CHANGING ROLE OF SHIP-BROKERS
A study of the impact of modern communication in practical ship-broking

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1.0 INTRODUCTION

Ship brokering, as a profession, has been in vogue since the early days of commercial shipping. Initially the owner of the ship was also the trader – or in other words, the trader was the owner of the ship. He bought goods in one place, carried the goods in his ship to another place and sold it there. As the trade evolved, the trading activity and the shipping activity were separated; the ship owner merely carried cargo from the trader or various traders in one location to another location and handed it over to the buyers. With the evolution in trade specialization in shipping, the role of ship-brokers became more pronounced. The shipbroker was the intermediary who would find ships for the merchants; and cargoes for the ship owners who often traveled with the ship.

The modern day shipping market comprises of, on one side, ship-owners with varying fleet sizes and operators, who though do not own ships but never the less control the commercial operations of ships and on the other side, charterers of varying sizes who
control different cargoes – large and small lots; the ship-broker as an intermediary between the owners and the Charterers. The primary role of the shipbroker remains to be ‘finding ships for cargoes and cargoes for ships’ but modern day communication and computing tools are redefining the finer aspects of Shipbroking.

This Paper looks at the role of the shipbrokers in the past, the impact of technology in the profession of ship brokering and the changing role of shipbrokers. The dry-cargo market is taken for analysis as it is the least standardized shipping market – and perhaps one of the most complicated in terms of practices and commercial operations.

2.0 SHIPBROKING

Shipping is an international business. A person dealing with ship-chartering has to work with the conditions prevailing day by day in the international freight market. A large number of customs and rules of the trade have been established through the years all over the world. These rules and ethics are scrupulously followed by the practitioners worldwide else it is not possible to do business worth millions of dollars with parties across the world at short notice.

Chartering work is essentially a form of exchange of information. It is a business where the right information at the right moment is essential to be successful. Everyone involved in chartering acts, to a large extent, as a collector, judge and distributor of information. Ship broking can be seen as an information network; a network of people as well as technology that facilitates information exchanges. A great deal of the flow of information consists of details on fixtures all over the world. "Making a fixture" means that the parties interested in a specific sea transport contract reach an agreement through negotiations.

The parties involved in a chartering deal are, on the one hand, someone who owns, controls or operates a ship (as an owner, time chartered owner or disponent owner). We shall call him Owner for simplicity. On the other hand, there are persons who require some cargo to be carried by sea transport between two destinations. Normally (but not always) he is the cargo owner. Let us call him charterer. Charterer can act as an owner when he controls the tonnage. There can be various aspects as roles get redefined or can get complex.

Ship-brokers normally specialize in a specific segment of the market; be it dry cargo, chemical, passenger vessels, RORO vessels etc. The various market segments have their own peculiarities and the market behavior is also varied – forcing the practitioners to adopt specializations.

Ship-broking, particularly that of a competitive broker is an opportunity based business. As and when opportunities for new business crop up, the broker has to be on his
toes to help conclude the deal. The importance of time is all the more important these
days when certain segments of the market see highly volatile fluctuations.

The charterers value the brokers’ information, knowledge, skills for negotiation as
well as his perception of the market. As in other businesses, value added services
generate goodwill and brokers who offer such services stand out among other ordinary
ones.

2.1. The Role of Shipbrokers

Ship-brokers’ role can be broadly classified as follows:

- Finding ships for cargoes and cargo for ships
- Source of Information
- Market trends and an adviser to owners and charterers
- A dispute resolver

a) Finding ships for cargoes and cargo for ships

The primary function of a shipbroker representing a ship-owner is to find
employment for the ships under the control of his principal (the ship-owner or ship-
operator). In the case of a ship broker representing a cargo interest, the ship-brokers role
is to find suitable ships for the cargo which his principal (the charterer) wants to
transport. This function requires an in depth knowledge of ship and cargoes, information
about Ports, methods of loading and discharging of various cargoes, weather patterns,
demand and supply of ships and so forth.

With the advent of digital communication and powerful computing techniques
ship- brokers’ network has grown far and wide. Each ship broker gets cargo and ship
position from a hundred sources or so – over a thousand emails a day. Each broker
circulates his prospective businesses – ships looking for cargoes or cargoes looking for
suitable ships- to his contacts. Some of these are re-circulated again and again.

Managing the vast number of email messages received by a ship broker everyday
is a challenge in itself. It may appear that simple solutions like filters, ‘rules’ etc can be
used to minimize the inflow of messages. But this may not an easy task considering the
fact that almost every message with cargo and ship information is a source of information
for the shipbroker. It shows the state of the market in terms of demand and supply of ship.
Activating filters often sends many of the wanted messages to the ‘junk’ folder.

b.) As a source of Information

In the olden times the shipbroker had rather limited reach. Each broker had a few
contacts with whom he had interacted regularly using telex as the primary mode of
communication. Telex being expensive and less user friendly (relatively), the interaction was limited to bare essentials. Telephone, the other communication method available those days was prohibitively expensive and unreliable when used for long distance contacts. ‘Urgent’ and ‘Lightning’ calls were not connected for hours and hours.

Modern digital communication changed this drastically. Instant communication to any part of the world – be it land, sea or air – is available at the click of a button. Information exchange has become reliable and far more affordable. Large amounts of data can be transmitted across the globe instantaneously. This includes details of fixtures’ concluded, market reports and other information about ports, economic situation, government policies, weather and a host of other factors that affect shipping business.

The shipbroker practically can be considered as the ‘eyes and ears’ of the owners and the charterers. He tracks the shipping market closely. Port position, vessel availability demand for ship, contacts concluded or failed etc are closely monitored. Shipbrokers also track the competitor’s activity for their principals.

c.) As an Advisor

As said earlier, shipbrokers track the market activity closely. It is this information that is used by many owners and Charterers to formulate their business strategies.

Large ship brokering houses have set up elaborate research outfits. These research units constantly collect data on a wide range of parameters and analyze them. Analytical reports are given to their clients and associates on a regular basis. The Baltic Exchange and some leading ship brokers publishes information on fixtures (contracts) concluded. They also publish indices on various segments of the market.

The broker is also expected to advise on the possible trends of rates or availability of cargoes or ships etc. For example, if demand for iron ore increases, the ships available for carriage of grain may drop and so much so, the grain freight rates may shoot up. Is it better to go in for long term time charter or prefer spot market for our requirement of space for next 12 months? An experienced broker can give sound advise in such matters.

d) As a dispute resolver

Disputes are unavoidable in any business deal – particularly when it is carried out across different cultures and under conditions which are dynamic and unpredictable. Although every contract provides a dispute resolution mechanism, the parties to the contract look forward to the intermediaries to anticipate potential dispute areas and take corrective actions. They also look forward to the ship-broker to help resolve any disputes that may come up in spite of the precautions. Ship-brokers, having built up a close rapport with the owner and the charterer are in a position to forge out formulas to find solutions to complicated problems. Commercial prudence can realize that legal disputes
take much of time and money and both parties will accept a mutually acceptable and fair
solution from a unbiased broker rather go in for costly litigation. Usually the parties to
the contract resort to judicial and other dispute resolution mechanisms only after the
intermediaries fail.

2.2 The process of Chartering

The process of chartering starts with the pre fixture analysis when the
trader/charterer gives the basic details of the business to his broker (or in – house
shipping department) who estimates the achievable freight rate. The broker, in addition to
giving the freight rate also advises the trader about important parameters affecting the
particular business. Using this information, the trader concludes the sale deed and asks
the shipping department or the broker to fix the ship.

The broker then floats the inquiry among his contacts who in turn may
circulate further. Various ships are proposed for the business. These ships are evaluated
in terms of operational efficiency, available dates and freight levels. Once a suitable ship
is identified for the business, firm negotiations takes place between the owner and
charterer through their broker(s). Usually the negotiations are carried out on accept /
except basis: meaning only the points of disagreement are repeated in each message and
the accepted points are not mentioned at all. This is a practice carried over from the Telex
days when each character was expensive (and difficult to transmit).

Once the basic terms are agreed, the broker prepares the recapitulation of
the negotiation. This recapitulation often has a clause which refers to the finer details of
the contract. The owners and the Charterers negotiate on these finer contract details. The
contract of carriage is considered concluded only if they reach an agreement on all the
details. If any time during the negotiation of contract (called Charter Party) the parties fail
to arrive at an agreement, the business is dropped.

The broker prepares the contract (Charter Party) and gets it signed from
the Charterers and owners.

Chartering negotiations are carried out day and night and almost always under
time pressure. Which ever mode of communication- be it telex, email, voice or SMS, all
agreements are equal. The age old dictum “Our Word Our Bond” applies.

3.0 THE SHIPBROKING MARKET

3.1 Diverse Industry
The freight market is not a uniform one; it consists of various part markets that are not dependent on each other. The demand and supply and the market behavior of each of these segments are not necessarily inter related. Individual segments behave in their own way. It is not uncommon to see one segment riding the crest of a market boom when another one will be reeling under depressive pressures.

The information and data required for analyzing the market trends for each segment is as different as the various segments in the industry. In addition to supply and demand, the state of the market also depends on economic situation, price of oil, war, strikes, weather and climatic factors, good or bad harvest, governmental policies, and so on and so forth. The hands-on broker need to have his data base spread over a wide variety of parameters to give meaningful information to his clients.

3.2 Dry – Cargo Markets

The dry cargo segment of the shipping market is taken for this study due to the fact that it is one of the least organized and the least standardized of all segments. There are a wide variety of ships and cargoes and the parameters affecting each segment of the market are not same. The world's trading requirements in the dry sector are far more complex than in the liquid cargo segment, and movements are dictated by the needs and the wants of the world economic situation. The dry bulk ship-broker has not only to know his own market, but to have a very keen eye for world developments, whether they be of an economic or political nature or just some disaster or failure of a crop in one country or another.

The dry cargo market is mainly concerned with the carriage by full shipload of the world's primary "dry" commodities: coal, grain, iron ore, phosphates, fertilisers, sugar, etc.

The dry-cargo market consists a wide variety of segments; bulkers, multi-purpose ships, container ships, Roll-on Roll –off (RORO) ships, passenger ships, Cruise Liners, Cattle carriers, Off-shore supply vessels, Tugs and Barges, Project carriers, etc. There are sub-divisions within each segment. Within bulkers one can find Cape size ships, Panamax ships, Supramax, Handymax, and Handys. The market behavior of each of these segments could be different. The practices followed within each segment have peculiarities of its own. While larger container ships are usually employed for period charter, a lot of bulkers are traded in the ‘spot market’. There are a wide variety of contract formats used in the dry cargo segment.

4.0 THE COMMUNICATION REVOLUTION AND SHIP BROKING

4.1 The past and the Present
About two decades back Ship broking was mainly in few Shipping Centers namely; New York, London, Sydney, Tokyo, Singapore, Rotterdam and Piraeus. London was the leading international center with a wide variety of maritime services readily available. Only with physical presence in one of the prominent shipping center could contracts of carriage be negotiated. Telex was the only reliable mode of communication but it was expensive and time consuming.

With the onset of digital communication, the scenario change drastically. Voice communication over long distance became reliable and efficient. Documents could be transmitted by facsimile. Long messages with documents, pictures and video clippings could be transmitted using emails. Messages to a number of recipients could be sent easily and at negligible cost. Mobile phones and internet accessibility facilitated regular contact, even while the person is on the move. Instant messenger on the Internet added to the flexibility by offering instant discussions using internet protocol. Physical presence in any location was no longer vital.

Ship broking, although is a profession which was slow to adapt to modern technology, started using the multitude of communication modes. Today, chartering negotiations are carried out using a wide variety of communication methods; email, mobile phones, instant messaging and facsimile all at the same time. A single negotiation may use all or any of the available methods.

Modern communication methods have drastically reduced communication cost. During telex days every character was costly and therefore the industry adapted a system of abbreviations; SHINC for Sundays Holidays Included; SHEX EIU for Sundays Holidays Excluded Even if Used; MOLOO for More or less at Owners’ Option being some of them.

The unaffordable cost of communication earlier had limited the number of contacts with whom ship-brokers communicated. Usual communication was only with a few important contacts. With inexpensive and versatile modern communication, the situation reversed. Shipbrokers transmit their positions for ship and cargoes to hundreds of contacts; sometimes more than once a week or even daily.

The email system is posing a challenge to the ship broking community in terms of authenticity of the contact through whom negotiations are carried out. When telex was the primary mode of communication ‘answer back’ was an authentication of the party contacted. But in case of emails, unless it is a regular contact the contacted party’s authenticity is not clearly established.

The virtues required for a Ship broker in the era of inexpensive and instant communication are changing; with more and more verbal communication, certain level of ‘salesmanship’ is required. The broker is left to talk-out and convince the contentious issues in a contract. This often involves modifying the clauses of a contract many times so that the anxieties of the parties concerned are addressed.
4.2 Information and Shipbroking

Apart from knowledge of the industry and practices of the trade, information dissemination can perhaps be termed as the crucial aspect of ship-broking. A shipbroker’s role can be termed as a network of relationship between various entities; the ship-owner, the charterer, other brokers, etc. In short, Shipbroking can be termed as ‘an information network’. The broker is in constant contact with a variety of sources to gather information. At the core of this activity is the broker’s access to available ships and/or cargoes. This primary information helps the broker to widen his network among owners, charterers and other brokers. In effect this forms a network which exchanges information on a reciprocal basis.

Almost all brokers circulate their open positions; ships and cargoes – to their contacts frequently. The contact list consists of brokers, owners, Charterers, operators and other associates. With the advent of internet based communication systems which are relatively inexpensive, the contact list of every broker is updated frequently as newer and newer players enter the domain every other day.

4.3 Shipbroker - Source of Information

The shipbroker is a vital source of information for the ship-owner and the charterer. Shipbrokers track each and every business concluded and this information is regularly passed on to their principals. Market information is also collected from various other sources like the Baltic Exchange, the research divisions of some prominent broking houses and a host of other information sources which churn out information that could have an impact in the shipping market.

Ship-brokers normally specialize in a specific segment of the market. The charterers have interest in the broker’s information, knowledge, skills for negotiation as well as his perception of the market.

5.0 THE CHANGING ROLE OF A SHIP-BROKER

5.1 Communication Systems

Chartering is primarily dependent on communication. Ship – brokers who are the intermediaries in chartering are mainly involved in information exchange. The importance of efficient communication methods need not be stressed; it is one of the key factors.
The modern communication systems provide efficient and inexpensive communication – instantly to any part of the world. Pages and pages of documents, photographs or even video clippings can be exchanged instantly – even when a ship is in the midst of an ocean.

The main advantages of emails can be summarized as follows;
- Relatively inexpensive
- Easy to archive for future recall: The search/find options helps tracking emails efficiently
- Contains details of correspondence: There is no need to rely on memory or filed papers for the details of the correspondence.
- Facility to edit: emails provide facility to edit any number of times before the email is transmitted to the recipient.
- Provides time stamped proof of interaction.
- Multiple Mailing lists

While, in the past, shipbrokers worked on the basis of authority given to them by their principals, the modern communication systems provide the leverage of getting decisions from the principals at all stages of negotiation. Be it day or night; whether at sea or while in an aircraft – contact can be maintained. Therefore, instead of working on the basis of authority, shipbrokers now get orders from their principal from time to time.

In the olden days contacts were generally between owners and brokers or charterers and brokers. There was not much of contact between charterers and owners directly. Ease of modern communication has changed this – very often we see now charterers and owners being in direct contact.

No longer do brokers give excuse of their principals being not available – due to weekend holidays or after office hours. With mobile phones and the Blackberry – almost anyone is accessible on a 24 x 7 basis.

5.2 Chartering Methodology

The chartering methodology is in the process of transformation as a result of the revolutionizing changes brought in by digital communication and computing power.

Instead of a short list of close contacts, every broker now has hundreds of contacts. Each and every business is flashed to these contacts many times – sometimes more than once a day. This is in contrast to the olden days when, due the high cost of telex communication, businesses were given only to a few contacts.
During the Telex days – negotiations were carried out on the basis of a short offer having only the basic details. Standard contract forms (charter parties) were referred to for all other details. This method has undergone a major transformation now. The offer for a charter has many clauses now; there is a tendency to include every operational aspect in the offer.

Negotiating the finer details of the contract (charter parties) used to be much simpler. The base contract form used to be a standard format and the parties talked only of very few changes to this basic contract. Instead, these days’ charterers have their own charter party formats which are worded very differently from the standard contract form. This has led to lengthy negotiations on details of the contract – every minute detail of it.

It is also not uncommon now days for Charterers to ask for the copies of the ship’s certificates. Pages and pages of certificates are faxed or sent by email.

In the past, Charterers and owners followed the principle of ‘first come first served’ meaning when a ship is open; the ship-owner chose a business from the broker who gives the business first. When more than one broker offers a particular business, the owner almost always chose to negotiate through the channel which offered the business first. Now a days, thanks to email and instant messengers, the same business lands up on the owners’ computer from 10 or 20 brokers at the same time. The owner chooses the most suitable channel – not necessarily the one who gave the business first.

Even after commencement of the negotiation, it is not uncommon for owners (or Charterers) to look at other businesses. They may leave a negotiation half way through and choose to work another business. In the past, once the owner (or charterer) chose a particular business and started negotiations they tried to conclude it. Only if the chosen business fails do they go for another. One could say that the negotiations are no longer focused.

5.3 The changing Market

The charter market is not only dependent on the demand and supply of ships but a variety of other factors.

With modern technology, information on the parameters which affect the shipping market gets transmitted far and wide in seconds. Every new business spreads like wild fire – and the perception of the owners and charterers change with every new business they see. Multitude of other factors; economic, political, financial, government policies, every small bit of information is analysed at depth and its impact on the market ascertained. The down side of it all is that unsubstantiated rumours can vitiate decision making. The ultra sensitive brokers may read too much into a happening and may change their decisions. Just like share markets, “sentiment” may affect the rates.
6.0 CONCLUSION

Shipping has generally been an industry which was slow in adopting modern technology. However it can be seen that ship-brokers nowadays use all the available means of communication. But the practices and methods followed for many years have still not changed in such a way as to optimize time and effort of the practitioners during a negotiation. Some of the practices have become complicated and less versatile. This eventually leads to a scenario where there has so far been hardly any concerted effort within the practitioners or the International bodies representing them in optimizing the methods and practices of ship-chartering using modern communication methods.

References

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