What Hath Regulation Wrought?

Third-party ship management.

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The inexorable growth and expansion of international regulation of maritime shipping did not start with the RMS *Titanic;* however, the disaster did establish a need for international standards of safety beyond those that were the dominion of sovereign governments. International standards for some segments of maritime trade existed, but were often ignored through lack of enforcement or personal preference.

For example, in 1906, the International Wireless Congress adopted "SOS" as the standard Morse distress signal; in 1908, Britain adopted the standard. However, the radio operators aboard the *Titanic* initially sent the distress signal "CQD" because they preferred it over the new signal. The junior radio officer suggested to the laughter of the captain and the chief radio officer, "Why don't you send the new SOS signal; it may be the last time you get to do it."[1]

What Hath God Wrought

While there were missed opportunities for rescue, wireless radiotelegraphy was of recent vintage and implementation onboard ship was illustrative of technology outpacing standardization. The first telegraph message: "What Hath God Wrought?" had been sent just 68 years before.[2] This is a situation still evident in today's maritime endeavors. Technology and innovation are hallmarks of the maritime industry and the regulatory standards developed to safely transport new cargoes with new ships have required innovation.

While the *Titanic* was a maritime disaster that still resonates after 100 years, ironically, much of what is known about icebergs comes from observations related to the disaster. The statement that 80 to 90 percent of an iceberg's mass is invisible from the surface of the ocean is also an apt metaphor for shipping and the regulatory regimes and requirements that have developed in the 100 years since the *Titanic* disaster.

The Need for Requirements

In 1912, there wasn't an International Maritime Organization, no Safety of Life at Sea convention, nor were there many universally accepted international maritime treaties. The major maritime nations of the day, through tradition, practice, trade, and their own domestic law, established requirements for their ships and seafarers.

Port state control was limited primarily to customs and immigration officials; ships had few mandatory certificates or certifications other than a certificate of registry. Contrast that with today's ships that must have about two dozen internationally required certificates that attest to compliance with more than 30 international conventions, treaties, protocols, and guidelines. This is in addition to specific flag state requirements that may be in excess of international requirements.

The administrative, logistical support necessities and regulatory compliance requirements represent a considerable challenge to, and commitment from, the ship owner. Similar to the iceberg, considerable effort is not evident and is often under-appreciated in terms of expending resources and coordination to keep international shipping and trade performing with the enviable safety and environmental record now being achieved. Third-party ship managers are a common, important concept of this ship support network.

What are Third-Party Ship Managers and Why are They so Prevalent?

Let's examine the last part of the question first. The administrative, compliance, and documentation overhead involved in ship operation is not only complex but it is also always changing. Many owners with just one or two ships found that the personnel and capital investment required to accomplish all required documentation and administration to maintain continued compliance with flag and port state control requirements was disproportionate to the number of ships owned.

Similarly, with only one or two ships, there was minimal purchasing leverage for maintenance and stores, and recruiting and retaining trained seafarers was a challenge as well. For a fixed fee plus expenses, a third-party ship management organization can take advantage of economies of scale for purchases, substantially reduce the costs of administrative overhead, secure a trained crew, and provide uniform compliance with international requirements.

Some larger ship owners with established in-house staffs expanded their business model to manage ships for others, thereby taking advantage of the economies of scale that a larger fleet accorded their ships as well as the ships they managed by contract. In some instances, financial institutions that took over ships through foreclosure looked to third-party ship managers to maintain a revenue stream until the ships could be sold.

Options for ship ownership have also expanded. While there still are corporate and private family-owned ships, more and more ships are "investments," either owned by a publicly traded company or owned by a collection of owners with little or no ship owning or operating experience.

For example, the German KG system of off-balance ship financing established a mechanism for limited partners to invest in ship financing. Today, nearly a third of the world's container fleet is owned by KG financed limited partners.[3] While apocryphal, KGs are often characterized as owned by German dentists, not a cohort with traditional maritime background.

How Does a Third-Party Ship Management Organization Accomplish This?

The short answer is by focusing on people, processes, and quality control. To provide a perspective concerning the challenges for a third-party ship manager, it is instructive to look at the potential inherent complexities.

- **Multiple ship types:** tankers, bulk carriers, container ships, specialty ships, passenger vessels and mobile offshore drilling units.
- **Multiple flags:** often ship owners flag ships in their fleet under several flags. This is frequently driven by variables such as ship finance arrangements, personal preference, and charter party requirements.
- **Multiple markets:** port state control, port facilities, international conflicts, and changing market demands.
- **Multiple recognized organizations and class societies.**
- **Multiple owners and owning arrangements.**

Trained Personnel

To deal with these issues, the third-party ship management firms provide trained personnel ashore and afloat. Large ship management companies often employ thousands of seafarers,

Ship Manager Responsibilities and Roles

Third-party ship managers typically perform or operate in one or more of the following roles:

Full, technical top-to-bottom ship management

The ship manager supplies:

- professional crews for ships, arranging for rotations and continued training;
- all maintenance, dry dockings, emergency repairs, and stores replenishment;
- all contact and interaction with the flag state and classification societies;
- all required documentation, certificates, and arrangements for all required surveys;
- quality assurance and independent compliance oversight;
- maintenance of emergency response capability and 24/7 technical support.

Crewing management and services

- Providing crews, managing crew rotation and training;
- The specific proviso and allocation of shipboard and ship support functions are negotiated on a vessel-by-vessel basis.

While some owners prefer to avail themselves of crew services only, this arrangement bifurcates the ship management function and requires clear delineation and definition of responsibilities.

Functions not normally performed by third-party ship managers

Typically, third-party ship management does not handle the commercial or chartering arrangements of the ship.

including more than 1,000 shore-side personnel to support their sizable fleets.

Regional distribution centers often manage personnel located around the world, and some firms operate their own entry-level training centers, or cadet academies. A ship superintendent team consisting of staff shipmasters and engineers are tasked to handle around eight to 10 vessels, and an assigned fleet manager will oversee several of these groups.

Additionally, third-party managers provide refresher training for the professional, dedicated, and knowledgeable individuals who support shipping. As in professions like medicine, there are basic skill sets required by seafarers. A good ship management firm recognizes this and provides that support. As a result, licensed maritime officers, both deck and engineering, often become specialists in a type of ship, ship propulsion, and operation.

Anglo Eastern Ship Management's diesel engine maintenance module. Photos courtesy of Anglo Eastern Ship Management.

An instructor programs the control station to introduce tasks and problems for simulation exercises.

Information Technology

A centralized Web-based portal can provide superintendents and ship officers with day-to-day updates on every facet of a ship's operations as well as providing comprehensive maintenance scheduling, inspection, certificate renewal reminders, and complete information concerning the crew complement.

Quality, Health, Safety, and Environment (QHSE)

Many third-party ship management firms are ISO-certified, their quality management systems comply with classification society safety management rules, and many offer certificated auditors with Master Mariner Class 1 certificates who audit vessels on a regular basis.

Incident investigation and analysis are also integral parts of a QHSE program. Lessons learned from them are shared across the fleet as well as across the industry, as appropriate.

Final Thoughts

The maritime industry is used to change and unpredictability—just think about weather, piracy, and voyage charters. While uncertainty is a part of any ship operation, the prudent ship operator seeks to minimize any uncertainties through implementing processes, systems, and quality assurance accomplished by qualified personnel ashore and afloat.

Third-party ship management is a unique, important, and growing segment of the maritime industry. The function and role is analogous to a traditional Navy or Coast Guard, in that full technical management of all aspects of ship operation and support are planned for and provided. The fleet approach provides consistency, coupled with a cadre of continuously trained professional seafarers that ultimately provides substantial benefits to all stakeholders.

About the author:

Mr. Sheehan retired from the Coast Guard's Senior Executive Service in 2000. While with the Coast Guard, he held the following positions: director, Information and Technology; director, National Pollution Funds Center; associate program director, Office of Merchant Marine Safety, Security, and Environmental Protection. Mr. Sheehan served as a maritime advisor to the Republic of the Marshall Islands, and continues to participate in maritime matters involving safety, security, and environmental protection. Mr. Sheehan is the recipient of numerous awards and commendations, and holds the rank of Distinguished Presidential Executive.

Endnotes:

1. Dictated by Bride, Harold. *Wireless Operator SS* Titanic. New York, NY: *New York Times* article, April 1912. Also available at http://query.nytimes.com/mem/archive-free/pdf?_r=1&res=9C02E3DD103AE633A2575BC2A9629C946396D6CF.
2. Morse, Samuel F.B. *Morse Code*. Massachusetts: Massachusetts Institute of Technology. Inventor of the Week Achieve, July 2002. Also available at www.mit.edu/invent/iow/morse.html.
3. Watson, Farley & Williams LLP. *The German KG Model*. Hamburg, Germany, 2009. Also available at www.wfw.com/Publications/Publication392/$FILE/KG%20model%202009.pdf.