not only by shipping but also by a variety of other services. These need to be related, need to act in concert, need to understand the requirements of trade, and all require investment policies which recognise these considerations in terms of both priorities and timing.

Because of the size of the investment, the transport operator, whether by air or sea, seeks some assurance that his position in the market-place will be of value for a sufficient period to enable him to convince himself and others of the surety of the investment. Historically throughout many years those investing in ships have sought to protect their interests by joining the services of the various operators, rationalising them to meet the requirements which the trade seeks and thus providing the stability and guarantee of service required to enable the trade to survive and grow.

Conferences have been an international shipping concept for about 100 years, and history has shown many examples where, without the concept of that unity of purpose and rationalisation of service, trade has suffered from such erratic performance that it has been impossible for many to survive. In every instance the type of service offered is the result of a meeting between the demands of international trade and the cost of the services being sought. In particular in Australia in liner shipping this has resulted in the provision of continuous and regular services, whether the country is benefiting from a bountiful season or suffering from drought; services which provide an inherent flexibility that can meet trading contingencies; services that offer the same rates throughout the whole of the continent and for all ports historically served. It is on this broad backbone that Australia has become one of the more important trading nations of the world.

An argument frequently raised about the investment in overseas shipping is the propriety of nations shipping their own cargoes. In this area there are two important aspects.

The first is that you cannot be both buyer and seller, you cannot fix the freight rates for export services and import services, and you cannot totally be the controller of a movement in either direction let alone both. In international trade the denial of the rights of the buyer ultimately leads to denying the likelihood of trading. This does not mean that any nation, and indeed particularly Australia, should not desire to be a maritime nation. It is proper that it should, provided the return received matches that available from competing opportunities. In achieving this objective it is equally proper that it is recognised that its maritime aspirations are not developed in isolation; it is vital that they are designed to further the trading strength and welfare of the nation. This Australia is capable of doing. By that definition it should be achieved competitively and commercially. Again, Australia is capable of doing this.

The second is that there are arguments that to move the maximum amount of a nation's goods in its own ships strengthens the nation's economy and benefits its inhabitants. These arguments may be valid, but are not the only ones. The concept should be supported, but must be viewed in a multi-national relationship. Importing countries who have excessive constrictions

placed on the movement of the goods they buy overseas are likely, in the long run, to seek to redress this perceived imbalance through controls of their own. Again there needs to be a meeting of the ways.

Setting aside employment which is clearly understood, an argument can be made that there is little difference in the benefits to a community as to whether its export goods are moved by its own ships or those of another flag. Freight earnings are not export earnings, nor do they, as shipping is a service industry, represent the true value of services sold to another country. Whichever way round you do it, some large proportion of the freight earnings are spent by the operator of the service in countries other than the nationality of that operator or the flag of the ship.

Once again this argues for a meeting of the ways and an understanding of the desire of all nationalities.

In assessing the commercial aspects of shipping and the requirements of those who earn their living associated with ships, whether ashore or at sea, it is important to underline the danger that exists in making decisions based only on the business criteria and living environment recently experienced. It is not only the most common, but also the worst mistake, in assessing commercial opportunity to assume that the business and community environment is a firm and static base. Every time one raises this point in day to day work everybody acknowledges the changing economic, industrial and technological circumstances of their own and other communities. It is easy to see that they speak with concern and awareness. Yet the very next decision made will automatically be based on a contradiction of all these statements.

What we have to face is that the world as we have recently experienced it is not going to continue. The background against which we have to make our individual and commercial judgements on international trade and international shipping are not those which we have enjoyed for many years. If we are not prepared to recognise this, then the penalty for that head-in-the-sand attitude will be the effect on the well-being of ourselves, and, more importantly, on that of our children who follow us. It would be a mistake for which they will not thank us.

