

# “Improving the Image of Shipping”

A Discourse

By

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&

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# Improving the Image of Shipping

Mr Chairman, respected colleagues on the podium, ladies and gentlemen, good afternoon.

**Values mould perceptions, perception moulds attitudes, attitudes mould behavior, behavior moulds actions, and actions mould results.**

As I walked up here, my mind pondered over two vital questions. What is the significance of the Image in Shipping? and also, What images does a tanker vessel evoke for the average person ashore?

I then imagined the impossible- a Cruise Liner's brochure displaying oil-soaked birds or the famous pictures of the Titanic. These Cruise Liners are also an integral part of our Shipping Industry, but their public image is very different to those of tanker owners', or terminal operators or ship managers.

Tanker shipping is an invisible industry to the average person powering homes and industries, filling vehicles with fuel, and discreetly involved in almost every aspect of a person's life. Shipping as an industry adds time and place utility value to goods. Global shipping's contribution to all international trade is 90 per cent by volume and 85 per cent by value.

Yet, our visibility is only apparent when a disaster like "Exxon Valdez" or "Prestige" strikes the front pages of a newspaper. Given the substantial growth in shipping, and especially the tanker trade, a single "visible" incident mars our image and affects our livelihood substantially.

A sprint for additional regulation and safety codes invariably follows such disasters. This is when one ponders over the philosophy of our industry and consequently, our image.

Our Industry and its image are like a person and its shadow. The shadow gives you a broad outline, but never the real picture. The shadow is dark and gloomy, never bright. Shadows are followers, not leaders. Today, the focus on our Industry is such that it only casts shadows. We need to keep that focus but move it in such a way that the shadow disappears and the Industry is seen in its own light. That day the Image of Shipping will reflect its true self.

## What is the Image of Shipping today ...

To see our true selves, we need to look into the light that shines on us through external sources. Our image is reflected in the eyes of Governments, our Customers, our Staff and our Investors and most important, in the eyes of the children, our future generations.

Many Governments describe shipping as a necessary "core sector" or "infrastructure industry". We are apparently an industry that needs subsidies and benefits to remain competitive. The trend of flagging out our ships reinforces the image of our industry that does not want to pay the local taxes and wants to cut corners on wages and maintenance. The government's need for control is seen through mechanisms like Port State Control and numerous signatories to various conventions. This reveals the real image of shipping in the eyes of the governments.

For our customers, typically companies engaged in international trade, shipping is part of distribution or purchase or logistics. Shipping, according to them, is essentially a "cost" and not a service, which could be leveraged to their competitive advantage.

For most people, including our children, considering a career, shipping is often not a preferred career option. This is despite higher salaries and the specter of unemployment in many Countries. To our children, shipping often represents a low technology industry, which has neither the glamour attached to the cutting edge sunrise industries nor the pride or heroism attached to the navy. The best and the brightest prefer to join investment banking or similar career options offering satisfaction for their intellect through the challenges of creating something new.

From our shipping industry point of view, our most important opinion should be that of our investors and financiers' -the people who put their money where their mouth is. But even for the hard-nosed financiers, shipping is a high-risk investment, primarily because of complicated ownership patterns, lack of transparency and the multiplicity of laws applicable to each incident of non-performance. Most knowledgeable investors use shipping stocks mostly as a hedge for the more glamorous and volatile Information Technology, Communications or Entertainment stocks in their portfolios.

I believe, however, in the long term. While images are fleeting, impressions of shipping that our future generations carry will form into longer lasting images and outlive us. This is the image that concerns me the most.

## Why does shipping have the image it does? – and its impact ...

The factors are many, and are well known.

The first is the structure of our industry. Most ship-owning companies are family owned and a small percentage of our industry is publicly listed. This is vital, since this means that ship owners have lower exposure and interaction with the media. Lower media scrutiny often results in minimal awareness about the functioning of our industry, lower transparency in our operations and consequently, lower third-party trust.

Shying away from accountability by all concerned has been another major cause of concern for the image of the industry. To give you an instance, let us compare the responses to a disaster in the shipping and the airline industry.

The aircraft builders and others involved with its running and maintenance are the first on to the site of a crash, unlike disasters in shipping, where the builders, the designers and others directly concerned are never heard of in such instances.

Lack of accountability starts right from shipyards- the expected average life of the vessel is about twenty-five years but the ship is guaranteed only for one year.

Another test for Accountability is in the adoption of latest accounting and disclosure norms, as well as corporate governance practices. Unfortunately, the reality is that adoption of these practices is slow.

This lack of transparency and accountability is not suited for good public relations; the best brands are built on these very foundations and are the key to marketing effort that goes into building such brands. It is in these areas that our industry has had its biggest failure.

There has been no conscious effort on the part of our industry to market itself and connect with other sectors of the economy. Even with all the wealth at its command the industry has not really lobbied actively for its rightful place in the scheme of things.

Some may argue, there have been factors, which have largely been beyond our control and where we can only react to the changes.

Others may reason that our image has been tainted by market dynamics. Let us consider the most important market changes to have overtaken the industry in recent times.

Shipping has become the main vehicle of globalisation. The integration and co-ordination of a larger activity chain required in current shipping, has made partial solutions on the basis of individual co-operation agreements a far less efficient option. Worldwide alliances have emerged

as the response to the globalisation of the production and distribution processes. These alliances operated on the basis of the 'one-world' principle. Inside this 'one world', defined by a new globalised production process and addressing not just an international but also a world market, shipping continues to be the main transport mode for freight. The 'one world principle' should essentially have promoted further or at least highlighted more the contribution of shipping to modern society, as shipping has been traditionally the main freight transport mode linking the various parts of the planet, efficiently and affordably.

It has not, however, always been awarded the tribute that would be proportionate to the size of the task it performs.

In today's globalised production, trade and distribution channels, managing the entire - and increasingly complex - process of movement of materials and goods has become more important than producing transport.

Logistics has become a much more fashionable word and carries a better image today than shipping or road haulage. Shipping has thus been incorporated with other activities and there is now even lesser awareness of the maritime end of the "Logistics" chain.

The medieval port was seen as a doorstep, giving access to the city. In the mid-nineteenth century ports became more like gateways, serving city and regions. By the late twentieth century, ports in relation to the city are more like underpasses: the flow of traffic unseen by those above.

The blurring of distinctions between stages of the transport process, with more emphasis on development of hinterland connections means that seaports become links in a complex transport chain, which may include inland port terminals.

The changes in seaports, as also the decline in port-related industries has reduced or redirected the demand for labour. Residential communities of port workers and seafarers, a worldwide feature of all great ports by the later nineteenth century, largely evaporated reflecting the improved status of port workers under better urban transport systems allowing workers to live further away. In comparison with the past, the oceans, though fuller of shipping tonnage, are emptier of people. The reduction in employment means that the decline of the dockside area is no longer a consequence of residential dispersion: the community of port workers itself no longer exists.

The most important intended consequence, which the industry has chosen to suffer consciously, has been the inevitable price accompanying all technological benefits.

For instance, communications technology brought a ship far out at sea into direct contact with people on shore, so that it could no longer be regarded as a completely independent unit. Ship owners, shareholders and managers no longer have to rely on the initiative and skill of the shipmaster for their profit; they could make their own operational and management decisions, in the comfort of their own offices. Meanwhile, the master, charged with the success of the 'adventure' by centuries of custom, has found little power to discharge his responsibilities.

Technology has fundamentally altered the role of seafarers. Wooden ships and iron men, iron ships and wooden men - a sailor's aside, once used to put down those who chose to serve in the new-fangled steamers, applies today more than ever.

This loss of professional pride is the main reason, why we have lost out in terms of image even with the seafarers themselves. Not that this is the only social loss to the seafarers or those associated with them.

Seafaring is intrinsically inimical to normal family life; it is an occupation that many will avoid if they can find a more congenial alternative.

Navigating a container ship or tanker across the ocean is a boring and unsocial job; the operational reality is very much at odds with the glamour of international travel that the uninitiated might imagine. Such a job may not appeal to the sort of recruits that many shipping companies now prefer to engage. Most of those they do engage, moreover, regard seafaring as a short-term career. A typical crew today may have little aggregate seagoing experience compared to that of earlier generations who expected to spend a lifetime at sea.

Moreover, in many ships, crew costs are only a small proportion of total costs, especially when the value of the ship and cargo are also taken into account. And whereas in the nineteenth century, when ships were self-contained and independent units, crew costs represented practically the total labour cost of transporting goods around the world, this is no longer the case. The labour of many who are not actually serving on board the ship is also involved. Seafarers now account for only a fraction of the total labour input into international transportation by sea.

The unsocial nature of seafaring, diminishing importance of the crew costs and the vanishing professional pride are the root causes of the problem of recruiting and retaining seafarers.

The above observations reveal that the majority of the uncontrolled variables in the public relations equation have emerged merely in the last few decades. However, the most serious implications for the industry's image followed the oil shock of 1973 primarily in the mad rush to cut costs and compensate for the rise in oil prices. To the insiders, the flags of convenience and the beneficial ownership issue, the older tonnage and the poor enforcement of the international laws by some flags were only manifestations of the desire to reduce the operating cost.

However, for the people at large it meant difficult working conditions, avoidance of taxes and unsafe vessels inimical to the seafarers and the environment.

Forced external regulation was the response and what started as a battle of wits has since developed into a serious endgame. Self-regulation and forums such as ISMA, where quality is the entry barrier and merit the only criterion of membership, seem to be the only way out if we have to regain lost glory.

Such generalisation may not find favour with the few who have worked hard to provide quality shipping to the world, but they would probably pardon me when I finish listing the benefits of an improved image.

### **Image does matter ...**

When we look at what the ocean environment means to mainstream economics, we come up with some extraordinary challenges. All the challenges apply to the economic system as a whole, but in the oceans they are so overwhelming that we simply cannot ignore them.

In marine sciences, the margin of uncertainty and unpredictability is huge. We know how little we know. Uncertainty begets risk, and risk is a far greater factor when we deal with the oceans than it is on land. Risk necessitates cooperation. Cooperative spreading of risk reduces risk; competition increases risk. Co-operation is only possible amongst like-minded people and it is here that a good image of the industry will count most. Reduced Risk will translate into tangible rewards for all concerned.

Better credit terms will benefit all the service providers in the industry. Banks will provide finance at better rates to owners. The crew would be better motivated and shipping will attract the best and the brightest.

Increased public interaction will increase transparency in transactions and accounting and promote corporate governance. The benchmarking with other service industries will result in better quality universally in our own industry.

Better image can also translate into direct tangible advantages in terms of continued confidence of the people.

For the world at large, increasing the brand value of shipping may work to the competitive advantage of nations genuinely interested in promoting the industry, just as it did for Britain during the industrial revolution.

And society at large will have better environment and, in turn, more equitable distribution of resources.

In another perspective, from another angle, in the twenty-first century, may emerge the kind of cooperative economics or economics of peace, envisaged by Arvid Pardo.

### **Shifting Paradigm ...**

One caveat though, before we can move on to decide an agenda for the change- we have to have a vision, a macro view and a systems approach when planning this change. If we restrict ourselves only to business motives like profitability, we would fall into the same trap as the one after the oil shock- we must have a super-ordinate goal, a selfless mission if we have to succeed in the long term.

Here, the oceans provide us another treasure- common and shared goals with the society at large. Such common goals are essential to integrate the industry with the people and correct and clear misunderstandings and apprehensions.

The image of shipping is closely linked with that of the world's oceans' as they are the highest common factor across nationalities and the lowest common denominator shaping the future of shipping. They are crucially important for the conservation of the biosphere and biodiversity, for the survival of humanity on earth; for the enrichment of our cultures, including the arts; for the world economy; and for the enhancement of national and international security.

The world's oceans have been, and are, in a sense, our great laboratory for the making of a new world order.

The first thing that strikes you when you work with the oceans is that they are a medium that is so different from the terrestrial medium within which we are used to working, that it forces you to think differently, to think anew. From whatever starting point we move into the oceans, we have to change our thinking towards the concept of very large, complex systems and interdisciplinary, comprehensive, and integrative approaches.

The fact is that in trying to build a new system of governance and management for the oceans and the coastal areas, we will be making a major contribution to the building of a new national/international system or order for the twenty-first century.

Governments must show awareness of the need to move from a law of the sea that encourages destructive competition between states, wasteful resource exploitation, and environmental abuse, to an international order for ocean space based on principles of international

cooperation, resources management and conservation, environmental protection and equitable sharing of benefits.

An increasing armada of evidence points to the fact that mankind's awareness of the sea is proportional to the scale and quality of effort devoted to projecting and interpreting it. Inescapably, the sea is the life support system for planet earth; it is also a farmyard, sometimes a battleground, and often an adventure park.

Above all, it is a trading highway, the life-giving artery of the international economy. Shipping networks are today, more than at any time in the past, the arteries of our global world through which more than 90% of international trade flows.

Ships are the means by which wealth is delivered, exchanged and exported and their crews are the hard working enablers, which help to create conditions for successful trade. Individually these men and women carry awesome responsibility: a typical ship and her cargo represent investment on a million dollar scale. While at sea, these crews experience such risks of the sea as might intimidate faint hearts, yet seafarers bear these challenges with traditional professionalism. Countless millions of cargo and passenger miles are accomplished without incident: a statistical few reach the headlines and carry severe environmental and safety consequences, highlighting the fine judgment and skill this profession demands everyday.

### **The agenda for change ...**

How many people are aware that 55-60 % of all the oil consumed in the world is transported by sea, or that the oil transported every year by sea can enable over 200,000 cars to drive from New York to California and back? How many are aware that sea traffic involves minimal disruption of the environment in way of roads, airport, traffic etc and that pollution from tanker exhausts is much lower than that from road traffic? Facts such as above need to be brought to public notice- this is our first item on the agenda for change.

The second most important priority on the agenda remains the re-humanising of the industry and the profession. As with many other industries, technology has been the biggest single factor in overwhelming the human aspects, we need to revisit our own technical advances and reflect if we really needed many of the changes we adopted.

For e.g., there is no fundamental technological impediment that prevents the development of unmanned ships; various exploratory trials have been conducted over the last few years. But as is so often the case, what is possible is not necessarily desirable.

I say this because it is the crew, which remains the heart of the industry- we need to create conditions to attract the best and the brightest.

The third item on the agenda for change illustrates the art of turning a disadvantage to an advantage by intelligent navigation. Since shipping lost its pride of place to logistics and other such links in the supply chain through the process of globalisation, we need to capture the initiative in the same realm once again- by going global.

Globalisation, however, with its inherent competition, will reduce the disparities and the inequities inherent in the system and improve the image of the industry tremendously.

I now list the toughest item on the agenda - these are issues, which involve sacrifice on our part. If we have to win true loyalty from the customers and from the people, we must improve our track record on the corporate governance side, on the transparency issues and definitely on the accountability front.

These are big changes, however, and can only be brought about by a strong will- the will to execute, in modern parlance. But such execution can be greatly facilitated by breaking down the task into easily manageable small portions. As the old adage goes- the smallest good deed is better than a thousand good words.

### **The priorities ...**

I would, therefore, like to conclude by providing a few good starting points for the august gathering to reflect upon and inviting feedback to the ISMA secretariat in terms of specifics.

As with any corporate strategy, the industry first needs to have a vision as a whole- where it would like to reach in the next decade. Thus the starting point is a vision statement for the industry. Here we must also look at the models from other service industries and evolve a vision which would integrate us with the best of the world. Only a holistic vision would take us forward- I repeat here that we have to change our thinking towards the concept of very large, complex systems and interdisciplinary, comprehensive, and integrative approaches.

The conscious marketing effort would start by establishing a brand for the industry- based on the shared and collective vision. The second item in order of priority would be to agree on the brand attributes, values and equity the industry would like to project. Any brand is however, meaningless in absence of trust. And trust derives only from transparency and accountability. In fact all branding exercises are efforts in acquiring the trust of the customer. Thus, the third most important execution item is to agree on standardised corporate governance, accountability and transparency norms to be adapted by the industry.

Public listing is a very good way to evolve these norms and adapt rules already acceptable to the other service industries.

All execution depends on people and thus, the fourth most important issue should be to attract the best and the brightest to the industry. For this, we need to give back to them the professional pride, which drives men of excellence and creates communities, which give them the sense of belonging. Shipping's global communities like the sailors homes need to be consciously preserved and rebuilt to give the sense of belonging. Moving from the traditional employer-employee equation to one driven by the best HR practices of the world will guarantee that the best talent comes to us and stays with us. Here, we must also realise that cheap labour can be really dear for our high-priced assets and precious lives.

These bright sparks would then act as the industry's brand ambassadors with a huge multiplier effect. From the vision and the brand equity would derive the marketing plan for the industry. We should try and position ourselves as a service industry instead of a core or infrastructure industry. To do this, we would need to benchmark our management practices against the best in the service industry. To quote an example, Eurasia has benchmarked its own quality standards with the best Total Quality management practices across other industries and won the HKMA quality award in 2003, a first for any ship manager.

Finally, we could come down to the actual promotion. Here we can adapt a multi-pronged, multi-media approach simultaneously targeting many previously neglected fronts. On the demand front, however, there has been little realisation of the role shipping has played in the last two decades in making the globalisation of production and distribution processes possible. Little emphasis has been placed on the role the industry is playing in providing low-cost, efficient international transport extending today to the provision of logistics solutions. While the realisation of this function of modern shipping eludes official bodies at international or national level, globalisation is re-inventing shipping in practice as the main link in today's worldwide transport chains.

### **Action points ...**

We must first therefore start with educating the public about the fact that globalised production and distribution chains were made possible, precisely by the provision of cheap international transport.

Secondly, we must put forth that ships and shipbuilding are not the only constituents of the shipping industry and it is supported by an essential and complex web of service and supply industries. Shipmanagers, Brokerage, agency, marine engineering, ship repairing, government policies and social support for seamen all keep the shipping industry turning over. The continued importance of shipping services to the economy must be emphasised. For e.g. it can be quoted that Ship

repair, was one of the most important hedge against depression in the 1930s in Britain.

On a third front, we must restructure the ports to restore them to the rightful place in the new order of things. This means that the challenge is both what to do with 'the spatial' vacuum as port authorities abandoned antiquated infrastructures incapable of adaptation to new uses without vast expenditure and whether seaports can be made to recapture their formal role as leading sectors in industrial growth via economic development strategies. Building Free Trade Zones in these spaces would be an ideal tool to reposition the ports as engines of growth for the economy.

Fourth, we must address the main concern of the people- the care of the environment. An ecosystem approach, standardising land based, shipping and offshore quality objectives, is likely to be the key to improved environmental quality. Whilst this is to be established at an industry level, the major drivers should continue to be reducing a range of environmental impacts throughout the industry lifecycle.

Finally, we need to make the people feel good about the industry. It is here that an authoritative publication, an accessible exhibition, a good museum, a vivid documentary, a graphic explanation, can be the ingredients of better understanding and insight and correspondingly greater support for the industry and its affairs. A reminder of the sea and her unforgiving ways and a commemoration of her essential contribution to sustaining life itself and to creating wealth will also be in order.

Essentially we need a disruptive change of image, not a continuous or continual one to make up for lost time. Historians, particularly economic historians, tend to be suspicious of claims for discontinuity; in seeking explanations, evolution is generally more acceptable than revolution. However, I would further argue that the case for a revolution in this new twenty-first century maritime sphere – i.e. shipping - is strong.

They say goodbyes are essential, so that we may meet again. I have followed the lead and left the address unfinished, this way we shall meet once again with a common purpose- of finishing the unfinished agenda. I look forward to seeing you again.

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**Thank You.**