INSTITUTE OF CHARTERED SHIPBROKERS – LINER TRADES

Session 7

Structure and Organisation of companies in the liner sector

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Course Outline

(1) Introduction – Liner Shipping and the Container Revolution
(2) Liner Ships
(3) Ports, Terminals and Cargo Handling
(4) Through transport systems – containers and intermodal transport
(5) Container Lines and their networks – co-operation
(6) Container Lines and their networks – service structures
(7) Types of businesses in the liner sector – structure and organization
(8) Bills of Lading and other contractual documents
(9) Contracts between sellers and buyers
(10) Revenue and Costs in the Liner Business
(11) The Future for Liner/Container shipping

Topics for this session

- Organisation of liner shipping companies – different functions and departments
- Role of agencies – in house and third party
- Model agency agreement (SLGAA = Standard Liner General Agency Agreement)
- Role played by NVOCCs and forwarding agents in the liner sector
- Who are the main container lines – drivers of consolidation (mergers and acquisitions) in the industry

LINER COMPANY ORGANISATION
Functions and Responsibilities

- Head Office Organisation
- Regional/Area Structures
- Agency Organisation

- Agency – Owned vs Third Party

Summary – Roles of Head Office and Agency/Country Offices

- Head Office
  - Main strategic and planning decisions
  - Decisions which affect the business as a whole/key financial and operating decisions
  - Set guidelines/instructions for agencies and monitor their performance

- Agencies
  - Execution of the line's business in the country/area for which responsible

Head Office – Main functions and responsibilities

- Fleet Management – operational, technical, safety, crew management of the company's ships
- Chartering – chartering in and out of ships as required for the business
- Vessel Operations – operating the services – scheduling, liaising with terminals, vessel stowage, day to day co-operation with VSA and Alliance partners
- Container Management – responsible for the company's fleet of containers – buying/leasing – and planning the container stocks so as to meet the business requirements for containers – right place at the right time – at lowest cost
- Trade Management – profit and loss responsibility for each service – sets pricing parameters/approves pricing proposals from agents

Head Office – Main functions and responsibilities

- continued -

- Procurement /Contract Management – selection of suppliers/negotiation of key contracts e.g. bunkers, terminal contracts
- Global Sales Department – sales strategy, management of key accounts, tenders, CRM, E-Commerce
- Business Planning and Development – strategic plan, decisions on trade routes, network planning – VSA and Alliance negotiations, investments, buying ships
- Central Service Functions – Accounting/Finance, HR, IT etc.

Head Office – Fleet (Ship) Management

- Acquisition of vessels
  - Owner may be involved in vessel design; may subcontract the design, or buy ‘off the shelf design’
  - Issuing tenders; evaluating and choosing shipyard(s)
  - May buy 2nd hand tonnage (using S and P broker)
  - (Financing newbuilds likely to be handled by the company’s Finance/Treasury department)
  - Oversight of vessel construction, and taking delivery

Head Office – Fleet (Ship) Management

- Technical Management
  - Responsible for the ship's structure and machinery
  - A ship is broadly split into 'deck' and 'engine room'; engine room covers the engine + all auxiliary machinery; deck covers the rest of the ship, including structure
  - Regular programme of maintenance; carried out while at sea (can use riding gangs (or during port stays)
  - Periodic dry docks and surveys (usually a major dry dock every 5 years)
  - Important that ships are properly maintained – reliability is commercially important; also vessels must be maintained 'in class' i.e. approved by classification society (if not, cannot be insured); port state control can stop substandard ships (which don't conform to IMO conventions)
  - Responsible for compliance with ISM (International Safety Management) Code – part of SOLAS Convention
  - Technical department often staffed by qualified deck and engineer officers (Superintendents)

Head Office – Fleet (Ship) Management

- Ship Operations
  - Responsible for ensuring that the ship meets the commercial task required
  - Instructions to the vessel on schedules (and liaison between the ship and commercial departments)
  - Instructions to port agents; communications; agents' reports; approving expenditure
  - Main contracts with port suppliers (e.g. pilots and tugs) – agents may negotiate these, but HO will want to approve
  - Liaison with technical and crew departments to ensure their requirements can be met during port calls

Head Office – Fleet (Ship) Management

- Purchasing/Stores
  - Requirement for
    - Food and other provisions
    - Spares and other technical supplies
    - Lube Oil for engines
  - Specialist skills handling global purchasing via contracts, tenders etc.
  - May be part of company wide procurement department, or may be part of fleet management
- Bunker purchasing
  - Major item of expenditure – may have separate department/team focused solely on bunkers
  - Need to work closely with ship operations department to determine where to take bunkers on board
  - Items to be considered include
    - Contract vs Spot purchases
    - Cheapest ports (on the scheduled route) – but operational requirements need to be considered
    - Different requirements for MFO, VLSFO, MDO etc
    - Ensuring quality of bunkers (i.e. that what is delivered meets the specification

Head Office – Fleet (Ship) Management

- Crew Departments
  - High level decisions on nationality of officers and ratings
  - Recruitment and training of crew
  - Ensuring crew are allocated to a vessel to meet internal requirements, and statutory manning levels
  - Travel to/from vessels; leave arrangements
  - Where relevant, negotiating union or other agreements with employees
  - Compliance with regulation (including IMO STCW Convention, and ILO Maritime Labour Convention)
- Third Party Ship Management
  - Companies can contract out some of all of these functions to 3rd party managers
  - May be more cost efficient for small liner companies; larger companies generally have the economies of scale to perform these functions themselves
  - Crewing agencies/contractors are often used because of their expertise/contacts in securing crew of a particular nationality

Head Office – Route/Service/Trade Management

- All liner companies need some structure of profit centre management
- Typically managed by route/service, but becomes complex when cargo is carried on different loops (interlining)
- Precise responsibilities of this department will vary from company to company
- Often responsible for setting pricing policy for the trade/route, since this has strong influence on profitability
- May need to approve rate levels, rate increases, major contract rates
- May determine vessel size, ports of call etc. for the route being managed, but as individual routes are generally not run in isolation, these decisions may be taken by a Network Department, with trade/route management being consulted
- Less influence on costs, as these will generally be managed by other departments

Head Office – Route/Service/Trade Management

	Voyage Estimate - Illustration				
	Description	**Headhaul**	**Backhaul**	**TOTAL**	**per teu**
	TEU loaded	1,659	1,213	2,872	
		$'000	**$'000**	**$'000**	**$**
	Revenue	1,535	607	2,142	746
LESS	**Variable Costs**				
	Inland Transport	83	49	132	46
	Terminal Costs	216	146	362	126
	Feeder Costs	33	24	57	20
	Agency	75	55	130	45
	Contribution	1,128	333	1,461	509
LESS	**Container Costs**				
	Daily Cost (incl depreciation)	58	36	94	33
	Empty Container Storage	17	12	29	10
	Imbalance	100	6	106	37
	Maintenance and Repair	10	7	17	6
LESS	**Ship Costs**				
	Vessel Operating Costs			325	113
	Depreciation			115	40
	Bunkers			490	171
	Port + Canal Costs			75	26
	Insurance			23	8
	Profit before Overheads			187	65
LESS	Overheads			120	42
	Net profit			67	23

- All liner companies need some structure of profit centre management
- Typically managed by route/service, but becomes complex when cargo is carried on different loops (interlining)
- Some costs are not directly attributable, and need to be allocated (e.g. container costs, company overheads)
- ‘Owned Agencies’ may be treated as overheads rather than variable costs
- Same structure can be used for budgets/monthly management accounts as well as estimated results for individual voyages
- Costs per teu are averaged across ‘total teu’. Some of these cost elements will not be incurred on all boxes (e.g. inland transport, feeder costs), hence the relatively low cost per teu.

Head Office – Procurement/Purchasing/Contract Management

- Negotiation of some purchasing contracts may be handled centrally
- Bunker purchasing – a highly specialised activity
- Terminal Contracts
  - Significant expenditure for the company as a whole
  - Best practice on how to structure agreements (e.g. performance clauses)
  - May be possible to make global agreements with major terminal operators
  - Contract Negotiation may be done jointly with VSA/Alliance partners
- Other contracts may be negotiated locally, but subject to central approval (may depend on whether agencies are owned or 3rd party)
- Likely to be company wide instructions on processes to follow (e.g. issuing tenders)

Head Office – Global Sales Management

- Global Sales Strategy – focus on specific commodity/customer segments
- Key (Global) Accounts
- Tenders
- CRM (Customer Relationship Management) Systems
- Sales resources
- Oversight of local sales performance

Regional/Area Offices

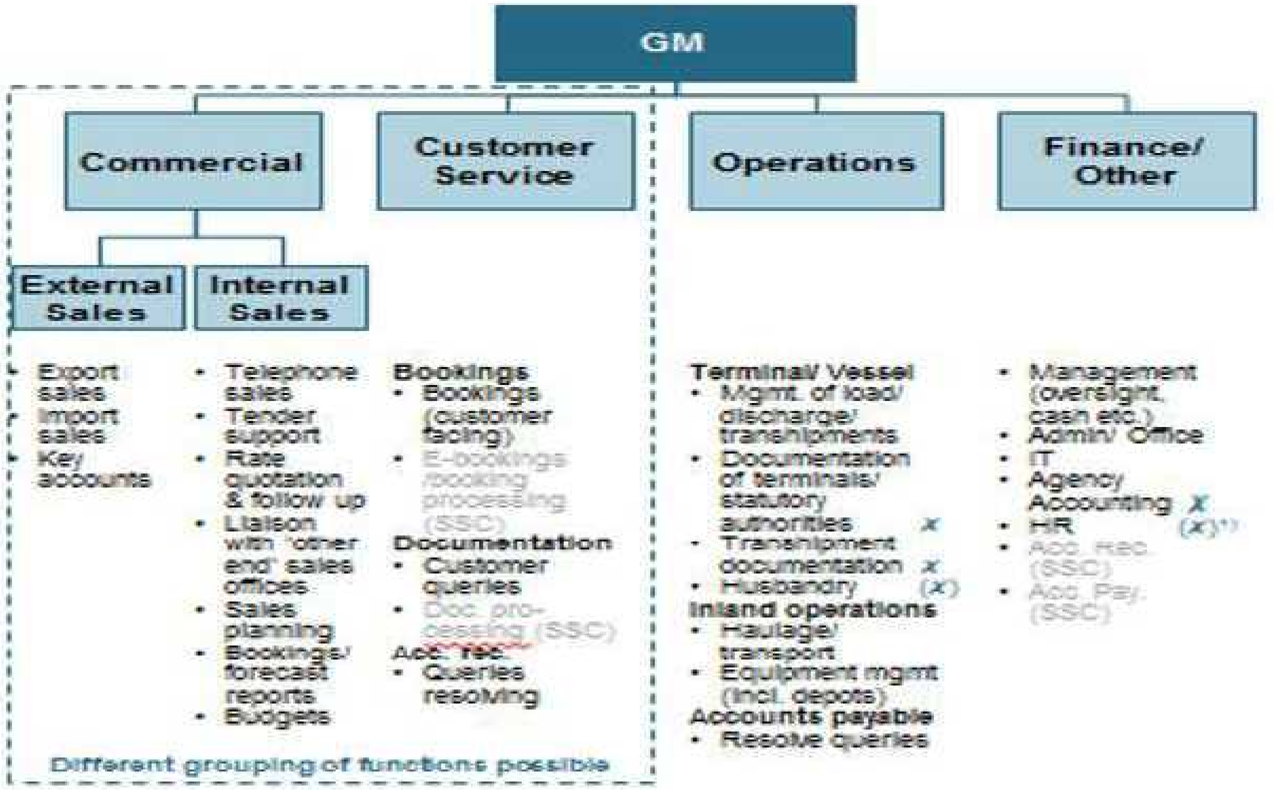
- For a Global Liner company, it is not practical for all agencies/local offices to report direct to Head Office
  - Issues of span of control + time difference + local knowledge

- Responsibilities of regional offices vary from Line to Line e.g.
  - Oversight of agents'/country office performance/activities within the region (Sales + Operations + Documentation + Finance)
  - Trade Management (if decentralised)
  - Container Management (responsible for container stocks/planning within the region)

Agency – Main functions and responsibilities

- Sales and Bookings – securing customer support/bookings in line with company's sales and pricing guidelines
- Customer Service – post booking servicing of the customer's business
- Documentation – all required Export and Import shipping documents ; raise Bills of Lading and Invoices
- Inland Operations – all inland movement of containers, oversight of inland depots, tracking of all containers, movement of empties in accordance with instruction from Head Office Container Management
- Terminal Operations – oversight of vessel operations in the terminal, as directed by HO Vessel Operations; ensure all information passed to/from the terminal operator re: containers for loading/discharge; husbandry service for the line's own ships
- Accounting – collection of all freight and other invoices; management of credit terms in accordance with line's instructions; settlement of supplier invoices according to approved contracts

Liner Agency Organisation



Owned or Third Party Agencies?

Owned

- Direct control of staff and activities
- Easier to ensure common purpose of line and agents
- Can use common IT systems without difficulty – no issues over ownership
- When volumes expand, agency admin costs do not rise proportionately

BUT

- As agency costs are largely fixed, this can be a burden on the business if volumes are low and/or reducing
- Head Office need to oversee management/staff performance of the agency

Owned or Third Party Agencies?

Third Party

- Readily available local expertise – no need to recruit own staff
- Agency admin costs (commission/box fee) are directly related to volume carried/revenue earned
- Local agency may have better links to customers/suppliers – particularly if the agency is part of a larger transport/shipping related group

BUT

- Agents' and Principals' interests are not always aligned
- Need to define what revenue is for principals' and what for agents' account
- Systems integration may be problematic
- Agent may gain disproportionately when revenue/volumes improve

Shared Service Centres

- Carries out defined tasks on behalf of lines' offices globally
- Shipper documentation – bills of lading/invoices for agency/country offices
- Accounting/Data Management functions for head office
- Has no contact with customers – all contact continues to be via the agent's customer services staff
- Has highly trained staff, at relatively low cost; it also achieves high productivity because of the volume of work handled from multiple agents
- Operates 24/7 so is available for agents in different time zones
- Requires high quality data and communication links
- Has strong language skills to communicate with the line's agency staff in different countries and continents
- India and Philippines are popular locations for SSCs

FONASBA/BIMCO GENERAL AGENCY AGREEMENT

BIMCO

- Core Objective:
  - ‘To facilitate the commercial objectives of our members by developing standard contracts and clauses, and providing quality information, advice and education’
- Full name : Baltic and International Maritime Council
- Founded in 1905 by a group of shipowners in the Baltic and White Sea trades
- Membership is now international, and includes shipowners and operators, shipbrokers, agents, maritime lawyers and P and I Clubs
- More than 2,200 members
- Represents its members on issues concerning regulation
- Strong focus on producing standard documents for use in the industry
- Provides comprehensive information to its members on maritime matters

FONASBA

FONASBA (Federation of National Associations of Ship Brokers and Agents)

- Formed 1969 – some 26 countries as members
- Objectives:
    - Supports its members when the basis and general interests of their profession are in question
    - Co-ordinates common efforts to improve, simplify and standardise shipping contracts and documents
    - Ensures an efficient exchange of information of general or particular interest
- Standard Liner agency contract

BIMCO – FONASBA General Agency Agreement

FONASBA BIMCO

GENERAL AGENCY AGREEMENT

PART I

	1. Date of Agreement
2. Agent (full style and address) FONASBA Quality Standard Certification ☐ Yes ☐ No	3. Principal (full style and address)
4. Commencement date/Period	5. Notice of termination
6. Territory	7. Trade
8. Activities (tick the boxes to apply) (Clause 7 and Annex C) ☐ Marketing and sales ☐ Port agency ☐ Husbandry agency ☐ General agency ☐ Documentation ☐ Other (specify)	9. Remuneration (See Annex A) 10. Funding (See Annex B) 11. Liability cap (Clause 19(i)(b)) Applies only if an amount is stated; if left blank, Clause 19(i)(a) applies
12. Agent's bank details Currency: Bank: Address: Account Number: Account Name: IBAN: BIC/SWIFT code:	13. Principal's bank details Currency: Bank: Address: Account Number: Account Name: IBAN: BIC/SWIFT code:
14. Agent contact details	15. Principal contact details

16. Dispute Resolution (Clause 28 BIMCO Dispute Resolution Clause state (a), (b), (c) or (d); if (c) agreed state Singapore or English law; if (d) agreed, governing law and place of arbitration must be stated)

17. Additional Clauses, if any

BIMCO – FONASBA General Agency Agreement - 2017

Section 1 - Basis of Agreement

- Defines the territory (Box 6)
- Defines period of agreement and/or notice period
- Will not undertake activities in direct competition with the principal in specified trades without prior written consent
- Principal will not normally appoint another agent in the territory
- Remuneration will be set out in the agreement
- Agent may appoint sub agents subject to approval
- Level of responsibility for actions of sub agents (choose one of two alternative clauses)

BIMCO – FONASBA General Agency Agreement - 2017

Section 2 – Activities

(a) Marketing and sales

(i) Undertaking marketing and sales in the Territory by maintaining contact with shippers, consignees, freight forwarders and charterers and keeping the Principal informed of potential business opportunities;

(ii) providing statistics and information reasonably requested by the Principal;

(iii) engaging in public relations activities and participating in any trade association as agreed with the Principal; and

(iv) agreeing a budget with the Principal to enable the Agent to fulfil the agreed scope of representation.

BIMCO – FONASBA General Agency Agreement - 2017

Section 2 – Activities

(b) Port agency

(i) Arranging for berthing of vessels, loading and discharging of cargo and/or passengers in accordance with local custom and conditions;

(ii) cargo operations: co-ordinating stevedores and terminal operators, reporting to relevant authorities and arranging and checking documentation;

(iii) inward and outward clearance of vessels: making arrangements to permit entry and departure, complying with the requirements of statutory and regulatory authorities and arranging and co-ordinating the provision of port services;

BIMCO – FONASBA General Agency Agreement - 2017

Section 2 – Activities

Port Agency (continued)

(iv) keeping the Principal regularly and in a timely manner informed of port and working conditions likely to affect the despatch of the Principal's vessels;

(v) reporting to the Principal the vessel's position and preparing a statement of facts of the call and/or a port log; and

(vi) placing orders on behalf of the Principal for the supply of goods and services.

BIMCO – FONASBA General Agency Agreement - 2017

Section 2 – Activities

(c) Husbandry agency

(i) Attending the Master and all crew matters, consular requirements, organising medical and dental treatment and supervising crew changes;

(ii) ordering and receiving goods, services, supplies and spare parts for the vessel;

(iii) making arrangements for receiving bunkers;

(iv) arranging and co-ordinating repairs; and

(v) all other activities relating to the day to day running of the vessel.

BIMCO – FONASBA General Agency Agreement - 2017

Section 2 – Activities

(d) General agency

(i) Co-ordinating all activities of port and/or sub-agents, as set forth in this Agreement, in order to ensure the proper performance of all customary requirements for the operation of the Principal's vessels in the Territory; and

(ii) attending to the Principal's requirements concerning claims handling. All expenses involved with claims handling are for the Principal's account.

(e) Documentation

On behalf of the Principal, issuing bills of lading and manifests, delivery orders, certificates and such other documents as may be required.

BIMCO – FONASBA General Agency Agreement - 2017

Section 3 – Finance and Budgets

- Collect money due to the Principal
- Check invoices and prepare disbursement accounts; chase for invoices if needed
- Advise Principal of local tariff changes
- Make sure the Principal benefits from all available discounts
- Calculate freight and other charges with reasonable skill and care
- Remit money to Principal (deduction for disbursements)
- Agree credit terms with the Principal (if not agreed, risk is for the agent’s account)
- Principal shall provide advance funding (Agent is not expect to use its own money to fund the Principal’s activity)

BIMCO – FONASBA General Agency Agreement - 2017

Section 4 – Resources and Insurance

- Agent to provide necessary resources
- If the Principal provides software, it can only be used for the Principal’s business
- Agent shall maintain insurance cover for
  - Negligence or Default by the Agent
  - Public Liability Cover
- Principal shall maintain cover:
  - Shipowners’ Protection and Indemnity Cover (P and I) or Charterers’ Insurance
- If the Principal does not have the insurance cover, the agents can terminate the agreement with immediate effect

BIMCO – FONASBA General Agency Agreement - 2017

Section 5, 6 and 7 – Liability, Miscellaneous, Law and Arbitration

- Agent’s liability limited to cases of negligence or wilful default
- Limit on financial level of liability
- Principal indemnifies the Agent for costs, damages etc. provided its action was on behalf of the Principal in performing this Agreement
- Agreement is private and confidential
- Law and Arbitration as per Box 16. If not specified, English Law and BIMCO Dispute Resolution Clause 2016

BIMCO – FONASBA General Agency Agreement - 2017

Remuneration

5. The Principal will remunerate the Agent for the Activities agreed in Box 8 in accordance with Box 9 and/or Annex A (Remuneration).

- Left blank, for the parties to agree both the structure and level of remuneration
- Historically, a 'standard' structure was:
  - A % of freight for export and import activity (e.g. 5% of export freight, 2.5% of import freight)
  - A standard 'box' rate to cover container activity (tracking boxes etc.)
  - A standard box rate for transhipment (if the container doesn't enter the agent's territory)
  - A separate payment for vessel husbandry
- Important to define where the agent can recover costs directly (e.g. Advertising, PR)

GLOBAL CONTAINER LINES and CONSOLIDATION

Consolidation of Container Lines

- History of smaller lines being taken over by larger lines
- A few significant mergers/acquisitions in 1990s, and up to 2006
- Few deals 2007 – 2015 – WHY?
- 2016 – 2018 : Top 20 lines reduced to 12 lines
  - Driven by poor profitability
  - Identify benefits from consolidation
- Any more deals to come???

Why Consolidate?

- Economies of scale (but you may already have ship network scale from Alliances)
- Procurement
- Smart operations
- Global coverage
- Financial restructure

BUT

- Many mergers fail
- You may lose market share/customers
- One off costs and disruption (e.g. changing Alliances)
- Cultural/management issues in a merged company
- The business becomes inward looking

NVOCCs, FORWARDING AGENTS, 3PLs

Role of the NVOCC

- Non Vessel operating (common or container) carrier
- Purchase space on vessels from liner service operators
- Provide door to door multi modal service **as a principal** (contrast with forwarding agent) – therefore issues own bill of lading
- Additional added value services – some will manage complete supply chain
- Operate Groupage/LCL Services

NVOCCs in today's industry

Short definition of NVOCC

- Non Vessel operating (common) carrier
- Purchase space on vessels from liner service operators
- Provide door to door multi modal service **as a principal** (contrast with forwarding agent)
- Additional added value services – some will manage complete supply chain
- Operate Groupage/LCL Services

Range of Logistics Services

- Door to door transport
  - Different modes – different sectors
  - Carrier or NVOCC
- Booking and Documentation (freight forwarder role)
- Value added services
  - Calling forward
  - Consolidation
  - Cross docking; retail packaging and labelling
  - Warehousing
- SKU tracking/stock control
- Information Systems
- Complete Supply Chain Management

Why are NVOCC operations highly significant?

- NVOCCs have a substantial market share of multimodal business

  (varies by trade, but can be up to 50% of market in some deep sea trades)
- Some Exporters/importers want to contract out more logistics services than just door to door transport
- Greater ‘added value’ for the supplier in extra services than in port to port transport
- Result is competition between carriers and NVOCCs for ‘control’ of the customer relationship

NVOCCs in today's industry

Advantages for Customers

- Negotiating 'muscle' of NVOCCs to get lower freight rates
- NVOCCs have access to a number of carriers on the same route
- NVOCCs will have guaranteed space from carriers (may be important in peak seasons)
- NVOCCs invest in and offer a wider range of services than carriers e.g. warehousing, cross-docking, consolidation etc.
- Large NVOCCs have global services; smaller NVOCCs may specialise in particular areas of commodities

NVOCCs in today's industry

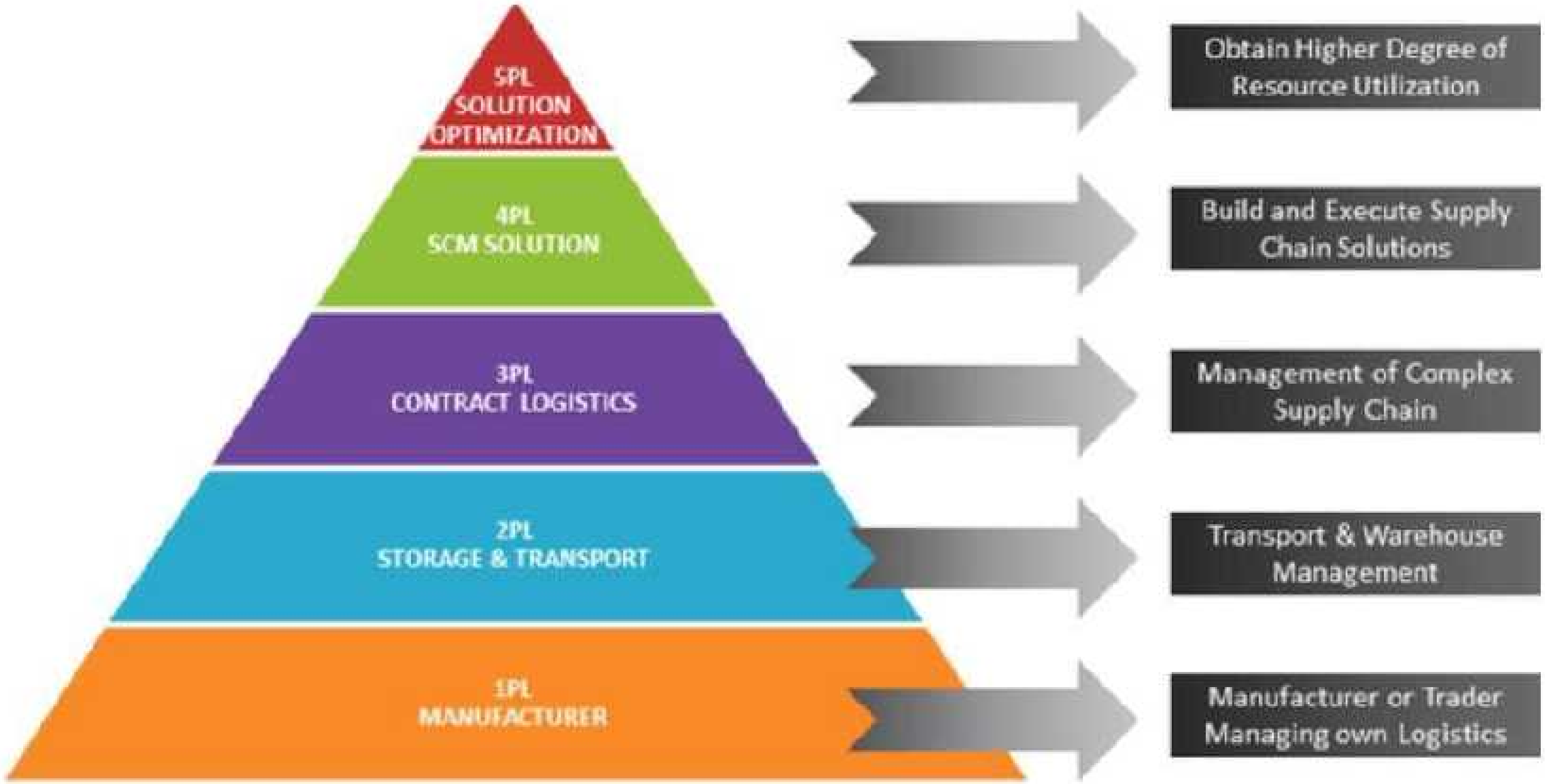
Disadvantages for Customers

- Dealing with a 'middle man' is not always efficient – can be better from service perspective to deal with the carrier direct
- Large shippers can get better rates than NVOCCs + tailor made contract
- NVOCCs will be taking their own profit margin, so may be higher cost than dealing with carrier direct
- When there are space shortages, which of the NVOCC's customers will get priority?
- If NVOCC is bankrupt, there is a risk that your cargo will be held by line as security for freight

Role of Forwarding Agent

- Acts as agent for the shipper (or importer) – not as a principal
- Secures quotes and makes all the arrangements for through transport with the various parties, including booking space
- Processes all documentation for the cargo interests (can include obtaining b/l, export documentation, customs entries etc.)
- Provide expert advice on all aspects of international trade and transport

Lines, NVOCCs, 3PLs



Logistics is more than just transportation

Logistics - ...the process of planning, implementing, and controlling the efficient, effective flow and storage of goods, services, and related information from point of origin to point of consumption for the purpose of conforming to customer requirements." Note that this definition includes inbound, outbound, internal, and external movements, and return of materials for environmental purposes. -- (Reference: Council of Logistics Management, http://www.clm1.org/mission.html, 12 Feb 98)

"Logistics means having the right thing, at the right place, at the right time, at the right cost"

Successes of the Container Revolution?

- High capacity, productive, cost efficient
- Low cost – in relation to the value of the goods shipped
- Reliable
- Intermodal units minimise loss and damage
- Door to door
- Control/responsibility by a single provider
- Able to be integrated with a business' supply chain

Driving the Global Economy!!!

KFC’s Supply Chain Disaster (Feb 2018)

In the chaos trucks were delivering wrong stock or out-of-date stock which had to be sent back.
“It’s a logistical nightmare for DHL. They just didn’t have the set-up to deal with it.”
The DHL depot at Rugby, Warwicks, was yesterday described as “total mayhem” — with pictures showing thousands of trays of chicken waiting to be loaded on lorries.
The shortage started to bite at KFC outlets on Friday. It worsened over the weekend and by yesterday the system had collapsed completely.

A single mum at an Uxbridge store said: “I don’t know whether to laugh or cry.”
(text from ‘The Sun’ newspaper)

Or maybe this guy's got the right idea!

Questions from Past Exam Papers

You are approached by a container liner shipping company to become their 'sole agency' in your country. Prepare a proposal with an organisation chart showing details of your proposed company structure and key functions/responsibilities

(May 2018 Q4)

The FONASBA standard liner and general agency agreement provides a good summary of the relationship between the carrier and their agents with duties each have to each other. Define the main terms of the agreement and comment opn each of these from the agent's and principal's point of view.

(November 2019 Q8)

Recent times have seen further consolidation of carriers in the deep sea and short sea container trades. There has also been a move from some carriers into the full logistics sector.

Discuss these events, and the latest structures that have arisen. Explain whether you would expect this trend to continue and the likely structure over the next five years.

(November 2019 Q1)

Questions from Past Exam Papers

Explain the activities of a Non-Vessel Operating Carrier (NVOC) and the contractual relationship of an NVOC with the cargo owner and the ocean carrier. Discuss the relationship between the bills of lading issued by the NVOC and ocean carrier respectively and any problems which might arise.

(May 2019 Q3)

NVOCC and specialist logistics operators are becoming increasingly significant in the liner shipping industry. Explain why this is happening and what are thee advantages and disadvantages to exporters and importers.

(May 2017 Q2)