LECTURE 1

SHIPOWNERS, OPERATORS, AND MANAGERS

THE ROLE OF A SHIP MANAGER

Owning and operating a ship involves far more than just purchasing a vessel, securing cargo, and transporting it. Traditionally, shipowners managed all aspects of ship operations in-house. In earlier times, before global communication systems were developed, the ship's Master had extensive authority to act on behalf of the owner.

While some shipowners continue to oversee all operational functions, an industry has emerged offering specialized ship management services. Tentatively, this creates tax advantages to shipowning companies, especially the major oil companies at the beginning, and now ship owning and transporting companies in general. The independent ship management is an attractive alternative, particularly for financial institutions that acquired vessels from struggling owners.

There has been a paradigm shift that led to a growing demand for professional ship management services, handling responsibilities such as registration, crew management, insurance, maintenance, and regulatory compliance. Owners must decide whether to manage these operations internally or delegate them to external specialists. While in-house management allows greater control, it is often cost-prohibitive for smaller owners. Large fleet owners benefit from economies of scale, while smaller owners frequently opt for third-party management services.

Mid-sized shipowners often face a dilemma, balancing the benefits of direct oversight with the cost savings and expertise offered by external management firms. Many resolve this by subcontracting specific functions, such as crew management. Another approach involves managing ships for other owners, leveraging existing resources to achieve efficiency without incurring excessive costs.

THE SHIP MANAGEMENT AGREEMENT

Given the financial stakes involved, a well-defined contract between shipowners and managers is essential. The Baltic and International Maritime Council (BIMCO) has established standardized agreements, such as SHIPMAN for general management and CREWMAN for crew management. The 1998 SHIPMAN agreement remains widely used, though an updated version, SHIPMAN 2009, incorporates industry and regulatory changes

Each agreement is tailored to the owner's specific needs, outlining responsibilities that may be outsourced. For example, insurance provisions ensure that both owners and managers benefit from coverage, minimizing potential risks.

STRUCTURE OF SHIP-OWNING AND MANAGEMENT ORGANIZATIONS

At the highest level, a ship-owning or operating company is governed by a board of directors, typically led by a chairman or president and a managing director. Their responsibilities include defining strategic objectives, fleet composition, financing strategies, flag selection, trade routes, and management structure—whether in-house or outsourced.

Operational management is then delegated to specialized in-house departments or contracted service providers. Regardless of the chosen approach, the ultimate responsibility for ship operations and compliance with international regulations rests with the owner.

METHODS OF ACQUIRING AND MANAGING SHIPS

DIRECT OWNERSHIP

Shipowners can purchase vessels outright using their financial resources or secure loans backed by the vessel. Some owners employ naval architects to design custom ships, while others purchase pre-designed models or secondhand vessels through brokers.

FINANCE-BASED LONG-TERM CHARTERS

For owners unable to finance large acquisitions, alternative arrangements such as lease agreements provide viable solutions. The German KG model, for example, has historically offered tax benefits that reduce chartering costs. However, economic downturns, such as the post-2008 financial crisis, have diminished its appeal.

TIME CHARTERS

Time chartering is a flexible method for securing vessels to meet fluctuating demands. However, long-term agreements can become financially burdensome if market conditions shift, making initially agreed rates unsustainable.

BAREBOAT AND DEMISE CHARTERS

Bareboat charters involve leasing a vessel for an extended period, with the charterer assuming operational responsibilities, including crewing, maintenance, and insurance. This arrangement allows companies to expand their fleets without significant capital investment. If a vessel is chartered for its entire operational lifespan, it is classified as a demise charter.

TECHNICAL MANAGEMENT AND REGULATORY COMPLIANCE

Effective ship management requires constant monitoring and maintenance to ensure seaworthiness. This responsibility is divided between the deck and engine room departments:

- **Engineering Superintendents** oversee machinery, fuel quality, and emergency repairs.
- **Marine Superintendents** focus on structural integrity, safety compliance, and external inspections.

Failure to maintain vessels to required standards can lead to classification society penalties or port state control detentions. Regulations such as the International Safety Management (ISM) Code and the MARPOL Convention enforce safety and environmental standards.

The ISM Code mandates structured safety management systems, including the appointment of a Designated Person Ashore (DPA) to ensure compliance. MARPOL, once primarily a technical concern, now significantly influences commercial decisions, particularly with the establishment of Emission Control Areas (ECAs) that impose stringent fuel regulations.

REGULATIONS ON SHIP EMISSIONS AND BALLAST WATER MANAGEMENT

Under Annex VI, regulations are in place to control nitrogen oxide (NOx) emissions from ships, with specific limits based on the vessel's construction date. Compliance with the NOx Code, which governs these emissions, can be achieved in various ways. The simplest approach involves operating the engine within the parameters set by the manufacturer. However, this method necessitates the exclusive use of original equipment manufacturer (OEM) spare parts, which may not always be readily available.

In 2004, the International Maritime Organization (IMO) introduced a convention to regulate ballast water management. However, it has yet to secure enough ratifications for global enforcement. In contrast, the United States has implemented its own regulations, requiring ships operating in US waters to install ballast water treatment systems following a phased schedule based on their age and ballast water capacity.

PROCUREMENT AND STORAGE

Beyond the technical department’s procurement needs, vessels require various supplies for maintenance, operations, and crew sustenance. Managing global procurement efficiently demands expertise, ensuring cost-effectiveness without compromising quality. Food procurement, in particular, requires careful planning, as crew members often have diverse dietary requirements, some of which must be strictly followed. The provisioning team must ensure adequate stock of appropriate food items, especially when sailing to regions where specific supplies may be scarce.

MARINE INSURANCE

Insurance is a significant expense for shipowners, second only to operational costs. It encompasses different categories, including hull and machinery (H&M) insurance, which covers loss or damage to the vessel. One of the most renowned providers is Lloyd's of London. Insurance at Lloyd's is underwritten by individuals or syndicates, with shipowners accessing coverage through specialized brokers who negotiate terms and premiums on their behalf.

Marine insurance is not exclusive to Lloyd's; many global insurance firms offer such coverage, often sharing risk among multiple entities. If an incident occurs, claims must be processed through the broker who arranged the coverage.

A separate category is third-party insurance, covering liabilities such as damage to port facilities, crew injury claims, cargo loss, and, most notably, oil pollution incidents. Traditionally, London-based insurers were reluctant to provide such coverage, leading shipowners to establish Protection and Indemnity (P&I) Clubs. These associations offer legal defense against unjust claims and reimburse owners for valid third-party claims. Unlike in the UK, some international insurers provide both H&M and P&I coverage, requiring ship managers to continuously monitor claims and policy management.

SHIP OPERATIONS

Ship management involves maintaining vessels in seaworthy condition while ensuring they fulfill their commercial obligations. The operations department plays a crucial role in coordinating all activities necessary for smooth voyages. This includes route planning, fuel procurement, liaising with port agents, organizing crew changes, and scheduling dry-docking while aligning with commercial commitments. Effective coordination between technical, operations, and commercial teams is essential for efficient ship management.

COMMERCIAL MANAGEMENT

Some shipowners delegate all management tasks except for commercial operations, which involve negotiating charters, marketing liner services, and maintaining broker relationships. Close collaboration between commercial and operations teams is necessary to optimize fuel procurement, schedule crew rotations, and plan maintenance without disrupting commercial commitments.

When ship management includes commercial activities, the integration between operations and commercial teams is even stronger. Commercial staff determine viable business opportunities and authorize brokers accordingly. They also assess market conditions, conduct voyage estimates, and strategize routes to maximize profitability.

SHIP PERSONNEL MANAGEMENT

Despite technological advancements, a ship's success heavily depends on its crew. Effective crew management ensures both safety and operational efficiency. Safety regulations dictate minimum staffing levels based on vessel type and size, enforced by the flag state's laws. Crew wages vary significantly by nationality, influencing employment decisions. Some countries mandate hiring national crew, while others allow more flexibility, leading to the rise of crew management companies that handle recruitment, training, and rotation.

Labor agreements also influence crewing policies, particularly in unionized countries where negotiated standards set minimum conditions. The International Transport Workers' Federation (ITF) advocates for fair wages and working conditions, sometimes engaging in disputes over employment terms. Ships registered under flags of convenience often attract scrutiny due to perceived lower regulatory oversight, prompting labor actions from organizations like the ITF.

To balance regulatory compliance and operational needs, some countries have established secondary registries with more flexible employment policies while maintaining safety standards. This approach helps shipowners manage costs while adhering to international requirements.

TRAINING AND CERTIFICATION

The Standards of Training, Certification, and Watchkeeping (STCW) Convention, established by the IMO, sets global training and competency standards for seafarers. Initially introduced in 1978, it has been updated several times, with the latest amendments (STCW 2012) incorporating modern training techniques and new competency requirements.

Key updates include:

- Measures to prevent fraudulent certification practices
- Revised work/rest hour regulations
- Enhanced medical fitness standards
- New certification for able seafarers and electro-technical officers
- Training on electronic charts, environmental awareness, and leadership
- Security training to address piracy threats
- Guidelines for operating in polar regions

Port states have the authority to inspect visiting ships to ensure compliance with STCW regulations, reinforcing international training standards.

ACCOUNTING PROCEDURES IN SHIP MANAGEMENT

IMPORTANCE OF DEFINED ACCOUNTING AGREEMENTS

Establishing clear accounting agreements between shipowners and managers is crucial for two primary reasons. First, shipowners entrust managers with handling capital assets worth millions, along with the authority to make significant financial commitments in daily operations. Second, shipowners must assess whether their business activities are covering operational costs and generating profits.

When considering new business opportunities, the commercial team prepares a voyage estimate. This estimate projects the financial outcomes of a voyage or operational period by incorporating three cost categories:

1. **Fixed Costs** – These are unavoidable expenses incurred regardless of the ship's activity, such as depreciation and loan repayments.
2. **Operating Costs** – These expenses arise when the ship is operational but remain payable even if the ship is not generating revenue, such as crew wages.
3. **Voyage Costs** – These include expenses directly linked to a specific voyage, such as fuel and port fees.

The commercial team, with accurate cost data from managers, determines daily cost estimates to evaluate voyage profitability. The voyage estimate factors in transit times, fuel consumption, and port operations, refining accuracy through experience and software-based analysis. Modern software simplifies the process by integrating distance databases and compliance requirements for Emission Control Areas (ECAs).

THE ROLE OF SHIP MANAGERS AS AGENTS

Under a ship management contract, the shipowner remains the principal while the manager acts as an agent. This distinction is sometimes unclear to external parties, especially when managers handle all business interactions. Many shipowners structure their fleets under separate legal entities for accounting or legal benefits, which is a common and legitimate practice.

While ship managers typically oversee entire fleets, issues may arise if a management company uses its agency status to evade financial liabilities. Assessing the manager's market reputation and track record helps mitigate such risks.

APPOINTING PORT AGENTS

Ships require local agents at every port to facilitate entry, cargo handling, regulatory compliance, and service payments. Although ship managers usually select port agents, charterers may negotiate the right to nominate an agent for commercial reasons. Regardless, the appointed agent represents the ship and not the charterer.

Upon appointment, the port agent is responsible for acting in the vessel's best interests. Shipowners must provide timely updates on movements and estimated arrival times (ETA). Effective communication ensures smooth operations and addresses emergencies like damage or medical issues.

RESPONSIBILITIES OF A PORT AGENT

A port agent's duties span various stages of a vessel's port call:

1. **Before Arrival :**
   - Securing berths and coordinating cargo handling.
   - Arranging pilot and tug services.
   - Handling customs, immigration, medical, and crew-related requirements.
   - Organizing supplies and documentation.
2. **On Arrival :**
   - Boarding the ship to discuss operational needs.
   - Managing cash distribution to crew and arranging medical services.
   - Coordinating cargo operations and insurance claims.
   - Arranging surveyor attendance for cargo or vessel damage.
3. **During Port Stay :**
   - Maintaining communication with ship personnel and cargo supervisors.
   - Managing documentation, including mate's receipts and bills of lading.
   - Handling payments for services and supplies.
   - Providing regular updates to the principal regarding ship status.
4. **On Departure :**
   - Confirming ETA at the next port and ship requirements.
5. **After Departure :**
   - Informing the next port agent about ETA and operational needs.
   - Addressing medical or crew welfare concerns in advance.

Ship managers must ensure timely and clear instructions to port agents, specifying their discretion limits for expenditures on overtime, supplies, or cash advances. Effective management of port agents contributes to the smooth and efficient operation of maritime activities.

Ship ownership and management are complex undertakings requiring strategic planning, regulatory compliance, and financial prudence. Whether handled in-house or outsourced, effective management ensures operational efficiency, regulatory adherence, and financial sustainability. The evolving maritime industry continues to present challenges and opportunities, shaping the future of ship management practices.