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## Managing Eritrean shipping agency services for improved results

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**WORLD MARITIME UNIVERSITY**

Malmö, Sweden

**MANAGING ERITREAN SHIPPING AGENCY  
SERVICES FOR IMPROVED RESULTS**

By

**KIBROM WELDEGIORGIS WELDEGEBRIEL**

**The State of Eritrea**

A dissertation submitted to the World Maritime University in partial  
fulfilment of the requirements for the award of the degree of

**MASTER OF SCIENCE**

in

**SHIPPING MANAGEMENT**

**1999**

## DECLARATION

I certify that all the material in this dissertation that is not my own work has been identified, and that no material is included for which a degree has previously been conferred on me.

The contents of this dissertation reflect my own personal views, and are not necessarily endorsed by the University.

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## **ABSTRACT**

Title of Dissertation: **Managing Eritrean Shipping Agency Services  
for Improved Results.**

Degree: **MSc**

This dissertation is aimed to present a picture of the situation in which shipping agencies in general and ERSTAS in particular operate, and the manners to cope with the changing situation of the industry and its associated competition. The intention of the work is to offer some views that can be used as tools by ERSTAS to operate efficiently and to succeed in the competitive situation ahead.

Some of the problems hindering the activities of ERSTAS are identified. These include absence of strategy, lack of skilled manpower, inefficient management, dependency on annual budget and inflexibility of investment practice.

The paper is composed of four main chapters, excluding the introduction and the conclusion. Chapter two describes the significance of strategy and how it is developed and the benefits that are associated with it. Chapter three gives an overview of the shipping industry and the role of shipping agency. Chapter four deals with a strategic approach to quality. The views of international quality standards and the importance of achieving the requirements from the shipping industry points of view are taken into account.

Finally, chapter five indicates areas of need to prepare for improving quality believing that quality does not happen accidentally but it has to be planned. The concluding chapter summarises the results of the analysis, and from that basis recommendations as regards long-term strategy, quality policy, information technology with emphasis to training of managers at all level and employees are given.

**Keywords:** Strategy, Quality Management, Training and Information Technology.

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## **ABBREVIATIONS**

<b>BAF</b>	Bunker Adjustment Factors
<b>B/N</b>	Booking Note
<b>CAF</b>	Currency Adjustment Factors
<b>DMT</b>	Department of Maritime Transport
<b>D/O</b>	Delivery Order
<b>DPMT</b>	Department of Ports and Maritime Transport
<b>EEC</b>	European Economic Commission
<b>ERSTAS</b>	Eritrean Shipping and Transit Agency Services
<b>ETA</b>	Estimated Times of Arrival
<b>FCL</b>	Full Container Load
<b>FONASBA</b>	Federal Organisation of National Associations of Shipbrokers and Agents
<b>ICD</b>	Inland Clearance Depot
<b>IMO</b>	International Maritime Organisation
<b>ISM</b>	International Safety Management
<b>ISO</b>	Organisation for International Standardisation
<b>LCL</b>	Less than Container Load
<b>LNG</b>	Liquefied Natural Gas
<b>LPG</b>	Liquefied Petroleum Gas
<b>MARPOL</b>	Marine Pollution
<b>MTSC</b>	Maritime Transport Service Corporation
<b>PMTA</b>	Ports and Maritime Transport Authority
<b>SMS</b>	Safety Management System
<b>SOLAS</b>	Safety of Life at Sea
<b>SWOT</b>	Strengths, Weaknesses, Opportunities and Threats
<b>TQM</b>	Total Quality Management
<b>UNCTAD</b>	United Nations Conference on Trade and Development
<b>USSR</b>	United Soviet Socialist Republic

## ***CHAPTER I***

### **1. INTRODUCTION**

#### **1.1 Introduction**

The world economy is becoming more and more integrated through an accelerated process of globalisation of production, consumption and services. Similarly, all transport services are interdependent, interrelated and interconnected. Maritime transport service is a performance that has its own sub-systems functioning within the general transport system. To be more specific, maritime transport operations are the consequences of many other activities, meant to support daily activities around the world, which makes it most complex and international in feature.

Therefore, when looking into the situations or problems of one of the sub-systems within the maritime industry, it makes sense to examine it from the system and the global point of view rather than being confined to a single entity. In other words, since maritime transport service is a global activity, its problems and the problems associated with its sub-systems such as shipping agents are also global in character.

Many shipping experts have repeatedly shown how quickly, comprehensively and radically shipping has changed, especially in recent years. It has also been stated that the changes taking place in the industry are customer driven. As a result, the shipping industry has become increasingly competitive, and the shipping agencies can not keep away from this industry-wide scenario. It is a rare company that is not affected by competitors either based in or operating in other countries.

In a rapidly changing industrial situation like this, it really is a difficult job to cope with the changes. However, if an organisation is to become deaf and blind to what is

going on and keep on doing things exactly the same way they have been done for a long time, someday it will find itself out of business.

To cope with the changing situation, therefore, it is essential that management should give adequate emphasis to accomplish business strategically to maintain and develop the current business position. Management should look for strategies that enable the company to achieve better competitive advantages over competitors. It is also important to consider strategic management as a normal part of the decision making process, if a company is to succeed in this changing situation.

Eritrean Shipping and Transit Agency Services (ERSTAS) as part of the global maritime system has to give due consideration to what is going on. For this reason, this study attempts to look at the shipping agency services situation of ERSTAS from the point of view of entire shipping industry. This is because the changes taking place within the industry have strategic implications that will influence decisions to be made at the level of ERSTAS. On top of this, it is difficult for ERSTAS to make long-term strategic decisions without being aware of the direction the industry is taking.

## **1.2 History of Eritrea**

It seems significant, in my view, to approach the subject of this paper with a clear view and within the context of the country under discussion. This is because Eritrea is a small and newly emerging country that became an independent State in April 1993, after the long and destructive liberation war ended in 1991. Due to this, almost everything in every area of life had to start from scratch including proper documentation of information/data. The marks of the war are everywhere. Thus, the country has its own peculiar situation.

Eritrea, emerging as a young maritime nation, is located in the Horn of Africa. It shares borders with Djibouti to the Southeast, Ethiopia to the south, Sudan to the

west and Northwest and the Red Sea to the north and Northeast. In the Red Sea, Yemen and Saudi Arabia are on the opposite shore while adjacent to Eritrea the Sudan and Djibouti Republic are found. Eritrea has a coastline of about 1200 km long extending from Northeast to Southeast and the Dahlak archipelago consisting of many islands. This gives the country a strategic geopolitical position in the important region of the Red Sea with the world's busiest shipping lanes.

The population of Eritrea has been estimated to be between 3 and 3.5 million. Asmara, the capital, is by far the most populated city (450,000 inhabitants) followed by Assab (80,000). It has a land size of about 124,330km<sup>2</sup>. Temperatures are mild on the highland plateau but hot and humid along the coast.

### **1.2.1 Transport Facilities**

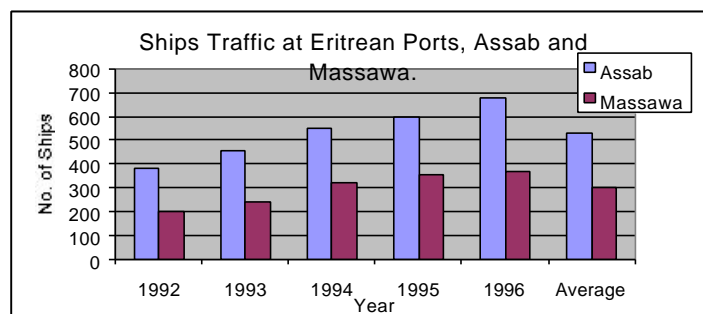
Eritrea has three airports: Asmara, Assab and Massawa airports, and eleven airfields. The first two ports can be regarded as international airports, however, the Assab airport can only entertain small to medium aircraft.

Roads and railways have been used as inland transport systems. Yet the railway transport is not functioning currently, with the exception of a recently lightly restored section with occasional transport service. The reconstruction works along the railway are still going on.

### **1.2.2 Principal Sea Ports**

The country has two principal commercial ports, those of Assab and Massawa. The average volume of traffic in 1996 via Assab is 532 vessels, averaging a gross tonnage of 1,106,316, including the bulk liquid cargo at the petroleum terminals. Similarly, through Massawa the volume of traffic is an average of 298 vessels with an average gross tonnage of cargo 512,157, including the bulk liquid cargo at the

petroleum terminals. The trend is increasing at an increasing rate as shown in Figure1.



**Figure 1 - Ships' Traffic at Eritrean Ports**

#### **1.2.2.1 Port of Massawa**

The commercial port of Massawa is situated on the northern bank of Massawa Island, 115km away from the capital, Asmara. It was built between 1885 and 1941. It consists of six general-purpose berths. There are a number of warehouses, open sheds and open storage areas with a total storage capacity of 100,000 tons. Other facilities at Massawa are: bulk salt loading jetties, ship repair facilities administered by the Department of Maritime Transport (DMT), an oil terminal and jetty operated by Total and Mobil Oil and another oil terminal operated by Agip Oil;

#### **1.2.2.2 Port of Assab**

The port of Assab is located on the southern part of the Red Sea, 1185 km away from Asmara, Eritrean capital. There are 7 general purpose and 2 Ro/Ro berths, a total of 9 berths. They have a total length of 1350m, the biggest and the smallest being 210m and 115m respectively. The depth of the berths ranges between 5.48m and 10.97m. Relative to Massawa, Assab is a new port built in 1964. However, at the time of independence the port facilities were almost incapacitated.

A number of closed structure sheds, open shades and open storage areas are located at different places within the port, with a total storage capacity of 280,000 tons. In addition, there are large storage buildings and open storage areas for export cargoes under the control of ERSTAS, with a capacity of 32,305 tons.

Other facilities at Assab port include: Shell jetty, coastal tankers, crude oil terminals, salt loading terminals.

### **1.2.3 Sea Transport Companies**

The following shipping lines call regularly at the port of Massawa and Assab:

#### **1.2.3.1 Liner Services (General Cargo and Container)**

NYK (Japan), P & O (U.K.), Maersk (Denmark), Linea Messina (Italy), Pacific International Line (Singapore), Ethiopian Shipping Line (Ethiopia) and Eritrean Shipping Line (Eritrea) regularly call at Eritrean ports.

#### **1.2.3.2 Bulk (Dry and Liquid Bulk, Lash)**

Metalink (U.S.A.), Waterman Steamship Corp. (U.S.A.), Port Service (Canada), Babood (Saudi Arabia), and El-Dagani (Saudi Arabia) come under this group.

### **1.3 Maritime Administration**

Prior to Eritrean independence the Maritime Administration head office was based in the Ethiopian capital, Addis Ababa. However, in Eritrea there was just a branch office, whose activities were limited only to the preparation of reports and lower level operational decisions. This has left the country with a huge vacuum in terms of skilled manpower to keep the pace of the maritime activity sound. The process of restructuring has been going on since then as depicted hereunder.

Eritrea has adopted the Maritime Code of Ethiopia (1960) with little amendment. The first maritime institution, the Department of Ports and Maritime Transport (DPMT), was established by an act of Government proclamation in 1992. DPMT was commissioned with the responsibilities to plan, design, construct, maintain and operate the two ports and other related maritime activities within the borders of Eritrea and to represent the country in tasks and negotiations of the entire field of maritime affairs. In 1993 the department had changed its title to Ports and Maritime Transport Authority (PMTA) and had been placed directly under the President's office. The activity of the national shipping line was also incorporated into PMTA's responsibilities.

In 1995, when a new institutional structure for the Ministry of Transport and Communications was established, PMTA, for the third time, changed its title to Department of Maritime Transport (DMT). Practically, it retained many of its functions that had been carried out under its previous title. However, this time it has become one of the four departments under the Ministry of Transport and Communications. The only significant practical difference seems to have been the change in the status of the Eritrean Shipping Lines, which has been transferred to the private sector.

Since its inception, the Eritrean maritime administration has had employees with little, if any, professional background in the field of maritime affairs. This might be one of the reasons for the inconsistency of its structure until up to 1997 when the final and currently functioning structure was set up with the latest title, DMT.

Under the new arrangements (1997) DMT is responsible regarding policy, regulations, development and administrative affairs of the maritime industry in Eritrea. The port administrations and shipping agents are placed under a supervision of a board and have been granted operational autonomy as part of the



commercialisation process towards full privatisation at a national level. The heads of the ports and agents report directly to the board.

#### **1.4 Privatisation in Eritrea**

Like any government, at the initial stage of the state of Eritrea, most services were provided by the public sector. This is due to the fact that the private sector at this stage operates at the lowest level and instinctively. Therefore, it requires the involvement of the state to keep the pace normal.

Privatisation, the process of transferring ownership from the public sector to the private sector, is usually achieved by selling public assets to the private sector. Leasing public assets to the private sector is also another situation considered as part of privatisation. In the latter case, the leasing company pays rents or lease payments to the government.

In Eritrea, privatisation of the maritime industry is underway as in all other sectors. So far, there are two main arrangements that are being adopted, in the process, of handing over most of the operational activities of this industry to the private sector. These arrangements are commercialisation and corporatisation.

The commercialisation process involves the operation of the public service in question in a business-like manner. This entails producing proper commercial accounts on expenses and revenues incurred in delivering the service. The staffs are civil servants at this stage, which means that they are still employees of the government.

The corporatisation process involves all activities mentioned under commercialisation but in this case the organisation has to be self-financing and the staffs are no longer civil servants. The company is also required to make provisions

for depreciation on assets and to make a profit for the owner, the government in this case.

### **1.5 Shipping Agency Services**

The work of freight forwarding and shipping agency services in Ethiopia was carried out by three government organisations and by many private firms and individuals until about four years after the communist government came to power in 1974. In accordance to the government, 'National Democratic Revolution Program', private firms and individuals were said to be allowed to carry out their activities in as far as they are not against the national interest of the country and the policies and procedures of the government.

The already established private and individual shipping agents and freight forwarders, thus, kept on running both the transiting and shipping agency services alongside with the three government organisations on a relatively competitive basis. However, the government interpreted these competitive services rendered by the private firms and individuals as being based on personal profit making and not so much on national economic interest.

The government denounced the fact that, the private and individual freight forwarders and shipping agents, who were engaged in the field are competing among themselves with the sole intention of self-enrichment and, as a consequence, created disorder and waste of resources.

Moreover, it was pronounced that conditions were made worse in port planning, loading and discharging of goods, implementation of materials and programming of vehicles, thereby creating fluctuations of prices in the domestic market. Hence, it was affirmed that the need to create centralised transit and shipping agency services became urgent to get rid of the aforesaid problems.

The government, in its first step, issued a directive in 1978 so that the three government owned organisations who engaged themselves in transit and shipping agency services, namely:

- Maritime and Transit Services, under the Commercial Bank of Ethiopia.
- Forship Travel Agency, under the Ministry of Foreign Trade.
- Transit Services, under National Road Transport Corporation

be incorporated and directed centrally under one corporation. Hence, the Maritime and Transit Services Corporation (MTSC) was born in 1978.

After the corporation commenced its work integrating the three government organisations, another directive was issued by the Ministry of Transport and Communications in 1979 declaring that Maritime and Transit Services Corporation is the sole organisation to provide transit and shipping agency services in Ethiopia.

MTSC had three branch offices in Eritrea, one branch office at each ports, Massawa and Assab, and a third branch office in Asmara, the Eritrean capital. Thus, MTSC was inherited as the sole organisation providing transit and shipping agency services in Eritrea.

Following Eritrea's independence the corporation was renamed Eritrean Shipping and Transit Agency Services (ERSTAS). The Asmara branch became the head quarter whilst the Massawa and Assab branches remained branch offices under Asmara. The name ERSTAS is still in use.

The transit agency service part of ERSTAS was deregulated in 1993. As a result, today there are well over one hundred private firms and individuals engaged in the field of transit agency services operating on the basis of free competition.

Nevertheless, ERSTAS still has the monopoly for representation of the shipping lines at the Eritrean ports.

As has been previously mentioned, privatisation is underway in the maritime sector. ERSTAS is at the initial stage of the commercialisation process. ERSTAS has been restructured by merging the Asmara head quarters with the Massawa branch into one, operating at the port of Massawa for the purpose of avoiding duplication of work and efficient use of the skilled manpower. The Assab branch is operating at the port of Assab. Both are expected to cover their own expenses and make profit to stay in business. There is no direct support in terms of finance from the government.

#### **1.6 Organisational Structure of ERSTAS**

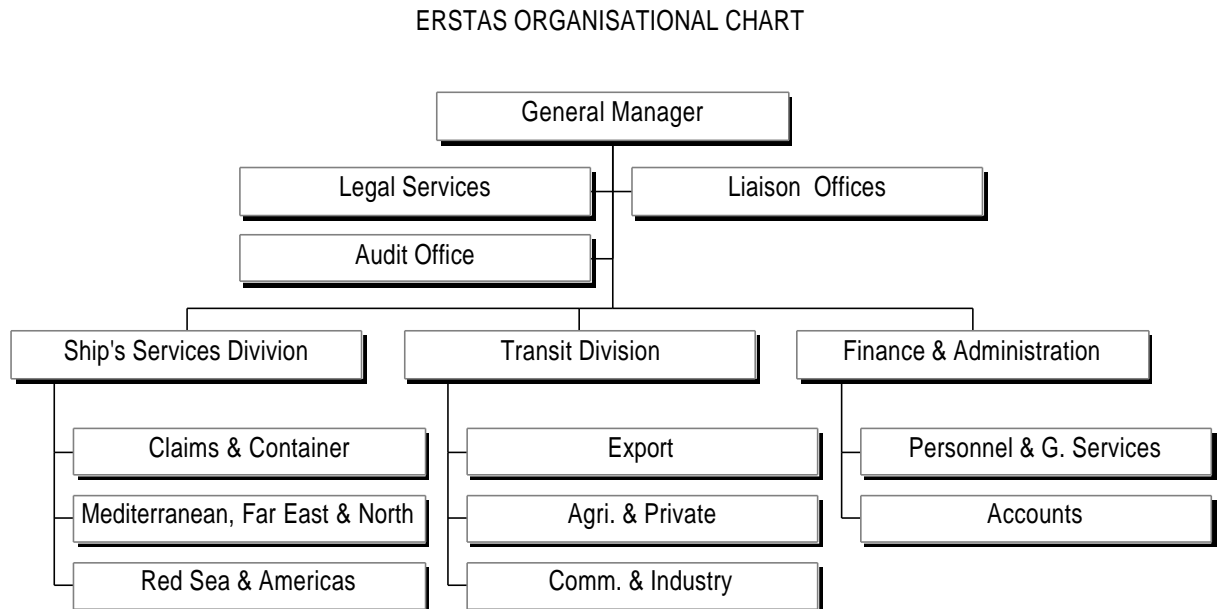
According to the latest structure of the Ministry of Transport and Communications, ERSTAS is under one of the four separate departments within the ministry, the DMT. As part of the sea transport sector, it works closely with the Port Administrations and Eritrean Shipping Line. The organisational structure of the Ministry of Transport and Communications indicating the position of ERSTAS is shown in Appendix 1.

ERSTAS has two operational divisions namely, Ships' Services Division and Transit Division. It is important to make clear at this stage that the freight forwarding (transit) component of ERSTAS is not within the scope of this paper. See Figure 2.

##### **1.6.1 Ships' Services Division**

The ships' services division consists of three units as shown in Figure 2. Two of the units are responsible for interfacing with shipping lines and shipping companies in their defined geographical areas. Through the agency agreements negotiated with shipping companies or ship owners they represent these companies within the territorial limits of Eritrea. The third unit, however, the Claims and Container

Handling Unit, is responsible for container tracking and locating of missing cargoes and arranging for shipment of overlanded cargoes, irrespective of the geographical area.



**Figure 2 - ERSTAS' Organisational Chart**

As their names indicate each of the first two units are responsible for maintaining contact with ship owners in their respective geographical areas; negotiating agency agreements, booking cargo and preparing bills of lading. The division is also responsible for co-ordinating vessel calls at Eritrean ports and ensuring that vessels are provided with proper service while in port.

ERSTAS's shipping function provides ship's agent services for all vessels calling at Eritrean ports. This includes services provided directly to ship owners and their vessel, as well as cargo related services provided in conjunction with ERSTAS's import and export operations.

At present, there is neither comprehensive statement setting out the mission of ERSTAS nor operational policies regarding ship's services (shipping agency

services). However, five basic operational policies are noted based on customary practices and relating to this functional structure that are being complied with in the strict sense of the term. The subjects covered by each are described below.

#### **1.6.1.1 Agency Agreement and Receipt of Advance**

Completion of Agency Agreement or Pro-forma Agreement and receipt of advance is the first basic policy. There are specific requirements for entering into a contract arrangement with the ship owner and receiving an advance for services to be rendered. ERSTAS is designated to act as the sole agent for all vessels calling at Eritrean ports. As such, there is a requirement for an agreement between the vessel owner and the agent (ERSTAS).

This agreement is a written agreement either of a long-standing nature or for a specific vessel call. Long-standing agreements take the form of an Agency Agreement. An agreement for a single vessel call takes the form of a Pro-forma Agreement, in fact, if no agency agreement is in effect at the time.

An advance is also collected prior to vessel berthing. The purpose of the advance is to cover the estimated cost of vessel discharging, loading, and for provision of all other services as required by the ship owner. The advance may be deposited to ERSTAS' account prior to vessel arrival or it must be provided at the time of vessel arrival in the form of a guaranteed Bank Draft or Cash. Under no circumstances discharging, loading or servicing takes place prior to the completion of the agreement and deposit of the advance.

After the commercial bank has received a telex/fax crediting ERSTAS' account with the correct amount of the advance, the accounting division will inform the appropriate area unit. The area unit enters the amount of credit notice into the ship's file and inform the ports of the vessel call.

#### **1.6.1.2 Daily Scheduling Information**

A sailing schedule, of all ships calling at Eritrean ports, is published by the ship's services division on a daily basis. Updated information received either directly from ship or from ship owner each day is included in the daily sailing schedule for that date.

Information in the daily sailing schedule is updated daily by the ships' service division. This information is based upon all data received at the office no latter than 08:00 hours each day. Estimated Times of Arrival (ETA) should be received from the vessels at intervals of 72, 48, and 24 hours. It is the responsibility of the division manager or unit head to ensure that all information for the day has been collected and entered on the daily sailing schedule.

#### **1.6.1.3 Co-ordination and Supervision**

A representative of the ship's services division is present during all loading and/or discharging activities on any vessel which ERSTAS represents. A tally of cargo is taken during the operation and reconciled with the stevedoring tally clerk at the end of each shift and at the completion of the operation. As the representative of the ship owner, the ships' services personnel assists the ships' master, co-ordinate and supervise the operation as delegated by the ships' master.

#### **1.6.1.4 Out-Turn Report**

Under normal conditions port stevedoring is given three days to prepare and deliver their cargo out-turn report to ERSTAS from the date the vessel leaves the berth. If, after this period of time the out-turn report has not been provided, ERSTAS ship's services division may complete its own out-turn report based on the tally which was

performed during the discharging operation and reconciled with the stevedoring tally clerk. This out-turn report may be used to prepare the Delivery Order (D/O) and also the Customs Out-Turn report, if required.

#### **1.6.1.5 Vessel's Service Request**

All requests for vessel service are in writing. Request may be made by telex or fax prior to vessel arrival or by completing the vessel services request form upon arrival.

Prior to the departure of the vessel, a summary of all services received by the vessel is presented to the ship's master. The signature of the ship's master on the statement of vessel services provided constitutes satisfactory completion of the services.

The procedures discussed are relative to those activities that involve interaction between ERSTAS ships' services and the ship or ship owner and those activities that are performed on behalf of the ship owner. All other activities involving transiting of the cargo, which is the responsibility of either import or export transit agents are dealt with on the basis of competition with other private and individual organisations.

### **1.7 Difficulties Faced by ERSTAS**

As mentioned earlier, the work of shipping agency services was incorporated into one, state-owned. The presupposition was to create state-owned agency services dependent on the demand of the national interest rather than on the private owners' personal profit 'believing' that it would play an important role to stimulate the growth of national economy.

Even though, MTSC was established based on the above reason it has been encountering several problems which were generally believed to be inherent to state ownership and to the then political system in particular. Some of which have



continued to exist with ERSTAS. Obviously, the difficulties that face state-owned agencies differ from country to country and even within one country varies in time.

It is to this end that, the State of Eritrea is facilitating the privatisation processes. The areas of difficulties that ERSTAS face, especially, considering the potential threats from new entrants can be outlined as hereunder.

- Absence of clear and well documented strategy and policies
- Lack of skilled manpower
- Inefficient management
- Dependency on annual budget
- Lack of investment flexibility
- Restricted uses of computers for internal accounting purpose only

## **CHAPTER II**

### **2. STRATEGIC MANAGEMENT OF A BUSINESS**

*Where absolute superiority is not attainable, you must produce a relative one at the decisive point by making skilful use of what you have.*

*Karl von Clausewitz, 1832*

#### **2.1 Introduction**

It is not unusual to hear about some companies doubling their size and increasing their profits by more than two digits, whilst some go into bankruptcy and their assets are liquidated. Clearly, some strategic choices cause these outcomes. Every organisation is affected by strategic decisions or sometimes by non-decisions. Hence, the process of planning, identifying, selecting and implementing strategies plays a major role in as far as the future survival and growth of a company is concerned.

#### **2.2 What Is Strategy?**

An organisation is always confronted with a large number of alternatives in the various aspects of its activities to choose, decide and respond to. Some of these alternatives are clearly visible and some are not. A decision is the process by which one of these alternatives is to be selected and carried out. "The series of decisions which determines behaviour over some stretch of time may be called a strategy." (Simon, 1976, p67).

Strategy is composed of two things **ends** (goals, mission or objectives) for which the company is putting effort and the **means** (policies) by which it is attempting to get there. Strategy is making decisions about the future of an organisation in terms of how the resources can best be used to meet the present and potential opportunities.

Resources may include people, other assets, money, processes and time. Because most resources are not free and in many companies are often scarce top level managers have to take great care where they invest their firms scarce resources. Financial institutions and individual investors provide companies with money in the expectation of a reasonable rate of return. Thus, if a company invests money in business areas that do not produce a reasonable return then investors will not be willing to provide support in the future.

Therefore, strategic planning should consider very carefully possible changes in trends and be flexible enough to formalise fresh plan as new threats and opportunities arise to be able to respond on the spot. A strategy has various important elements. In all the cases the goal is: "to find a position in the industry where the company can best defend itself against competitive forces or can influence them in its favour." (Porter, 1982, p4). Strategy specification, for example, includes a determination of several important areas.

### **2.2.1 Market Strategy**

The market in which a company is to compete requires strategic decision. The scope of a company's business is defined by the products or services it offers and chooses not to offer, by the market it seeks to serve and not to serve and by the competitors with whom it chooses to compete and which it chooses to avoid.

### **2.2.2 Investment Strategy**

For each product or service market, the following strategic options are possible. The company could invest to enter or grow. Alternatively it could reduce or control the investment in a business area by a 'hold strategy'. A hold strategy involves an adequate level of investment and operating support to maintain service quality, service facilities, and customer loyalty. Finally, it could withdraw completely if prospects become extremely unattractive or if the business area becomes incompatible with the overall strategy of the company.

### **2.2.3 Functional Area Strategies**

The functional area needed to compete in the selected product or service also requires strategic decision. For a shipping agent, the specific way to compete will usually be characterised by one or more functional area strategies such as, cargo booking (or marketing), operations, and human resources. The first two areas constitute those with which the company enters in direct contact with its customers, ship owners and cargo owners. The last area is fundamental in building company culture.

**Marketing:** "is the central dimension of the entire business. It is the whole business seen from the point of view of its final result, that is, from customers' point of view." (Drucker, 1974, p63). Marketing means cargo canvassing, booking, advertising, visiting clients etc. In which case, it means finding the right service that will satisfy the customers rather than persuading the customers to use what the agent provides.

Marketing is very essential in providing the services to the required customer. Without marketing a business cannot create and keep customers and make profit. Companies become more competitive by marketing their products or services using modern information technologies (IT) to facilitate easy contact with customers.

**Operations:** is a functional area whereby strategies such as fast turnaround of ships in port through increased efficiency and speed of operations, zero delay in port operations, avoiding cargo damages during handling may be considered. For example, it is more efficient to handle cargo operations if an agent allocates berth to a ship very close to the yard where cargo is stored than at a distant berth.

**Human resource:** success largely depends on good strategy. A good strategy is generally based on an organisational skill that, in turn, is based on people. It is difficult to be convinced that a service company can meet customers' needs without achieving increased motivation and commitment from employees, which is a function of satisfied needs. 'The personnel is the first market of a service company.'

#### **2.2.4 Strategic Assets or Skills**

The strategic assets or skills needed for the preferred functional area strategies to achieve a sustainable competitive advantage are another specific strategic decision area. A strategic skill is something a company does exceptionally well, such as competence, state-of-the-art, accuracy or promotion, which have strategic importance to the type of business it is engaged in. A strategic asset is a resource, such as a brand name, or strong customer base (intangible assets) and facilities, number of personnel or quantity of materials (tangible assets) that are strong relative to competitors.

#### **2.2.5 Resource Allocation Strategy**

There should be constancy of purpose in the allocation of resources. Success is a function of proper allocation of company resources such as human resources, the capital resource and physical resources, all need strategic decision. These resources must be employed productively and their productivity has to grow if the business is to survive and grow.

*The next quarter dividend is not as important as existence of the company 10, 20, 30 years from now. Establishment of constancy of purpose means acceptance of an obligation ... to innovate, put resources into research and education, etc. (Deming, 1982, p18-9)*

An organisation should always plan for the future. Long range planning provides the only chance for long term survival and growth. Resources have to be allocated for long-term planning, believing that there will be a future. Of course short-term problems are important and solving them ascertains today's survival. But, the right balance has to be found in the allocation of resources for dealing with today and tomorrow's problems.

#### **2.2.6 Synergistic Development**

The development of synergistic effects across the business and the creation of value by having business areas that support and complement each other have strategic advantages and fall under strategic decision. It is logical that multiple business organisations that can achieve synergistic effects will have an advantage over those that ignore or fail to achieve synergy. The fact that ERSTAS, transit division, has very large open and closed warehouses, supports its core business activities in attracting shippers who feel comfortable to put their cargo under its custody until the vessels arrive.

#### **2.3 Types of Strategies**

In any context, there are various ways of potential strategies and many routes to achieving strategic comparative advantages. However, according to Micheal Porter, an economist and strategy researcher, "there are three potentially successful generic strategic approaches to outperforming other firms in an industry: (1) overall cost leadership (2) differentiation and (3) focus." (Porter, 1980, p35). He has also suggested that low cost and differentiation represent the two basic strategies

available to business companies, that all successful strategies will involve one or both of these strategies.

### **2.3.1 Differentiation Strategy**

A differentiation strategy is one in which the product or the service offered is differentiated from the competition by providing value to the customer. This value could be enhancing the performance, the quality, the service backup or the reliability, among other things. It is often, but not always, associated with higher price, because the purpose of the differentiation strategy is usually to convince customers that price is less critical compared to other product or service specifications.

When services are clearly differentiated, they ease the competition. In an environment where shipping agents offer similar service level, none of them will be able to win better the confidence and loyalty of customers. In a situation like this, if a shipping agent wants to win and have stronger customer base then it has to differentiate its service in ways that the customers recognise as gaining added value.

### **2.3.2 Low-Cost Strategy**

In contrast to differentiation, a low-cost strategy is one based on achieving a sustainable cost advantage in some important element of the product or service. The overall cost-leadership position can be achieved through an increased market share or through other advantages such as favourable access to suppliers or the art of the service itself. A low-cost strategy need not always be associated with low prices.

### **2.3.3 Focus Strategy**

A focus strategy involves focusing the business on either a relatively small customer group or a restricted portion of the product or service line. One possible reason for a focus strategy is that a company lacks the resources to compete in a broad market

and makes its focus on a small group or a portion of the product or service in order to compete effectively. Such a focus can be central to the creation of a comparative advantage even though differentiation or low cost will also be associated with the strategy.

Although most strategies will involve either differentiation or low-cost, other strategic types could also be identified such as being innovative, thinking globally, or exploiting information technology etc.

However, according to Porter, all strategic differences do not have equal impact in attaining competitive advantage. Their impact also varies with the industry situation with which they interact which he called strategic groups (companies following similar strategy). He suggested that, " four factors determine how strongly the strategic groups in an industry will interact in competing for customers:

- The market interdependence among groups, or the extent to which their customer targets overlap;
- The product differentiation achieved by the groups;
- The number of strategic groups and their relative sizes;
- The strategic distance among groups, or the extent to which strategies diverge." (Porter, 1980, p138-9).

## **2.4 Strategic Management Systems**

The process of developing and implementing strategies has been described over the years by numerous terms such as budgeting and control, long-range planning and strategic planning. All these terms, in most cases, have similar meanings as they refer to strategic management and are often used interchangeably. However, these systems differ in the totality of their approach to strategy.



### **2.4.1 Budgeting/Control**

The development of budgeting/control management systems can be roughly associated with the early 1900s. The emphasis is on controlling deviations and managing complexity. An annual budget is set for various departments, and deviations from the budget are carefully scrutinised to find explanations and see whether remedial action is appropriate. The basic assumption is that the past will repeat itself.

### **2.4.2 Long Range Planning**

This is another strategic management system whose focus is on anticipating growth and management complexity. The system presupposes that past trends will continue in the future. The planning process typically involves projecting sales, costs, and technology, and so on into the future using data and experience from the past. The planning task is then to develop human resources and facilities to accommodate the anticipated growth or contraction as the case may be.

### **2.4.3 Strategic Planning**

*Strategic planning is the continuous process of making present entrepreneurial decisions systematically and with the greatest knowledge of their futurity; organising systematically the efforts needed to carry out these decisions; and measuring the results of these decisions against the expectations through organised systematic feedback. (Drucker, 1974, p125).*

The emphasis here is not only on projections but also on the detection of discontinuities from past projections. An in-depth understanding of the market environment, particularly the competitors and customers is very essential. The purpose is not only to gain insight into current conditions, but also to be able to anticipate changes that have strategic implications.

The underlying assumption is that the past extrapolations are inadequate. There will be changes from past projections and new trends, both of which will require strategic adjustments. An adjustment in strategic direction could involve moving into a new market area, expanding the current business position and so on.

Recognition of the demands of a rapidly changing environment is an important consideration in this system. Further, to cope with the fast developing threats and opportunities, strategic decisions need to be accelerated and made in such a way that there exists a possibility for the strategy to be proactive with the possibility of affecting environmental influences rather than simply reacting to environmental forces as they occur. A shipping agency company, for example, may need to get involved in agency related port reform legislation because the legal environment is vitally important to its strategy.

## **2.5 Strategic Analysis**

In order to achieve long-term success, companies have to develop a comprehensive strategic plan to position the organisation ahead. Such strategic planning requires a SWOT analysis (Mottram, 1999, p10). SWOT stands for strengths, weaknesses, opportunities and threats. The first two focus on self-analysis while the latter two are related with external analysis.

Self-analysis, in this case, aims to provide a detailed understanding of those aspects of the organisation that are of strategic importance. In particular, it covers an identification and appraisal of organisational strengths, weaknesses, problems and constraints that have strategic implications. For example, profitability and sales provide an evaluation of past strengths as they indicate financial performances of an organisation. Sales can also reflect changes in customer base with long-term implications. There are also other non-financial performance measures, such as what customers associate with the business in terms of perceived quality, innovativeness,

management or employee capabilities, customer orientation and so on. These areas can provide better measures of long-term business health.

External analysis, on the other hand, involves an examination of the relevant elements that are external to an organisation. The analysis should be purposeful, focusing on the identification of threats, opportunities, strategic questions and strategic choices that could arise out of it. One output of external analysis is identification and understanding of opportunities and threats facing the organisation, both present and potential.

An opportunity is a trend or event that could lead to a significant upward change in sales and profit patterns if an appropriate strategy is designed. A threat is a trend or event that will result in a significant loss of sales and profit if an appropriate strategic response is not arranged to avert it. Generally speaking, external analysis includes an analysis of customers, competitors, industry and environmental analysis. The role of these analyses is to identify existing or emerging opportunities, threats, trends, strategic questions, and ultimately strategic options.

The purpose of self-analysis and external analysis, in this case, is twofold: to help generate strategic alternatives and to provide criteria to select among them. Analysis of these four factors i.e. company strengths and weaknesses (internal), opportunities and threats (external) help to develop a realistic and workable set of goals and policies.

## **2.6 Company Mission**

Every business has a reason for its existence, which is usually indicated by a company mission. In order to achieve the stated mission, there has to be a series of short and long-term objectives to which company's resources are allocated. A company mission, which can take several forms, may be used to address some basic questions about the company. In what business are we? What type of organisation

are we? What is our strategic vision? The development of a mission can provide a means for generating and screening a wide variety of strategic options

David Mottram in his lecture 'Strategic Shipping Management' (1999, p8) uses Peter Druckers definition of a mission:

*A business is not defined by its name, statutes or articles of incorporation. It is defined by business mission. Only a clear definition of the mission and purpose of the organisation makes possible clear and realistic business objectives.*

Since clear vision of company's future depends upon the mission, it is necessary to prepare it carefully. It is also essential to achieve a mission statement that is not much more than a single sentence and which could be carried in everybody's mind. Equally important is to make sure that the mission statement is known, understood and accepted by all levels of employees of an organisation in order to receive the support it deserves.

A shipping agent committed to quality service, and its natural consequence success, needs to demonstrate it within its mission statement. For example, an agent may say 'to become the most efficient agent in the country'.

## **2.7 Sustainable Competitive Advantage**

A strategy, if it is to be effective over time, needs to involve assets and skills or synergies in an appropriate combination. Thus, identifying which assets, skills, and synergies to develop or maintain, becomes a key decision.

One of the key questions in a strategic management system is to determine when a strategy requires review and change to withstand the test of time. It is usually necessary to monitor a limited number of key measures of internal performance and

the external environment. Thus, sales, market share, profit margins, and ROA may be regularly reported and analysed.

Equally important, other 'invisible figures' that are of paramount importance need to be considered. These include measurement of customer's dissatisfaction and loss of market share due to unreliable and defective goods and services, or loss of employees' profound ideas due to the absence of proper communication channels, or the lost potential of the workforce because of inadequate training are important considerations. External analysis of customers, competitors, industry and environment are also key measures when deciding review time. Putting no effort to encompass each of these factors can lead to strategic failure. In other words, we might end up with a precise strategic answer to the wrong question.

## **2.8 Conclusion**

A clear strategy developed based on strategic analysis with due consideration to a company's strengths, weaknesses, opportunities and threats, helps an organisation to set directions, to concentrate efforts, to provide consistency and to ensure flexibility.

However, in developing the strategy, determining what important information are required with regard to customers, potential competitors, industry and business environment is very crucial. This is because considering everything about all factors mentioned above would be too broad to serve as an effective guide for developing a realistic and workable set of goals and subsequent policies.

As shown earlier in chapter one, ERSTAS does not have stated mission and defined company policies. Obviously, policies should follow company goals, objectives or missions if there is already one. Therefore, if ERSTAS is to survive and develop in the competitive times ahead such strategy should be developed. Flexible budgeting and investment policies are also essential parts of sustainable competitive strategy because time for investment is very often critical.

## ***CHAPTER III***

### **3. THE SHIPPING INDUSTRY SITUATION**

#### **3.1 Economic Role of Shipping**

It has often been said that shipping is one of the oldest and the most international of all industries as well as one of the most complicated. True, shipping activity has a long history behind it, and as a derived demand to transport cargo, its existence can be traced back to the need to transport of goods itself.

Liberalisation policies have increasingly enhanced the role of producers and investors, encouraging the process of globalisation throughout the world economy. Policies such as these have, thus, set a process whereby producers and investors are increasingly convinced that the world economy consisted of a single market and production area.

Today, the concept of market for producers and shippers becomes the entire globe. Global shipping, thus, comes with such concept of a market. When the scale and size have become the name of the game, partnerships have gained growing importance. As a result, recent years have seen significant structural changes in shipping ranging from conference in liner and pool in tramp to merger for the purpose of withstanding the global competition by reducing total costs of operations.

There is a two-way exchange between world trade developments and developments in shipping. A ship is nothing by itself; its purpose is solely to transport cargoes, be it manufactured goods in containers, bulk cargoes wet or dry in huge tankers and bulk carriers, specialised carriers for cars, livestock, cement, timber, and other special

cargoes, or passengers in cruise ships or ferries. Equally important, world trade without shipping would be unthinkable when we see that 95% of world trade moves in whole or in part by sea.

Shipping also provides employment and business opportunities for a wide range of people and ship owners require specialist technical and professional advice on a number of issues. Shipping is more than just ships. It contributes to the establishment of a large number of companies, which produce goods and services, essential for its operation. These companies include shipbuilders, responsible for the original construction and for repair and maintenance, container building, leasing and operation, legal services specialising in various aspects of shipping, charter parties, bills of lading, courts together with other methods of settling disputes through arbitration or conciliation. Each is dependent either in whole or in part on ships and the shipping industry. Without shipping they would have no role.

### **3.2 Demand of Maritime Transport**

For various reasons, there is a need to move goods from one place to another, often across the sea. Countries trade with each other because of demand and supply of goods to satisfy the diverse needs arising from the scarcity of resources. The uneven distribution of factors of production around the globe is one of the main reasons why countries need to trade.

Generally speaking, there are three reasons to trade. First, a country purchases goods from another country, which it cannot produce itself and sells to other countries, which it can produce but other countries cannot, for some reasons. Second, a country purchases from another country goods which it can produce itself, but the other country produces at lower cost, similarly it sells to other countries goods which it can produce at less cost. Thirdly, a country purchases goods, which it can actually produce at lower cost at home. This situation arises when a country has advantage over other countries in the production of one type of goods and it has an even greater

advantage in the production of another type of goods. Thus, it may be beneficial to the country to put all its resources into production of the latter type.

*Trade can still be mutual beneficial when a country can produce more efficiently than another country because the margin of advantage, in most cases, differs for different commodities. (Ma, 1998, p2).*

In light of the above facts, there is an inevitable need for exchange of raw materials, finished products, and even know-how and technology between countries. However, the routes over which the goods are to be transported and the quantity of the goods depend upon several factors. Among others, economical, political, natural and technical factors may affect the demand and supply of shipping services.

### **3.2.1 Economic Factors**

Change in economic structure is one aspect of economic policy that has direct influence on maritime demand. For example, the radical increase in the oil prices that came about during the 1970s has had a large and continuous impact on oil demand and supply. This sizeable price increase resulted in a large confusion of energy related economic structures of many countries that were heavily dependent on imported oil as a major source of primary energy. Due to such change, many nations assigned priority to reductions in oil consumption to minimise their import dependence and they began to devote larger amounts of resources to enhance the utilisation of domestically produced energy resources.

### **3.2.2 Political Factors**

Maritime demand can be influenced by wars, economic or military embargoes and other political considerations of a country, which determine the size of transport. The establishment of political alliances together with protective trade policies vis-à-vis other countries outside the alliance constitute another influential factor. For instance,



when the United Kingdom joined the European Economic Commission (EEC), it gave up its old trade partnership with its former colonies in favour of EEC internal trade.

### **3.2.3 Natural Factors**

Agricultural products, which are seasonal in nature, are largely dependent on natural factors for good harvest. Changes in natural factors, such as weather conditions either in the export or import countries, have a considerable influence on the quantity and quality of these products. For example, the former USSR was one of the major grains importing countries. The world grains market and its associated maritime transport market, was considerably influenced by the level of harvest in the USSR each year.

### **3.2.4 Technical Factors**

Technological improvements in transport services have greatly extended the scope of economically transportable goods. The transport of fresh fruits, meats and vegetables was made possible with the coming into being of refrigerated transport. Similarly, the breakthrough in liquefied natural gas (LNG) and liquefied petroleum gas (LPG) contributed to the enlargement of maritime demand.

Apart from transport sectors, technological improvement in other sectors may also affect transport demand. Global positioning satellites and supercomputers have made it possible to greatly increase the finding rate of new oil and gas reserves. This has resulted in growth, both in the number of rigs being utilised as well as the demand for tanker vessels whose business largely depend on oil and gas exploration.

### 3.3 Two Streams of the Shipping Industry

Ships can be classified based on two criteria, their specialist function and their modes of operation. The first classification comprises of general cargo ships, container ships, tankers etc. In the latter case there are two modes of operations in which a ship can be employed in a business. "A ship can be employed as a *liner*, that is, it runs on a regular line between two ports or series of ports. Alternatively a ship can be employed as a *tramp*. In this case the ship is chartered or hired out at the best price the owner can obtain." (Alderton, 1995 p1). Shipping industry has developed into these two main streams, tramp and liner, because of the nature of international trade.

#### 3.3.1 Tramp and Bulk Shipping

Tramp ships carry any cargo anywhere, under one contract, with remuneration determined by the forces of supply and demand of vessels and cargoes available at a particular place and time. A tramp owner of any type requires a smaller staff than that required by a liner operation.

Tramp ships do not advertise their sailing schedules between ports. Instead they sail between different ports depending on where the owner finds suitable cargoes. Normally, the tramp ship's cargo is lower value bulk cargo with a single shipper under one contract for which terms and conditions are negotiated individually, but often based on previous charter-parties. As tramp vessels search everywhere for appropriate cargo, they are designed to be flexible for the purpose of carrying bulk cargo in liquid or dry form. The liquid cargo includes crude oil, petroleum products, vegetable oils and liquid chemicals, among others, while the dry bulk cargo comprises of coal, ore, bauxite, sugar, salt, cement, scrap metal, grain and semi-finished products etc.

In chartering, though the freight is negotiated on an individual basis, the final freight agreement depends upon the bargaining power of the owner and certainly the general

freight market level, which plays a decisive role in setting the basic framework. As a result, changes in freight levels are often very fast and fierce.

The tramp business is a free and competitive market that involves a great number of ship owners and charterers. It is transacted through brokers and intermediaries. The ship owner contacts his broker and provides him the vessel specification, the place and date range (laycan) where the vessel would be ready to load. The owner may contact more than one broker, but normally each owner has a broker whom he has been working well with and whom he can trust. This broker is called the ship owner broker. The ship owner broker circulates the vessel's name, description, present position and appropriate date for loading to charterer brokers.

Similarly, the charterer contacts his broker and informs him about the cargo type, quantity, specification, port and date of loading and port of discharge. Such a broker is called the charterer broker. When the charterer broker finds an appropriate vessel, which fulfils his cargo requirements, he contacts the ship owner's broker and describes the cargo type, quantity, date and place of loading as well as the freight rate per ton that the charterer is willing to pay for the carriage. The negotiation starts between the owner and the charterer through their brokers until they reach their final agreement. The written agreement between a ship owner and a charterer is called a charter party.

In tramp shipping, the most important document binding the parties involved concerning the commercial and legal aspects of their relationship is the charter-party. It contains all the terms and conditions governing the relationship between the ship owner and the charterer. The bill of lading is another important document issued when the goods are received for shipment or upon their shipment.

### 3.3.1.1 Chartering Types

In tramp shipping, the market requirements are different in terms of shipment regularity and frequency. As a result, there are three main categories of chartering from a functional point of view. These are voyage charter, time charter, and bareboat charters.

The ship owner agrees with the charterer to carry a certain cargo from point A to point B or to make several consecutive voyages between these points. In this case the freight to be paid is calculated on the basis of the rates and conditions negotiated and mutually agreed upon in advance for the voyage or voyages to be performed and is, in fact, based on the quantity of cargo actually loaded within the range allowed. Such chartering practice is known as *voyage chartering*.

*Time chartering* means that a ship owner agrees to put his ship at the disposal of the charterer in return for hire calculated per time unit and normally paid in advance at regular intervals. During this time period the charterer controls the commercial operation of the vessel within the limit of the agreement. In addition the charterer has to pay all the voyage costs such as port and canal duties and bunkers for the vessel's consumption.

When a vessel is put at the disposal of a charterer for a certain period of time and the ship owner transfers to the charterer the entire responsibility for the operation of the vessel, against payment of the bareboat hire, this is called *bareboat (demise) chartering*. All the costs and expenses, apart from the capital cost, are covered by the charterer, who is responsible for all operational duties. In other words, the ship is under the complete control of the charterer who acts as an owner of the ship.

### **3.3.1.2 Demurrage and Despatch**

In a voyage charter, ship owners and charterers agree beforehand on the time limit that the charterers are allowed to spend for the loading and/or discharging operation of a particular vessel. If this time is exceeded they must pay compensation to the owners for the loss of time at a rate agreed beforehand. This payment is called demurrage.

Usually demurrage is calculated and payable after the final discharge and delivery of cargo. However, if in the charter party it is clearly stated that demurrage is “payable day by day” the owner will have the right to exercise a lien over the cargo against his claim. Without such a clause it is not clear when demurrage is payable and hence difficult for the owner to use the cargo as security by exercising a lien.

Sometimes, particularly in the dry bulk cargoes, it is also agreed that the owners will compensate the charterers if the ship is loaded and/or discharged before the agreed time expires. This situation is called despatch. It is the reverse of demurrage, not used as commonly as demurrage and, when it is used, the rate is normally half the demurrage rate.

### **3.3.2 Liner Shipping**

The developments of containers, computers and consortia have had a huge influence on liner shipping. When containers were introduced and with them computers and when bigger consortia utilising in-house agents were formed, new chapters were written in the history of shipping. Back in those days, there were some who said that liner agents would not survive such changes. But liner agents are still in existence today. Of course, they will have to adapt to developments and be more efficient if they are to continue in the future.

Liner shipping companies usually own and operate a number of ships rendering services to one or more trade routes between two geographical areas. They set the time and place of sailing and the destination, and offer to carry any cargoes. This repetitious arrival and departure of liner ships between specific ports enables businessmen to trade different commodities ranging from a few tons up to hundreds of tons on a regular delivery basis to overseas consumers.

As less than ship's full load quantities of cargoes are carried on liner vessels, liner cargoes are usually composed of various types of goods loaded all into one vessel. A tariff is issued to cite freight rates based on commodity type, volume and destination within the liner service. All the terms of carriage are stated on the bill of lading issued by a liner company. These terms are hardly subject to negotiation and are applied to all shippers irrespective of the type and quantities of commodities.

Because liner trade routes are often competitive, liner-shipping companies believe that co-operation through conferences and other agreements are necessary to bring a stable service to the different trades. Conferences are, therefore, set to establish common tariff rates to be complied with by all members for the purpose of reducing the cut-throat competition.

In liner traffic the freight is fixed in tariffs. Currency adjustment factors (CAF) and bunker adjustment factors (BAF) are often included in the tariffs, whereby adjustment will be made to the freight for certain changes of events. However, compared to tramp shipping, changes in freights are somewhat slower.

The number of shippers and volumes of traffic within a given trade route determines the frequency of service and tariff rates charged by the liner companies. On the same trade route and offering the same rates, the ability to provide reliable arrival and departure dates in accordance with what is advertised, among others, determine the line's competitiveness against other lines.

Due to the fact that there is regularity of port calls and a vast spectrum of cargo types and shippers, a liner operation requires a large and complex organisation. Because of this large organisation and staff requirements, it is not economically feasible for liner companies to have offices in every port served by the liner service. Therefore, the intention for liner companies is to establish fully owned sub offices in the major ports they serve. But where the volume of trade does not justify maintaining an office and staff, a liner agent, commonly referred to as a general agent, is employed.

### **3.4 Shipping Intermediaries**

Normally, in the maritime transport service demand and supply do not meet directly. They involve the use of intermediaries, which fall into three categories namely shipping agents, shipbrokers and freight forwarders. Intermediaries have some fundamental and common characteristics regardless of their varying functions.

#### **3.4.1 Market Knowledge and Contacts**

The shipping market involves many countries, which in turn consist of various individual markets. Economic, social and cultural backgrounds differ from country to country and the same business can be done in different ways in each country. Hence, the use of intermediaries that have adequate knowledge of the local market and have good acquaintance with shippers is essential for the success of shipping companies.

#### **3.4.2 Technical know-how and Professionalism**

The fact that maritime transport has become highly developed and specialised in market segments, it requires more than commercial knowledge to operate smoothly in such markets. Ship owners often need special technical and managerial assistance in reaching a transport agreement and in finding solutions to difficult problems and settling disputes. Thus, intermediaries usually play an important role in these regards.

### **3.4.3 Logistic Services**

A great variety of logistic services are needed from shipping intermediaries. These include the processing of transport contracts, insurance, customs and shipping documents and other formalities required by the import/export and transport activities. On top of these ship owners sometimes require advice regarding transport routing and connections. Intermediaries also make arrangements for storage, distribution, door-to-door transport and port services.

### **3.5 Categories of Shipping Agency**

The shipping industry has two categories of agency depending on the type of services the ship owners are engaged in. “Liner shipping needs a general agent or booking agent, whereas tramp shipping requires a special agent” (Schiels, 1995, p37).

In tramp operation ships sail to different ports depending on where attractive cargoes are available. Accordingly, the agency services required is normally occasional, depending on which ports are arranged in each new charterparty, and therefore the agency agreements are special. “Depending on the duration of the contract and the extent of authority and responsibility vested on them, agents in the case of tramp operations can take the forms of local nominated agent, general agent, or exclusive agent. Similarly, liner agents can take the forms of local appointed agent, general agent or exclusive agent” (Francou, 1999, p5).

A local agent is one that carries out agency services in a designated port. He is called a nominated agent when appointed for a particular ship call. This happens normally in tramp operation. Further, when he is in charge of all ships of a company calling at one port, he is called an appointed agent. This is the case of an agent serving regular liner services.



A general agent, on the other hand, discharges his activities in the entire ports of a country or it can be extended to include a range of countries or even a continent. He is said to be a general exclusive agent when appointed as the only agent of a ship owner for all cargoes and services, and an exclusive agent when he is in charge of just one type of cargo or services in the designated area.

The activities of shipping agencies have been diversified continuously. Traditionally, the function of a shipping agency was to act, as an intermediary between the ship and the shipping company in the ports for the purpose of providing the necessary assistance required by the ship and the ship's crew. The coming into existence of liner shipping agencies further extended the activities to cover cargo booking and canvassing as well as cargo clearance from customs. Nowadays shipping agencies are also carrying out delivery of cargo to consignees.

### **3.5.1 Tramp Agent**

Foreign-going ships trade to different ports, world wide, where conditions and facilities vary considerably. Ship owners and managers, cargo shippers and receivers who use these ships cannot be everywhere. Local customs, rules and regulations change in time. All of these signify that ship owners and masters alike are greatly in need of assistance.

The tramp agent, usually referred as port agent, has a very important task to fulfil in looking after all the needs of a ship and her personnel while she is arriving at, staying in and departing from the port. He is the owner's representative and must look after the owner's interest to the best of his ability. In carrying out his duties effectively and efficiently, he must ensure that a ship has a safe and speedy transit through the port with cargo work complete in all respects, and the safety of ship and crew maintained all at a competitive cost to the owners.

The duties and responsibilities of a port agent vary depending on from whom he receives his appointment. Nominations include:

**a. Owner's appointment**

This is by far the most common form of appointment. The port agent receives his appointment from the ship owner, who in turn is operating the vessel, usually on a voyage charter.

**b. Time charterer's appointment**

In this case, the agent is appointed by a time charterer, often legally referred as the 'disponent owner'. This happens when time charter parties stipulate that the charterer shall appoint and pay for port agents at all ports. The agent in this case has to remember that his contract is with the time charterer and must protect the charterer's interest.

**c. Owner's protective or supervisory agent**

There are times where an owner finds the need to appoint his own agent on time charter is important. As the name implies the purpose is to protect the owner's interests on a port call where the normal full agency appointment is not in his control.

**d. Owner's husbandry agent**

Ship owners sometimes appoint an agent to help them attend to non-cargo matters of their vessel. The agent in this case is specifically concerned about the vessel's crew, repairs, supplies and provisions and classification surveys.

### **3.5.1.1 Functions of Tramp Agent**

#### **a. Pre-arrival of the ship**

A port agent's work begins before the arrival of the ship. The agent should be in a position of informing the principals (owner and/or charterer) the estimated costs of loading and/or discharging a specified cargo on a particular vessel. Other information such as port conditions and berth availability, which contribute to the financial risk of delay, are required prior to and in the process of negotiations as these things would affect the laytime or other charter party responsibilities of the principal.

Once a port agent receives his appointment from the principal he will then be informed well in advance the details of the vessel's arrival and any specifications required as per the charter party agreement. On his part, the agent has to make sure that he is aware of his role, duties and responsibilities. Besides this he must ensure that he is adequately funded and all relevant parties are advised of his appointment and necessary notices given and subsequent action taken.

The port agent has to remember that he represents the principal and must keep communicating with his principal at all times following his appointment by the latter. He must use his experience and thorough knowledge of local custom and peculiarities, port regulations for crew and ship safety, and cargo handling to best advice his principal, thereby enabling him to make the right decision. Most principals have specific instructions for port agents but they also indicate where they can be more flexible and reliant on a port agent. A principal located in a geographically distant location is highly dependent on his port agent for feedback on local conditions, trends and developments.

Before the arrival of the vessel the master will inform the agent the expected time of arrival, arrival draughts, and the requirements needed on arrival. The agent has to communicate the same to his principal, charterer's representatives, port authorities,

shippers and consignees and all other interested parties so as to organise what is required to prepare the vessel in advance for safe berth and cargo operation.

The tramp agent also performs other duties correspond with those of liner agents. These include notifying the customs, immigration, health, coastguard, linemen, tug companies and pilots of the arrival and departure of the vessel, acceptance of vessel for loading, discharging, arranging berths, tugs, harbour pilots, ordering stevedores and cranes, all in accordance with each authority's requirements.

#### **b. The port call**

The agent should be on the quay to receive the ship on her arrival, if he has not already boarded at anchorage, and is generally the first person up the ship's gangway. A ship's stay in port in our commercially oriented world is seen as transitional, the shorter period of time, the better. A ship's total cost in a port is not only a function of the services provided to the ship such as towing, mooring, or handling but also, more important, the time and quality of these services (Francou, 1999).

A competent port agent will always be armed with a checklist to ensure all services are provided in good time. The boarding officer co-ordinates the activities of inspection by port state control surveyor, cargo hold cleanliness and quarantine surveys, customs immigration inspections and clearance and others to ensure least confusion and delay. Meanwhile, the agent reviews the master's requirements in respect of ship services such as bunkers, lubricating oils, fresh water, ship chandlers and providers, refuse collection and disposal, and shore assistance for ship's repair etc.

A prudent port agent will never forget to carry to the ship on arrival crew mail, cash advance for master and crew, and shore leave passes in keeping with the custom of the port. Written or oral advice to master and crew in respect of facilities available

for transport, recreation and entertainment, available communication services, as well as social safety and health precautions. Crew changes, flight schedules, repatriation or joining ship are also important crew services expected of the agent. These will be done, in keeping with the charter party requirements and good seamanship, together with the tendering of notice of readiness to the shipper or consignee of the vessel's readiness to load or discharge for laytime to start counting.

A port agent has a major responsibility to keep his principal informed of all events which happen whilst the ship is in his care, reporting events as they occur. The agent needs to be in continuous contact with the master, stevedores and terminal operators. This enables him to ensure smooth operation and be informed as to when cargo operation is expected to end, the ship's sailing conditions and expected time of departure from the port. He then conveys the same to the principal so that he can plan and program the subsequent voyage and arrangements for future cargoes.

### **c. After sailing service**

It is important to remember at this stage that the job of the port agent is not done until the paper work is done. Thus, a port agent will prepare what is known as a 'disbursement account' and a detailed report for ship's stay in port supporting all information and expenses with the relevant documentation and invoices. The division of costs and expenses involved in accordance with the requirement of the charter party and other agreements are other important functions of a port agent. A port agent needs to be well organised to successfully complete all the aforesaid activities to the satisfaction of his principal. In fact, it takes a lot of hard work, physical involvement, a high degree of dedication and integrity.

Therefore, it is important for the operations manager and his subordinates to acquire updated knowledge, through continuous training, on commercial subjects and maritime law. Such knowledge enables them, among other things, to understand and interpret the contracts and other documents involved and at the same time to

establish procedures in case of cargo or ship damage claims and 'Note of Protest' and declare 'General Average' when applicable.

### **3.5.2 Liner Agent**

While tramp shipping normally requires an appointment of port agent when the ship is going to some port, liner shipping, on its trade route, demands an established agency network. In addition, today with the liner shipping industry becoming ever more global and new ports constantly being added to ship's schedules, companies have to go out and appoint independent agents.

Liner agents, therefore, form an important group of intermediaries in liner shipping. Unlike brokers and port agents, who seldom enter into written contracts, liner agents often do enter into written contracts, frequently referred to as 'shipping agency agreement'. This agency agreement is the most important document to a shipping agency for it regulates the relationship between the shipping company (principal) and the shipping agency. A shipping agent has to be careful in rendering services that are in accordance with the shipping agency agreement in order to avoid future disputes with the principal.

The Federal Organisation of National Association of Shipbrokers and Agents (FONASBA) has produced and issued two types of documents regarding agency agreement, which serve as a guideline. These are called the Standard Liner Agency Agreement (See Appendix 3) and the General Agency Agreement (See Appendix 4). Both guidelines stipulate conditions of the agreement, duties of the shipping agency, marketing, port operations, container services, accounting and finance, principal's duties and obligations, remuneration, duration, jurisdiction or arbitration and the period for notice of termination of the shipping agency agreement.

However, in practice these model agreements are seldom used and shipping agencies deal with principals using their own formats of shipping agency agreements with

FONASBA incorporated. This indicates that, the need for experienced negotiators for shipping agencies when working on a shipping agency agreement is an important consideration.

#### **3.5.2.1 Commercial Functions**

A liner agent functions as a kind of general agent for the line within a geographical area. The liner agent represents the owner in many different ways. He has contact with possible shippers and forwarding agents within the area, he also procures advertising about arrivals and departures and, normally, a liner agent also does all the work for the line which would otherwise be carried out by a port agent. In such scheduled liner trade the agent is always informed well in advance of the arrival dates of the vessels.

The major task that makes liner-shipping agencies different from tramp shipping agencies is cargo canvassing. In the activities of cargo canvassing the liner shipping agent has to deal with shippers and freight forwarders to be able to attract them to ship their cargo with the shipping line that is represented by the shipping agency concerned. The establishment of sales and marketing departments, with competent staffs, for handling this important operation is unavoidable as it involves a lot of negotiations between the shippers and the shipping agency.

This becomes increasingly necessary as liner principals expand from their original base trades into global trade. In order to avoid conflicts with his principals, the agent must guarantee confidentiality of the principal's information, exclusive sales management and personnel for sales (or shop windows), investment in systems compatible with the different demands and technology of the principal and lower unit cost than the principal can achieve himself.

Apart from cargo canvassing the other major task of a liner shipping agency is cargo booking. Cargo booking refers to reservation of spaces for cargoes. A shipper, who wants to book cargo space on board a vessel, contacts the agent of that particular line. The agent then confirms the reservation of space, by consulting principals, through the delivery of a booking note (B/N). When the goods are received for shipment or after they are loaded on board a ship, a bill of lading will be issued on behalf of the carrier.

As part of cargo booking activities, when cargoes have to be stuffed into containers, the shipping agency has to arrange for cargoes to be put into containers. It is only in areas where the shipping agency or the shipping lines do not have an inland container depot that containers are stuffed inside ports. In areas where the shipping agency or the shipping line has an inland clearance depot (ICD), these activities are not required of the shipping agency as containers arrive in the port already stuffed. Normally, when containers are stuffed they are either Full Container Load (FCL) or Less than Container Load (LCL). FCL container means a container that carries one consignment for one consignee. LCL container on the other hand carries more than one consignment to more than one consignee.

When containers are to be stuffed inside the port, extra information such as permission to allocate a container out of the shipping line's container yard, and instructions for the port to stuff the containers and the time when the shipment has to be ready for loading are required. The port will then send back to the agent the so-called 'packing list'. A packing list is a list of the items stuffed into the container and the corresponding size (in cubic meters) or weights (in tons) of each item packed.

The packing list is a very important information in issuing bills of lading. In cases where the shipping agent does not organise stuffing of containers or has had no reasonable means of checking it, he is not obliged to state or show the number, quantity or weight in the bill of lading. In which case, qualifying phrases such as



‘said to contain’, ‘according to the packing list’ or any other similar phrase will be written on the bills of lading to indicate that the shipping agency was not involved in stuffing the containers. However, in case of ‘dangerous goods’ it is important for the shipping agent to closely supervise the stuffing of containers.

In liner shipping, the bill of lading is the main document concerning the commercial and legal aspects of the relationship between the customer (frequently the shipper), the carrier and the consignee. In here the contract of carriage is normally based on a booking note whereby the agent ascertains the availability of space in a particular vessel or within a certain period of time. The bill of lading is issued when the goods are received for shipment or upon the shipment of cargoes. Other documents such as delivery orders, cargo manifests, invoices, and customs declarations, etc. which are required by various authorities, are also involved.

#### **3.5.2.2 Communication**

A tremendous flow of communication is required to maintain a good service to the ships and customers. Due to the nature of the operational activities many times events occur, which are outside the scope of the agent’s authority. Prompt advice from the principal may then be required. In most cases a letter would be too slow. The agent must also keep the principals informed continuously on cargo bookings, space availability, conference matters, competition, local conditions, such as up-to-date amendments to port tariffs and regulations and all other charges as they become known. This also enables daily updating of the ship’s movement to customers. Possession of modern communication equipment is, therefore, very essential.

#### **3.5.2.3 Financial Functions**

Due to the regular nature of the principal’s business, there is a constant flow of money between an agent and his principal. The agent must remit freight collected to

his principal and the principal must pay for expenses and services received. To keep clear records of the outstanding, the agent is required to fill in a disbursement account, a freight payment statement and a current account. At the end of each month, accounts are disclosed to principals on freight and other charges collected plus costs of executing the service.

The disbursement account is prepared and forwarded soon after a vessel has left the agent's port. It consists of information on how the charges are based as well as commissions plus all other costs and revenues clearly shown to the satisfaction of the principal. Usually principals need invoices to supplement the disbursement account on supplies ordered by the shipping agent on behalf of the master of the ship. Proper acknowledgement of the master's signature on receiving the order is also needed.

It is important to know, at this stage, how a shipping agency generates its revenue. It is clear that the agent plays a very important role in all aspects of a ship's call. Agents receive their remuneration in accordance with their sales performance i.e. a percentage of the freight accruing to the ship owner for cargo loaded and unloaded on the vessel. Typical for many agents is that they obtain 5 percent commission on outward and 3 percent on inward cargo. The revenue for the shipping agency is normally based on sea freight. Sea freight means from the initial point of loading goods to the final point of discharging goods. The total amount of freight is calculated according to manifested cargo from the port where the cargo originates.

Finally, under today's conditions, the market share of shipping agencies are fairly small, hence revenues generated from commissions are not sufficient to cover the operational costs of the agency. Because of this and the reduction on the basis for commission, most shipping agencies look for other works to support their business.

### **3.6 Conclusion**

Of the many principles which a shipping agent has to adopt, irrespective of the form his business takes or the services he offers, the most important ones are in-depth knowledge of the special features of principals business (or shipping industry) and of his own port. Knowledge of the industry is also a prerequisite in the development of a successful competitive strategy as has been shown in chapter two. It is thus through proper and continuous training that ERSTAS can equip management and employees with a better understanding of their ports and up-to-date industry situation to be able to behave accordingly.

Appendix 2. Shows UNCTAD Minimum Standard for Shipping Agents.

## ***CHAPTER IV***

### **4. QUALITY- A STRATEGIC APPROACH**

#### **4.1 Introduction**

An illustration of differentiation that can provide value added services to customers is a quality strategy in which a company will deliver and be perceived to deliver a product or service, superior to that of competitors, with respect to its intended purpose. A reputation for quality is the most important strategic consideration in today's competitive shipping business. This is because in the long run, quality of service relative to that of competitors is the most important factor that affects a company's performance.

#### **4.2 Development of Quality System Standards**

Quality was originally generated from within an organisation as evidence to the world at large that a product or service was fit for its intended purpose and would meet the customers' needs. Standards conforming with quality approach, had been issued in the late 60s by some manufacturing companies. Further developments of the standards took place in the 70s, documentation being issued by the major nationalised industries that look at quality assurance as a means of increasing safety, reliability, availability, and thus profitability.

The increased awareness of the benefits associated with formal quality system standards then spread to other industries. The growing demands to attain a standard have led, eventually, to the introduction of International Quality System standard in

1987. A number of nations ratified an agreement, recognising an International Quality System Standard, the ISO 9000 series. This was achieved by harmonising the different quality standards into a common standard. ISO 9000 is a direct equivalent of British Quality Standard (BS5750) 1987 widely recognised throughout the world. However, the ISO 9000 series is the leading international quality system standard today.

Because of the nature of its development, ISO 9000 was initially written from a manufacturing and product assurance viewpoint. This had created interpretation difficulties for service industries. As a result, a number of industry specific guidelines have been developed to increase understanding of the applications of the standards within the service industries.

#### **4.3 Definition of Quality**

Quality has been one of the very difficult concepts to understand and manage in business because it has been so imprecise and means so many things. For example, in daily conversation it seems to denote some measures of goodness or worth. It is also confused with luxury and all sorts of subjective things.

Quality is also a relative concept since a product or service that meets the requirements of one customer may not necessarily satisfy every customer's requirements. Some customers may be primarily interested in low cost products and services in which case, producers need to concentrate their efforts on increasing volumes over which all costs can be spread to provide low-unit-cost of goods or services. Others may prefer products that are well made and services that are performed properly, and these customers are willing to pay more for the products and services.

This being the case, quality has many different definitions ranging from the conventional to those that are more strategic. Perhaps, it is worth noting some of the definitions of quality at this stage.

"Quality is the totality of characteristics of an entity that bear on its ability to satisfy stated and implied needs." (ISO 8402-2.1).

Quality is simply meeting the requirements. (Oakland, 1989, p3).

The Oxford English Dictionary looks at quality as excellence, reliability, goodness.

Quality is an integration of the features and characteristics which determine the extent to which output satisfies the customers needs. (Johnson, 1993, p23).

Nowadays, defining quality in objective terms ('total conformance to requirements') have gained more importance as it would make it applicable to everything, not just to products. In light of this definition, quality became an objective concept that could be understood, measured, assessed, and improved at all levels in an organisation.

Quality is thus defined based on customers and it puts considerable focus on one thing, the customers. The steps are clear, know what your customers want then produce exactly what is wanted at the right time at minimum cost.

#### **4.4 What is a Customer?**

It is important to consider what a customer is, the most common word in the definition of quality.

**External customers:** this may include those who purchase products or services those who use them and the owners or shareholders of the organisation. The interests of all these customers have much in common. They all wish to see the organisation work

efficiently and effectively at minimum cost. Our business continues to survive only if we are able to meet their requirements.

***Internal customers:*** each output in a business is the result of a number of internal customer-supplier relationships. Within an organisation, therefore, each person is a customer of the previous process in the chain and a supplier to the next process.

The implication is that customers are everywhere, not just only outside the organisation. It is important to realise that most of our customers are inside the organisation; other colleagues, other departments. For example, it makes sense for the accountant to see the operation manager as his customer, not an enemy, and look at his requirements and be of much more use to him and the organisation.

#### **4.5 Who Needs Quality?**

Quality control system is helpful to any process of activity that produces a product or a service. The purpose is to improve the quality of the work in each link of the process, and at the same time to increase output, all with less effort and reduced cost.

In the transport service, the customer's quality requirements and expectations from the transport providers are mainly: reliability of transport, flexibility, door-to-door operations, safety of transport, shorter transit time (just-in-time), security, availability, speed and ecologically friendly. Even in organisations that adopt cost leadership as their strategy, quality assurance is the tool to achieve these overall objectives.

#### **4.6 Total Quality Management (TQM)**

TQM is a management approach to long-term success through customer satisfaction. Personal involvement of everyone from the top to the bottom of the organisation and across the functions at all levels is the central idea of total quality management to

bring about continuous growth and improvement. In other words, it is a methodology for the management of the whole business to improve its effectiveness, flexibility, and competitiveness.

#### **4.7 Customers-The Purpose of Business**

Nothing in business has any purpose if it is not done for someone else. In fact, this someone is, ultimately, the customer. Essentially, we all need customers and at the same time we are customers to others. Without someone to purchase our product or service, it is more likely that we will close down the whole organisation. Understanding the customers' expectations often requires listening to the voice of the customers and identifying the type of product or service characteristics that the customers need, their level of expectations and satisfactions.

Customers, in essence, want their expectations to be fulfilled completely and consistently. Customers view the quality of a service by comparing the service experienced to that of their expectations about it. They classify services as unsatisfactory, satisfactory and more than satisfactory based on the level of achieved satisfaction. Therefore, the key to obtain a long-term competitive advantage is to continuously meet customers' expectations in ways that they recognise as gaining added values from goods and services provided to them.

*The purpose of any business must be to create new customers and keep customers by providing the services that they want in order to keep on making enough money to satisfy investors (Mottram, 1998).*

True, this is how managers can protect investment and safeguard jobs on a long-term base. Therefore, the objective of making money, as many believe business' purpose to be, can only be achieved on a continuous basis if and only if the business in question offers the customers what they really want and need. Customers expect to receive value in the products and services they purchase or use. This value has often



been expressed as the relationship between what customers get in exchange for what they give. Such is the characteristics of quality service.

#### **4.8 Quality System**

*Quality system is the organisational structure, responsibilities, procedures, processes and resource for implementing quality management (ISO 8402, Art. 3.2)*

In the processes of achieving success through quality, the main responsibility of the management should be to improve constantly the system to give enough room for innovation in each chain. The system covers long-range policies, capital investment, allocation of human effort, training and retraining, selection of new employees, supervision, inspection and internal communications, contact with and service to customers, among other things. The quality system incorporates both quality assurance and quality control.

Different organisations can have different quality systems depending on the peculiar situation of the business they are engaged in. However, it must be based on understanding of business, customers and their requirements. It must also be management led and involve all employees. Further, the focus should be on preventing errors rather than simply detecting and correcting them. There should also exist room to develop it as the company develops.

To ensure the success of the system, therefore, it is essential that all functional areas that affect quality must be planned very carefully. The plan has to ensure that quality goals, authorities, and responsibilities in an organisation are well defined and understood. The management should then make sure that these activities are controlled to ensure that identified requirements are met at all levels.

Management must also ensure that problems are anticipated to prevent them before happening and that necessary corrective actions are planned and carried out. Activities that affect quality must also be documented to ensure understanding of quality objectives and methods and to use them as feedback for the planning cycle. Documentation can also serve as proof of quality system performance for those who require it, such as customers or third-party assessors.

#### **4.8.1 Quality Assurance**

*Quality assurance is broadly the prevention of quality problems through planned and systematic activities (including documentation) (Oakland, 1989, p10).*

This includes the establishment of a good quality management system and the assessment of its adequacy, the audit of the operation of the system, and the review of the system itself periodically. In addition to internal process activities, quality assurance includes activities that are external to the process, including activities undertaken to determine customer needs.

#### **4.8.2 Quality Control**

*Quality control is essentially the activities and techniques employed to achieve and maintain the quality of a product, process, or service (Oakland, 1989, p10).*

It is a system of activities designed to assess if quality management is delivering services in accordance to the customers' requirements. It is when every process in a business is controlled that the system will become predictable and subject to efforts for further improvement. Quality control encompasses both internal and external inspections. The activities include monitoring, reduction of variation, elimination of known causes, and efforts to increase economic effectiveness.

## **4.9 Essential Elements of Quality System**

### **4.9.1 Quality Planning**

Quality planning is defined by ISO 8402, Art. 3.3 as " the activities that establishes the objectives and requirements for quality and for the application of quality system elements".

Quality planning may consist of identification of customers and their needs and ensuring that they are understood by everybody to provide a service corresponding to those needs. Developing the processes, which produce the service, and transferring them into operations is also an important consideration. Cost considerations in parallel with each activity will play an important role in the planning process.

### **4.9.2 Quality Policy**

As defined by ISO 8402, Art. 3.1 "Quality Policy is the overall intentions and directions of an organisation with regard to quality, as formally expressed by top management. It forms one element of the corporate policy."

The establishment of positive quality policy objectives within an organisation must be accompanied by the clear allocation of responsibilities within the management structure. Prior to allocation of responsibilities considerable staff training is very essential to prepare appropriate personnel and make them competent to the required position.

A quality policy is, therefore, an important statement of management's intention as regards quality. But to gain the support and commitment of all the employees, every manager has to demonstrate in his day to day work his commitment to quality.

### **4.9.3 Processes**

"A process is the transformation of a set of inputs, which can include actions, methods and operations, into desired outputs, in the form of products, information, services or generally, results." (Oakland, 1989, p9). Even a simple process can require a number of inputs to enable it to produce the correct output.

In any process, what is taken in and transformed becomes something new. If the processes and ways in which the parts of business units work together are made efficient and effective, the results will be an efficient and effective organisation.

In each area or function of an organisation there will be many processes taking place. In a shipping agency, for example, the operations division is normally involved in arranging berths, loading/discharging, issuing documents, arranging supplies to ships, releasing cargoes, informing principals and instructing third parties. Thus, each of these processes needs be analysed by an examination of the inputs and outputs required ascertaining action necessary to improve quality.

Understanding and controlling processes are the keys to producing outputs 'right first time, every time', which in turn avoids unnecessary inspections. Identifying process inputs, their customers and how they work enables one to determine how to control them, to reduce variability, and will have a significant impact on improving the ability to manage business, increase customer satisfaction and increase profitability.

### **4.10 Service Characteristics**

Unlike product qualities, which can usually be measured using quantitative measures, it is difficult to measure quantitatively characteristics of service qualities. However, their quality features are often measured based on observations and comparisons.

As put by ISO 9004-2, Art. 4.1 examples of service characteristics that might be evaluated by customers or by the organisation itself include:

- facilities, capacity, number of personnel and quantity of materials;
- waiting time, delivery time and process times;
- hygiene, safety, reliability and security;
- responsiveness, accessibility, courtesy, comfort, aesthetics of environment, competence, dependability, accuracy, completeness, state of the art, credibility and effective communication.

Aaker also suggests important elements that a quality service should encompass if it is to satisfy customers i.e., "different dimensions emerge in service business..., which include the five listed hereunder:

- Tangibles: Appearance of physical facilities, communication materials, equipment and personnel.
- Reliability: Ability to perform the promised service dependably and accurately.
- Responsiveness: Willingness to help customers and provide prompt service.
- Competence: knowledge and skill of employees and their ability to convey trust and confidence.
- Empathy: Caring and individualised attention that a firm provides its customers. (Aaker, 1992, p206-7).

The implications of both ISO 9004 and the latter suggestions above are, in addition to producing the required product or service, that a company should also extend its quality services to include customers perception of the company by improving the day-to-day contact customers have with all staff members. The quality concept needs to encircle how customers are handled on the telephone, at the reception, by the accounts clerk etc.

## **4.11 Intentional Quality Standards**

### **4.11.1 ISO 9000 series International Standards**

ISO 9000 is neither a product nor a service standard, but it is a quality system standard. It applies not to products or services but to the process, which creates them. Therefore, it can be applied to any product or service produced by any process, anywhere. To achieve this non-specific state, ISO 9000 concentrates on principles, goals and objectives intending to meet customer expectations and requirements.

A carefully developed and well-managed ISO 9000 quality system ensures that the output of the process will meet customer expectations and requirements. It touches every process, every employee, and every function in an organisation. By doing so, it also extends its confidence to company management and staff.

According to the illustrations given by the United Nations Conference on Trade and Development (UNCTAD):

*The purpose of ISO 9000 series is: to clarify the distinctions and interrelationships among the principal quality concepts, and to provide guidelines for the selection and use of a series of International Standards on quality systems that can be used for internal quality management purposes (ISO 9004) and for external quality assurance purposes (ISO 9001, 9002, 9003) (Multimodal Transport Handbook, UNCTAD, 1997, page 165).*

These documents of international standards consist of the following quality assurance models:

1. ISO 9000: is the quality management and quality assurance standards containing guidelines for selection and use of one of ISO 9001, 9002, and 9003.

2. ISO 9001: is a quality system model for quality assurance in design, development, production, installation and servicing.
3. ISO 9002: is a quality system model for quality assurance in production, installation and servicing.
4. ISO 9003: is a quality system model for quality assurance in final inspection and test.
5. ISO 9004: is the quality management and quality systems elements containing guidelines for manufacturing and service applications.

Companies wishing external quality assurance or to register to ISO 9000 comply to one of the contractual models- ISO 9001, 9002, or 9003, depending upon the type of business they are in.

ISO 9003 applies to processes that can be satisfactorily controlled and are cost effective to rely entirely on final inspection and test to achieve conformance to requirements.

ISO 9002 covers all the processes common to those businesses that are not involved in the original design of the product or service. This is the appropriate standard to apply for shipping companies including agents, in fact, if external assurance is required. ISO 9001 covers the requirements of ISO 9002 and also the controls necessary over design activities.

Each standard defines the activities for which a company must provide appropriate controls. These includes the quality policy of the company, the existence of sufficient qualified personnel to carry out the policy and ensuring that whenever mistakes occur they are reported and actions introduced to prevent from happening again.

*Service companies which do not seek certification but wish to implement a quality system consistent with the standard rely upon ISO 9004-2(1991) (Johnson, 1993, p41).*

#### **4.11.1.1 Implementation of ISO 9000 Series**

The implementation of ISO 9000 entails formally expressing in writing how work will be processed through an organisation and ensuring that written procedures are properly followed. It also requires proving, through adequate records, inspections and audits, that completed work has reached the desired standard and has been done in accordance with the written procedures. Hence, the efficiency and clarity of the system already put in place in the organisation and the commitment of management and personnel determine the fulfilment of the requirements of the standard.

When a quality system meeting the ISO 9000 standards is proved to exist in a company, certification may be achieved from a recognised body. Proof of possession of ISO 9000 can provide added value to the product or service of the company for commercial and safety purposes at national and international levels. For instance, the European Community has recognised, accepted and mandated quality system standards in Europe. So, any company doing business in one of the EC countries is required to give due considerations to quality rules.

#### **4.11.2 ISO 14000 series International Standards**

The purpose of ISO 14000 is to use quality assurance in respect to a relation between business and its environment. More and more companies are becoming conscious to prove their environmental management systems by realising that such a system can provide protection from penalty and at the same time benefits business by creating good will.



#### **4.12 Meeting Customer Requirements**

For an organisation to be truly effective, every single part of it must work properly together. Every part, every activity, every person in a company affects, and is in turn affected by others. Errors in one part of a process create problems elsewhere.

Identifying internal and external customer requirements are not as such easy in today's business, which is becoming more and more complex and divided into different divisions like: marketing, sales, production, finance and administration.

As such there is a need to ensure that all these divisions are pulled together to meet the requirements of external customers. Getting organised, therefore, requires that we are clear about who our customers are, both internal and external and understand their requirements in order that we strive continuously to fulfil them.

The marketing function of a shipping agency must take the lead in establishing the quality requirements for the product or service. For example, three different groups of shippers can be identified, that have particular transportation needs and selection criteria. First, shippers of raw materials and semi-finished products who make use of bulk shipments and will consider price as the determining criterion for selection. Second, shippers of consumer goods use both price and quality as selection criteria. Depending on the nature of the shipment, specialised equipment might be needed, and the shipper will want the assurance that the goods are properly handled.

Third, for shippers of high-tech goods and assembly line inputs selection is based on quality and price. However, quality comes before price, and differentiation plays an important role. Therefore, the importance of service criteria as distinguished by the type of shippers is essential because stability in the relationship between carrier and shipper becomes important because transportation is an integral part of business. The agent has to pay considerable attention to the different customers' requirements.

An objective answer to the following questions may help in fulfilling quality requirements of customers for the services.

- Are the different kinds of customers and their requirements identified?
- Does everybody in the organisation know who his internal clients are?
- How seriously are they treated?
- Does everybody know what is expected of him?
- Are we giving what is expected to the customers?
- Could we do more?

#### **4.13 Quality Costs**

Quality costs are all the costs incurred by a business to ensure that the total service it provides to customers conforms to the customers' requirements. Identifying quality costs is very essential for they can have a significant impact on profitability.

Generally speaking, quality costs are of two types, that is, costs of conformance and costs of non-conformance. Costs of non-conformance are all the costs associated with any failure. These costs can be reduced by the use of preventive actions. Preventive actions result in preventive costs or the costs of conformance.

Researches have shown that, the non-conformance costs associated with failure to achieve conformance to requirements can amount to 25 percent of turnover. For example, if an agent sends a container to the wrong destination the costs involved are normally those for repositioning the unit to where it was to go. However, if cargo is lost or damaged, due to agent's negligence, the loss can be the full value of the cargo.

Non-conformance costs may arise in any division. True, all divisions spend some time correcting their own mistakes, or amending other people's errors. This affects the culture within the organisation and may affect morale and motivation. It can

further affect the reputation of the organisation with its external customers. Reputation for an organisation is built upon quality, reliability, delivery and price, among other things. But, the most important consideration is quality.

Mistakes or failures in the shipping agency business can have grave effects. If an agent becomes careless, when he orders supplies to ships, say bunker, not to clearly indicate that he is an agent only and has no personal liability he could find himself in a position of contracting himself in case the principal fails to pay it.

Provision of extensive appraisal activities is not the right way to eliminate these failures. It is rather a waste of time to check services with no adequate consideration of how to make them better at the beginning. Instead, efforts have to be directed towards a continuous improvement of the processes by using preventive action. Especially in shipping, identifying potential problems and solving them before they cause harm is crucial because the cost of correcting errors can reach up to a level of liquidating the company's assets. That is what Deming meant when he said:

*Inspection is too late, ineffective, costly .... Quality comes not from inspection, but from improvement of the process (Deming, 1982, p22).*

The root cause of failure is usually errors in the system that controls the process. Hence, a relatively small investment in prevention activities such as planning, effective procedures and training, which improves the system can reduce failure and its associated appraisal costs. Therefore, the cost of achieving quality must be carefully managed so that the long-term effect of quality costs on the business is a desirable one.

#### **4.14 Safety and Quality in Shipping**

The dangers faced in ships and those who sail in them today are basically the same as they were a hundred years ago. However, the technology advancement in ships and the equipment on board have changed a lot minimising the risk exposure of ships.

Merchant shipping acts, aimed at safeguarding ships, personnel and cargo, were introduced in major maritime nations in the mid nineteenth century. With the development of ships and shipping, various national safety laws were produced in many countries. The growth of shipping in size and complexity has led to the establishment of the International Maritime Organisation (IMO).

On its establishment, IMO took existing international shipping conventions and with time the rules of major conventions have been amended so as to allow a process of continuous change. The Safety of Life at Sea convention (SOLAS) and the Marine Pollution convention (MARPOL) are the two major conventions, among others.

Expectations and needs for quality, safety, security and environmental protection are becoming more explicit. Regulations governing safety and environment responding to major safety failure experiences like 'Titanic', 'Amoco Cadiz', 'Exxon Valdez' and 'Estonia', have been imposed by governments and other organisations such as insurance underwriters or classification societies upon the ship owner.

As a result, shipping and the world in which it operates has become more complex, and regulations are now seen as a means of safeguarding the global ecosystem as well as protecting people who travel and work on the sea. Quality management has gained increasing importance on the principle that prevention is better than cure, which has significantly affected shipping business, its regulation and profitability.

#### **4.14.1 The ISM Code**

Continuing failure in the safe management and operation of ships has indicated a need for international action and has led to the introduction of the International Safety Management (ISM) code. The code establishes safety management objectives and requires Safety Management Systems (SMS) to be established by a company operating a ship. It also requires the establishment and implementation of a suitable SMS with sufficient resources and shore based support. All procedures required by the code must be documented and included in a Safety Management Manual, a copy of which is to be kept on board. The code became mandatory for some ships in June 1998, and will be mandatory for the rest by the year 2002. In addition, shipping companies are also applying ISO 9002 to help them become more productive and cost efficient.

#### **4.14.2 Flag State Control**

Control by national administrations over ships flying their flags for a ship's safety is primarily the responsibility of flag states although many have become weak with the growth of open registries and the delegation of survey work to classification societies.

#### **4.14.3 Port State Control**

Concern over the quality of ships using their ports have led many nations to introduce ship inspection procedures to ascertain standards of safety and environmental protection. These are called port state control. These measures are becoming increasingly integrated with the co-operation of IMO.

#### **4.15 Quality in Shipping Agents**

There were days when quantity was considered more important than quality. However, in today's business environment this method is no longer effective, a change has been introduced by many shipping agencies as regards quality.

"Traditionally, ship owners were content carrying the cargo from port to port and limiting their responsibility for the cargo to the time when the goods were on board their ship. With the coming into existence of multi-modal transport operation ship owners have now extended their services to include door-to-door transport of cargoes covering more than one mode of transport." ( UNCTAD, 1996, p11).

In such types of combined modes of transport, however, they still arrange to subcontract some of their services, with other unimodal sub-carriers as well as a number of other auxiliary services such as shipping agency, stevedoring and warehousing services.

As mentioned earlier in chapter three, the market share of shipping agencies is getting smaller and smaller, hence revenues generated from commissions are not sufficient to cover the operational costs of the agents. In order to back up their business, shipping agents need to participate in multimodal transport by obtaining contracts, from multimodal transporters, for services like procurement and co-ordination of various modes of transport; groupage of LCL cargoes, packaging of export cargoes that arise in multimodal transport etc.

The other important consideration is that, unlike the traditional way of transport service, ship owners in the case of multimodal transport are becoming liable for the whole transport no matter where the cargo is lost or damaged. More and more consumers are also insisting on the supplier of products (shippers) and services (transportation) conforming to the ISO 9000 quality standards.

This implies that it is possible that shippers, driven by consumer demands, will be unwilling to do business with companies that do not comply with ISO quality management standards. It is, therefore, evident that shipping agents, in order to provide services in accordance to the requirements of shippers and ship owners need to introduce quality standards.

Furthermore, ship-owners that appoint shipping agents have come up with the policy of integrating their business by the use of in house agents so as to cut their total costs to retain and improve their competitive positions. The implication of this policy to the shipping agents is that they have to prove their importance and competence in as far as minimisation of total costs for the shipping companies is concerned.

#### **4.16 Conclusion**

Management in ERSTAS need to realise, to a greater extent than ever before, that they must take decisions with regard to their management styles and work processes in favour of those that are more effective in meeting the needs and expectations of customers. The first thing that should be done is to develop systems and controls and check to make sure that everything is done to prevent mistakes. Mistakes in shipping agency business, as shown earlier, can cause unbearable liability in addition to loss of competitive position due to increased operational costs.

Therefore, introducing an effective quality management system that paves the way ahead to formal certification of an international quality system standard (ISO 9002) needs to be considered to become competitive and remain in business. An effective quality management system ensures that the activities of the business are controlled and documented, this enables every member of the organisation to know what to do and how. As a result, it leads to reduction of waste and improvement of productivity and competitive position. On the other hand, low quality means high cost and loss of competitive position.

## **CHAPTER V**

### **5. GETTING PREPARED FOR QUALITY**

#### **5.1 Improving Organisational Structure**

Organisational structure is an outcome of a decision made on how people in an organisation can be aligned to best meet the chosen strategy of the intended purpose. Earlier it was suggested that quality service is the way to success in the competitive business environment.

At the forefront of quality, the need to identify customers' requirements appears clearly. Marketing is responsible for determining the key characteristics of the quality of the service in the eyes of the customer. This involves the use of market research techniques, data gathering, and analysis of customer complaints. Marketing must also establish systems for feedback of customer information and reaction, which should be designed on a continuous monitoring basis.

*Market reaseach is the means used by those who provide goods and services to keep themselves in touch with the needs and wants of those who buy and use those goods and services (Cowell, 1986, p81).*

One of the most important jobs performed by an agent is to find and book cargo for his principal's ships, that is, cargo canvassing and booking. The agent's role is to maintain contacts with merchants, manufacturers, exporters and importers, shippers and receivers of cargo and commodities, for promoting and developing the business of the principal.



In other words, the agent deals with existing and potential customers of the principal in his area for the purpose of increasing the business of the principal's operations, accelerating the movement of cargo and enhancing the good will of the principal among merchants, manufacturers, receivers and shippers of cargo. Marketing and sales people are the ones that take the lead in this regard. Hence, a shipping agency business without marketing and sales units, both of which do not exist in ERSTAS, is predestined to fail in a competitive environment.

Furthermore, the organisational structure of ERSTAS has to reflect the nature of its business. That is, it has the responsibility to keep the confidentiality of principals' information in addition to co-ordinating booking activities. This may be achieved by establishing a separate sales unit, especially for those lines trading on the same route competing with each other.

As is depicted in the organisational structure of ERSTAS, different shipping lines are being represented and entertained by the same area unit. This problem is magnified and aggravated more, when one sees that there are no sub-units or sections below the unit level to handle these matters separately. Further, some of these companies may well be in different cargo conferences. It is, therefore, difficult to be convinced that this practice is without problems both to principals and to the area units, in fact, considering the proper agency ethics. In principle this practice is not acceptable (Francou, 1999). This has to be taken care of before embarking into a competitive market situation. Otherwise, it will be too late to regain once customers are lost.

Another important consideration is that, if ERSTAS has the intention to retain its port agency business, a strategic decision under the competitive situation, it might be essential to consider establishing a chartering unit. Experience has shown that freight forwarders are the most likely groups to become competent port agents due to the huge amount of documentation involved in it. This gives ERSTAS a competitive

advantage over the others, together with other essential facilities it possesses like office buildings and warehouses located very close to the port areas, track trailers etc.

## **5.2 Developing Managers**

Quality involves getting organised in every activity, in every department, at each process, at all levels involving everyone. Recognising this interdependence is crucial for this is just the way to total quality objectives. Each process, therefore, needs to be controlled which in turn requires the need to understand their inputs, their customers and how they work.

The vision, competence, skill and understanding of the people who have to carry out the decision determine whether the quality objectives will be achieved successfully or not. Thus, from the very beginning, efforts must be made to raise the ability and standard of different level managers, without which every other effort will be in vain.

## **5.3 Management Skills**

Smooth transition of an organisation to a quality culture requires more than developing model behaviour. It is very important to prepare properly and completely the managers at different levels before hand how to respond to the results and the effects of the change. Otherwise, by the time the change starts to take place, barriers to change and progress can appear on the scene. Similarly, other employees can face lack of skills to meet the new challenges. Therefore, they have to be educated and trained. Some of the management skills ( or tools) that need to be acquired when embarking upon quality culture are described hereunder.

### **5.3.1 Decision Making**

It is true that the importance of decision making in management is generally recognised. But, most of the decision making process rests on providing answers to problems. In which case, traditionally, problems have been solved using gut feeling or experience rather than facts. The route of problem solving has also been from effect to solution with little, if any, consideration to the root cause of the problem.

However, there are three basic steps that must be considered in decision making process. First, an important job in decision making is to find the real problem well stated. Second, once a problem has been identified and defined, the next step is to try to determine the best solution. If adequate job has been done in identifying and defining the problem, then several alternative ways would be available that could solve the problem. It is very rare to have a situation that there is only one solution. It is important to consider the effect of doing nothing to solve problems.

Finally, the application of clear criteria to choose from among the possible solutions is important consideration. For example, criteria such as risk involved, economic effort required, limitation of a company's resources and time required can be used to choose from among the possible solutions.

### **5.3.2 Time Management**

The time pressure of carrying out the necessity of changing quality culture alongside the usual daily work requires well-developed time management awareness and skills.

### **5.3.3 Communication**

The most effective means of developing commitment is to ensure people know what is going on. When starting a new initiative people need to have continuous communication of the right kind. The communications need to be two-way, up and

down, and across the organisation, involving everyone. It must be regular, clear and reliable. If people are not kept informed continuously from an early stage, they may feel left out of the programme. This could result in the belief that the programme is not for them, and people would turn out to be uncomfortable about the change. Good communication skills create the right environment for trust to grow.

#### **5.3.4 Effective Meeting Skills**

Communicating, sharing, discussing, solving problems and improving processes all require meetings. Effective meeting skills are considered as one of the key skills of time management. If the skills within the organisation to co-ordinate and to operate meetings effectively are lacking, there will not be enough time to fulfil the proper required tasks. Meetings must be short and effective. In fact, customers and their requirements must be at the centre of all meetings and business decisions.

#### **5.3.5 Discharging Barriers**

Different departments and the individuals in them should work as a team to each other. Destructive competition within the same organisation has to be replaced with co-operation. Eliminating inner conflict and encouraging communication helps a lot in this regard.

#### **5.3.6 Motivation**

ISO 9004-2, Art. 5.3.2.1, puts special emphasis on people: "A most important resource in any organisation is that of the individual members of personnel involved. This is especially important in a service organisation where the behaviour and performance of individuals directly impacts on the quality of service."

Getting people to do what is required is not always a question of telling them. Motivation is what makes a person want to do something. Leadership and

supervision ought to concentrate on making the workers take more interest in their work. An interested worker will want to do the job well and will accept advice, training and help towards doing his job better. Past experience, present situation and perception of the future, among others, are the factors which effect motivation. Good motivation is certainly related to morale.

It is widely accepted that eliminating physical and mental obstacles facilitates communication, encourages co-operation and improves the overall morale of employees. Two-way communication should be encouraged so that such obstacles are removed out of the organisation. A secured environment needs to be created to use a bit of everybody's intelligence. Motivation is therefore vital in any job if an individual is to give his best.

#### **5.3.7 Instituting Training on the Job**

Training should be regarded as productive and be given due consideration. Training and education are the cornerstones of greater consistency and better use of all employees. A continuous programme of on-the-job training, including managers needs to be instituted. If managers make themselves subject to education and training, they can provide an example for the rest of the employees. Proper training always equips employee with a better understanding of the job and its requirements. This eventually, leads to the job being completed in better time and more effectively, to the company's advantage, with satisfied workers doing a good job.

#### **5.3.8 Building Committees**

"A camel is a horse designed by a committee", which is a polite way of saying that most committees end up with a compromise. That is all right, because that is what committees are for, to find an acceptable working compromise.

Committees are very helpful in some aspects of an organisation's affairs. For example, in a centralised organisation communication and co-ordination can be difficult, especially lower down in the organisation, which could be addressed better by the use of committees.

Due to the nature of the work in a shipping agency, some people seldom get a chance to meet at the working place to share their values and beliefs. Committees can, therefore, bridge this gap by facilitating the ground for organising social club, sports and social welfare services. The success of an organisation depends on the solidarity of all its members. Solidarity is affected by the frequency with which people are brought together.

#### **5.3.9 Management of Team**

Any organisation interested in building up a quality system should first realise that, the success of the system depends upon the full involvement of everyone in the organisation. In shipping agencies, especially, workers do different bits of jobs, which are dependent upon one another following a certain pattern (process) and later brought together to accomplish the organisation's objectives.

Teamwork is achieving as a group more than what could be achieved as individuals, by bringing together different skills, experiences and expertise to achieve an agreed aim. A successful quality culture can just be achieved by changing the minds of people involved in the business from individualism and independence to interdependence, where there is a lot of sharing of ideas and information. In this case, all team members must develop the skill of listening.

A team has some common purpose or objective. So, anyone who manages others has to achieve results: profit making, quality, marketing or whatever. To achieve its objectives the group needs to be held together. Arguments within the team must be used effectively to generate ideas or otherwise they may create tension and lack of

co-operation. Individuals within the group need be given the opportunity to express their potential, take on responsibility and get recognition for good work.

#### **5.3.10 Avoiding 'Group-think'**

Experience has shown that when groups develop a life and a view of their own, they can become blind and deaf to anyone or anything else. This is called 'group-think'. Group-think occurs when a group is so close that nothing must be allowed to upset the harmony of the team. Outsiders and outside views are unwelcome. If any one has any doubt or question in any issue it is considered as disloyalty. Mobilisation of personnel or allowing outsiders, at times, in on the team may solve such problem.

However, frequent mobility of key personnel can cause instability. It may result in decisions being made by people who do not know the exact character or the specific problems associated with the team's task. It may also inhibit commitment to previously set objectives, especially when such objectives are viewed as one of the predecessors' ideas.

We cannot avoid having teams because business has become too complicated and requires different skills, experiences and expertise to deal with. For instance, it is difficult to initiate quality and achieve all the associated benefits of quality without the formation of quality improvement team to watch over how well each process works.

#### **5.3.11 Developing Job Descriptions**

In all our jobs or roles there are a set of things which, if we do not do them we have failed. These things may be written down in the form of job descriptions for everyone in the organisation. They may well be a set of things, which we know we must do without anyone having to remind us. Traditionally, people in an organisation

have been expected to do what they are asked to do and no more. It was also inconvenient if people did exceed their responsibilities.

However, the tendency, nowadays, is to give job descriptions about the core activities employees are supposed to do and leave some room to exercise their own initiative and creativity in harmony with the company's objectives. However, it is not advisable to provide lots of such opportunity, if people don't have the training to make use of it.

### **5.3.12 Customer Complaints**

Managers must know that customers are hard to come by and once lost, they seldom return. The most difficult situation in the field of customer relations is when something goes wrong; the service has failed, promises have not been kept, and deadlines have not been met. Whatever the reason, the customer will be displeased and come with his complaints on the spot. Complaints are important tools in as far as providing useful information about our services or performance is concerned.

Research has shown that, when complaints are not responded to promptly and properly, customers tell between nine to thirteen other people about the bad experience they have had. It is, after all, natural human behaviour to gossip about the unpleasant treatment we have had at the hands of one company or another.

This means that, by failing to communicate with customers who have complaints, we are not only losing them forever, we are also losing many more potential clients. It is, therefore, a vital aspect of communication to make sure that we listen to complaints and that we do something about them.



### **5.3.13 Commitment of Top Management**

All employees must understand and be committed to quality. Managers must lead the way by fully committing themselves to continuous quality improvement and innovation, and by practising whatever model behaviour they want to pass onto their employees.

A permanent quality improvement structure has to be created at the top to help towards the achievement of the transformation. Without full management belief, progress will be at best temporary; no real change will ever take place, even if everybody from the middle management down believes in it.

## **5.4 Information Technology**

In order to be sure of meeting customer requirements, and continuing to meet them, it is clearly necessary to create a quality information system. The determination of what information is needed, how it can be obtained efficiently and effectively, and how it could best be analysed and processed, stored, and retrieved is a key to the development of a quality information system.

All organisations, regardless of their objectives, are systems that process information for their very existence. Information analysis and interpretations are absolute prerequisites in the shipping world. A shipping agent, for example, must collect, process, use and communicate information, both externally and internally, in order to plan, operate and take decisions. Information plays a key organisational role at all levels and in all departments.

Digital computers may be used in such systems since the task of collection, recording, and analysis of data and information are easily automated. This can save large amounts of paper work and human time otherwise expended in merely

collecting and recording numbers and words. Fast and accurate handling of shipment information is important to save time and money.

Advancement in information technology (IT) is changing very fast. In the face of electronic mail (e-mail), telex and facsimile/fax have already become outdated today. Another radical change happening in shipping documentation is the use of EDI, which transfers the information/data from one place to another via a computer network instantaneously.

Electronic Data Interchange (EDI) has made possible the transfer of virtually all information from one place to another electronically via a computer network almost instantaneously. Information like bill of lading, cargo and freight manifest has typically been exchanged on paper documents, with the exchange requiring a substantial mass of paper work and time. The "value added" by such a fast and efficient logistics information system is lowered inventory cost, time saving, error minimising and flexibility to respond to changes in the operating environment, among other things. EDI also enables the shipping agent to clear goods faster if customs are incorporated as part of the network.

On top of this, people working in a shipping agency have to keep in touch with their office all the time, due to the fact that information communicated to and from the field is what is used to make decisions to be transmitted to the principals. To provide an efficient communication system, agents need to maintain communication equipment like telephones (mobile), telex, fax, and computers. Other information technologies like E-mail and EDI also permit a wider distribution of tasks by facilitating communication systems.

The Internet is also another important consideration in shipping. It is a computer network linked by high speed and high volume telecommunication lines. It has a built in intelligence search engine which enables it to control the communication

between computers. For the shipping industry, Internet has a wide range of applications for commercial, training, safety and technical matters, among others.

To be more competitive, therefore, a shipping agent needs to invest in modern information technology. Nowadays, it is typical for an agent to have a telephone and a fax, but an agent with EDI service has a difference in terms of easy access to and availability to its customers. Many shipping agents today depend on modern information technology. ERSTAS should follow suit if it is to expect better results in future.

### **5.5 ERSTAS-Meeting the Requirements of ISO**

Meeting the requirements of an international standard on quality management may be difficult to an infant and relatively small organisation like ERSTAS. However, the motivation ought to arise from an overall intention of raising standards of quality management for the purpose of efficiency. That is, a process towards quality management system should be initiated by effecting ISO 9004-2 (1991) for internal quality management purpose.

This approach has to step up, with time, to achieve the necessary and relevant international standard (ISO 9002) in order to cope with the change in quality attitude of the shipping industry as a whole. It will not be too long before we encounter the new types of demands and behaviour from customers, suppliers, principals and competitors that they will be willing to enter into contracts only with companies which comply with quality standards.

Further, considering the Macro-Economic Policy and intention of the state of Eritrea, this sector will be liberalised so that ERSTAS will soon be confronted with strong competition. Competition is useful because it stimulates energy and sets standards. There is no doubt that business organisations work harder and smarter when there is competition. However, it can also destroy the poor performers and get rid of them by

attracting others who can outperform. Of course, effects of regional competition and complaints from principals have already been felt forcing ERSTAS to reduce its tariffs for a third time after its establishment. The connotation of the changes approaching from various angles is that quality service is the way to survive and grow in the situation ahead.

## ***CHAPTER VI***

### **6. CONCLUSION AND RECOMMENDATIONS**

#### **6.1. Conclusion**

Despite the rapid changes taking place in the shipping industry, particularly in the liner trade, that threaten the existence of independent agents, there is still a broad field of work for independent agents. After all, there are many trades that can not sustain a shipping line office. Besides, there are liner operators who are simply not big enough to maintain an extensive agency network.

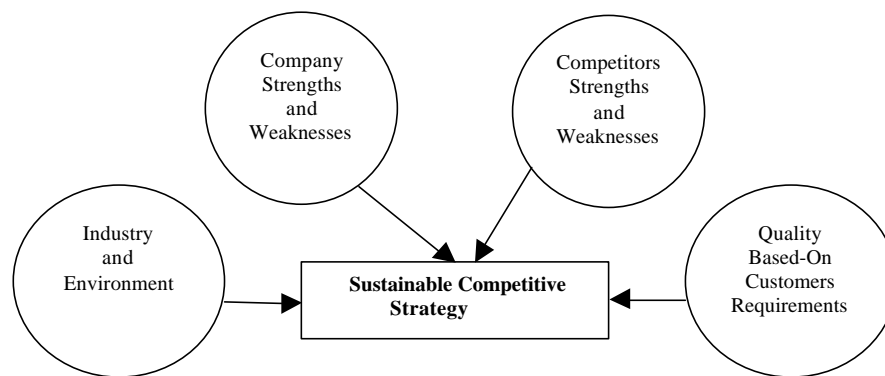
Nevertheless, these developments have not left shipping agents without scars. Rather agents have been forced to work in many cases, for less and less money. Thus, they have to be much more efficient than they once were, if they are to survive. As a result, some agents have extended their range of services to become all-round logistical service providers offering forwarding, warehousing and distribution, trucking etc. in their effort to survive and grow under such a situation.

In these times of change what is needed is a fundamental shift in attitude and vision at the managerial levels of ERSTAS. Long-term success cannot be grasped without investment. Survival of today and tomorrow are functions of investment in innovative methods and techniques for new skills and materials. However, investments can not be successfully implemented unless they are accompanied by a well-planned strategy that can protect them over a long period of time.

Therefore, a comprehensive and flexible business strategy (goals and means) should be developed based on analysis of a company's internal strengths and weaknesses

plus existing and potential opportunities and threats and their trends as number one priority. The strategy should give quality and information technology their proper account. It is only when such strategy is developed that efforts can be concentrated to provide consistency in whatever is done.

Depending on the strategy, it is important to identify which are the most critical assets and skills now and, more important, which will be most critical in the future. A company's strengths and weaknesses are its profile of assets and skills relative to competitors. The assets and skills combined with motivation determine the internal limits of a company to the type of strategy it can successfully adopt.



**Figure 3 - Sustainable Competitive Strategy**

Customer service is the name of the game in contemporary shipping business circles, which has given quality assurance schemes a considerable importance in the industry. Customers in the shipping agencies are also demanding compliance with an appropriate quality standard. Satisfying customer requirements can only be achieved by developing and implementing a quality system utilising the criteria in the appropriate general quality system standards of the ISO 9000 series.

Quality management is a system that mobilises the company's resources so as to satisfy the customer's needs and expectations while serving to satisfy the company's

interests. Maximisation of the benefits of all the available resources requires continuously ensuring that quality, productivity and the performance of people and processes are improved. A good quality service is certainly related to the competence and motivation of people. Allocation of funds for training is, therefore, an inevitable means to reach a determined goal in this regard. Managers and employees both must be properly trained in how to improve quality and productivity and competitive position.

Prior to initiating formal training sessions, however, the various levels of training needs should be identified clearly. Some may require on-the-job training and others may require technical training at institutions that are based in domestically. Still others may need specific training related to the shipping industry and demand arrangements for scholarship to send qualified people to be trained abroad. One such example is World Maritime University (WMU), Malmö, Sweden. This justifies why the author and his colleagues were sent to study at WMU. Such a training element, when combined with motivation and involvement of every one at all levels in each department, can make the difference between success and failure.

## **6.2. Recommendations**

In summary, from the wider coverage of the subject, the writer puts forward the following recommendations that have to be taken into consideration by ERSTAS, alongside with the other recommendations presented in the rest of the chapters:

***Strategy:*** long-term strategy with emphasis on quality and information technology has to be developed.

***Training:*** instituting clear training policies, compatible with the strategy, which promote initial and further training of managers at all levels and employees.

**Restructuring:** developing organisational structure reflecting ERSTAS' intended purposes and principals' interests. All functional units have to be included and a quality structure needs to be covered.

**Budgeting:** budgeting system, which enables flexible investment practice, free from external influence other than the well being of the organisation, needs to be developed.

**Decision making:** introduction of effective and quick decision making procedures especially in the area of investment.

**Computers:** introducing computer assisted operational activities for processing information internally and relaying up to the minute information to the principals and shippers or customers in general.

Finally, it is the writer's strong belief that the outlooks discussed to achieve a quality management system through strategic approach are attainable by ERSTAS except that they require time. In fact, none of these can change in one day; the change needs to take place progressively, with proper planning of every step in advance. As Deming says: 'A big ship, travelling at full speed, requires distance and time to turn around.'

In these ways, ERSTAS can cope with the changes to come by maintaining and producing competitive advantage through:

- Improved customer satisfaction
- Elimination of errors and waste
- Reduced operating costs
- Increased motivation and commitment from employees
- Increased profitability and competitiveness



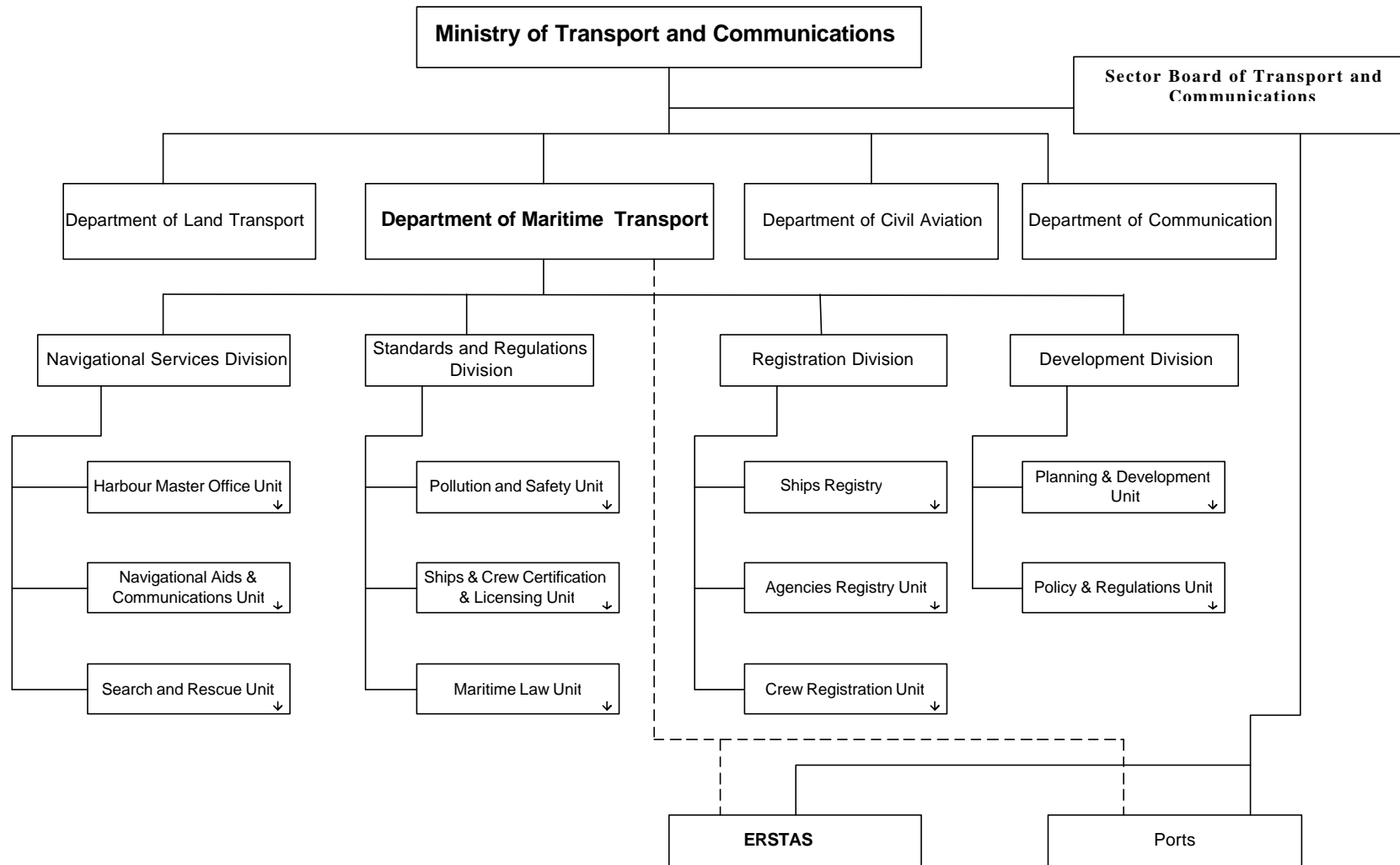
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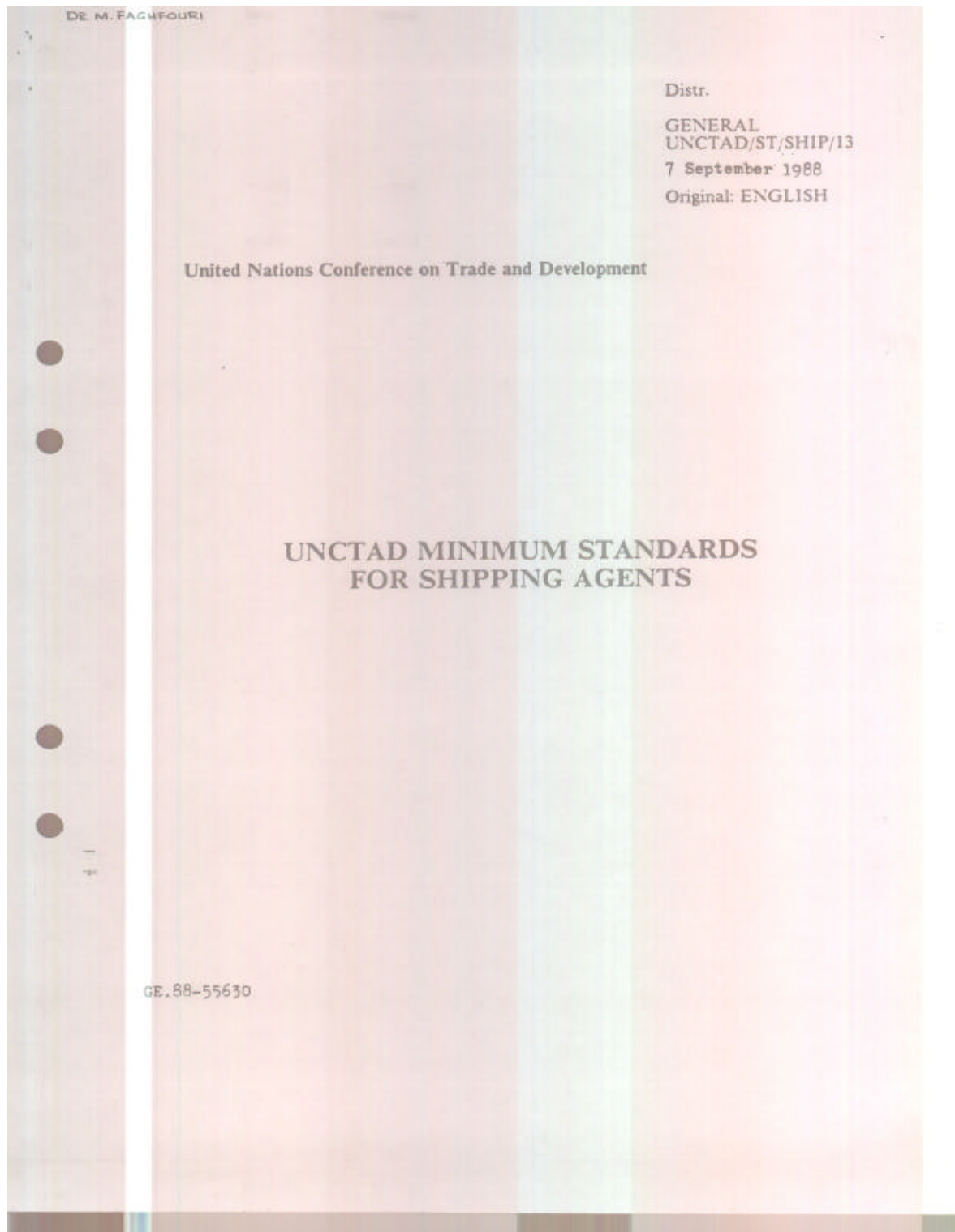
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## Appendix 1



## Appendix 2



## *Introduction*

The following Minimum Standards were prepared by the UNCTAD secretariat in close consultation with the organizations involved in shipping agency matters, in response to a request from the UNCTAD *Ad hoc* Intergovernmental Group to Consider Means of Combating all Aspects of Maritime Fraud, including Piracy. The Committee on Shipping at its thirteenth session in March 1988, having endorsed these Minimum Standards, recommended their use as appropriate. They are non-mandatory in nature and are to serve as guidelines for national authorities and professional associations in establishing their own standards.

## **Article 1**

### *Objectives*

The objectives of these Minimum Standards are:

- (a) To uphold a high standard of business ethics and professional conduct among shipping agents;
- (b) To promote a high level of professional education and experience, essential to provide efficient services;
- (c) To encourage operation of financially sound and stable shipping agents;
- (d) To contribute to combating maritime fraud by ensuring improved services by better qualified shipping agents;
- (e) To provide guidelines for national authorities/professional associations in establishing and maintaining a sound shipping agency system.

## **Article 2**

### *Definitions*

For the purpose of these Minimum Standards:

*"Shipping agent"* means any person (natural or legal) engaged on behalf of the owner, charterer or operator of a ship, or of the owner of cargo, in providing shipping services including:

- (i) Negotiating and accomplishing the sale or purchase of a ship;
- (ii) Negotiating and supervising the charter of a ship;
- (iii) Collection of freight and/or charter hire where appropriate and all related financial matters;
- (iv) Arrangements for Customs and cargo documentation and forwarding of cargo;
- (v) Arrangements for procuring, processing the documentation and performing all activities required related to dispatch of cargo;
- (vi) Organizing arrival or departure arrangements for the ship;
- (vii) Arranging for the supply of services to a ship while in port.

*"National authority"* means the body constituted under national law to implement the legislation governing the licensing/registration of shipping agents.

*"Professional association"* means an organization constituted for the purposes of:

- (i) Providing a central organization for those engaged in the profession of shipping agents;
- (ii) Establishing and upholding standards of conduct and practice for the profession;
- (iii) Exercizing supervision over the members and securing for them such professional standards as may assist them in the discharge of their duties.

*"Professional examination"* means an examination carried out on subjects specifically related to the profession in order to ensure adequate knowledge and expertise.

### Article 3

#### *Professional qualifications*

To be considered professionally qualified, the shipping agent must:

1.
  - (a) Have obtained the necessary experience in the profession by working for at least three years in a responsible capacity with a qualified shipping agent;
  - (b) Be of good standing and be able to demonstrate his good reputation and competence. For example by positive vetting and signified approval of at least two agents of good repute who are also in his business and his geographical area of activity; and
  - (c) Have passed such professional examination(s) as required by the relevant national authorities/ professional associations. The scope and details of such examination(s) shall be determined by the said authorities/professional associations;
2. In the case of a corporate entity, employ such persons professionally qualified as above to ensure the proper performance of the entity's functions as an agent.

### Article 4

#### *Financial qualifications*

To be considered financially sound a corporate entity and where and relevant the shipping agent individually must:

- (i) Have financial resources adequate to its business evidenced by references from banks, financial institutes, auditors and reputable credit reference companies, to the satisfaction of the national authorities/professional associations; and
- (ii) Have adequate liability insurance through an internationally recognized insurance company or mutual club to cover all professional liabilities.

Measures must be taken to ensure that the above financial standards continue to be met. This could be achieved through annual scrutiny of shipping agents by the national authorities/professional associations.

### Article 5

#### *Code of professional conduct*

The shipping agent shall:

- (i) Discharge his duties to his principal(s) with honesty, integrity and impartiality;
- (ii) Apply a standard of competence in order to perform in a conscientious, diligent and efficient manner all services undertaken as shipping agent;
- (iii) Observe all national laws and other regulations relevant to the duties he undertakes;
- (iv) Exercise due diligence to guard against fraudulent practices;
- (v) Exercise due care when handling monies on behalf of his principal(s).

## Article 6

### *Enforcement*

National authorities/professional associations, as the case may be, should ensure that these rules are complied with. In proved cases of non-compliance they shall determine the appropriate disciplinary measures applicable. These may include:

- (i) Warnings;
- (ii) A requirement for undertakings as to the shipping agent's future conduct;
- (iii) Temporary suspension of membership from the relevant professional association;
- (iv) Temporary suspension of authorization to operate as shipping agent, if/where granted by the relevant national authority;
- (v) Expulsion of membership from the relevant professional association;
- (vi) Cancellation of authorization to operate as shipping agent, if/where granted by the relevant national authority.

## Article 7

### *Compliance*

Shipping agents already operating who do not meet the foregoing standards should be given reasonable time to conform with the requirements.



## Appendix 3

### FONASBA

### STANDARD LINER AGENCY AGREEMENT

Adopted October 1980

Agreement between:

..... of  
(hereinafter referred to as the Principals) and

..... (hereinafter referred to as the Agents)

dated the ..... day of ..... 19 .....

It is hereby agreed that:

1.00 The Principals hereby appoint the Agents as their liner agents for all their owned and/or chartered vessels serving the trade to and from

.....  
calling at a port in the territory of the Agents with effect from .....

1.01 The territory in which the Agents shall perform their duties under the Agreement shall be .....

#### 2.00 GENERAL CONDITIONS

2.01 This Agreement covers the Port and/or Inland Agency work and covers the Duties, Marketing, Port Agency, Container and Ro Ro Services and Finance and Accounts mentioned below. Work performed as Liner Agents under this Agreement will be strictly separated from any work performed as General Agents for which a separate Standard General Agency Agreement and separate remuneration will be applicable.

2.02 The Agents undertake not to accept the representation in the territory of any other principal for a service in direct competition or with a direct conflict of interest with the Principals' activities defined in Section 1.00 without written consent which shall not be unreasonably withheld.

2.03 The Principals undertake not to appoint any other party in the Agents' territory for the services defined in this Agreement.

2.04 The activities and service rendered by the Agents in the territory are governed by this Agreement, and, where not covered by this Agreement, by the local general conditions where these are in existence, which form part of this Agreement.

#### 3.00 DUTIES OF THE AGENTS

3.01 To represent the Principals in the above territory, and undertake all activities in the territory while complying at all times with any specific

instructions which the Principals may reasonably give.

3.02 By agreement with the Principals and on their behalf to recommend and/or appoint — Stevedores, Watchmen, Tallymen, Terminal Operators, Hauliers and all kinds of suppliers and/or sub-agents if required.

#### 3.10 MARKETING AND SALES

3.11 To provide marketing and sales activities in the territory, to canvass and book cargo, to publicise the services, and to maintain contact with Shippers, Consignees, Forwarding Agents, Port and other Authorities and Trade Organizations.

3.12 To provide statistics and information, and to report on cargo bookings and use of space allotments. To announce sailings and/or arrivals, and to quote freight rates and announce freight tariffs and amendments.

3.13 To arrange for public relations work (including advertising, press releases, sailing schedules, and general promotion material) in accordance with the budget agreed with the Principals and for their account.

3.14 To attend to Conference matters, if required on the Principals' account.

3.15 To issue on behalf of the Principals Bills of Lading, Manifests, and such other documents as may be required.

3.16 To provide for an efficient communication system.

#### 3.20 PORT AGENCY

3.21 To arrange for berthing of vessels, loading and discharging of the cargo, in accordance with the local custom and conditions.

3.22 To supervise and co-ordinate all activities of Terminal Operators, Stevedores, Tallymen, and all other Contractors, in order to ensure the proper performance of the customary requirements for the best possible operation of the Principals' vessels.

3.23 To arrange for calling forward, reception and loading of outward cargo, and discharge and release of inward cargo, and to attend to the transshipment of through cargo.

3.24 To arrange for bunkering, repairs, crew

- changes, passengers, ship's stores, spare parts, technical and nautical assistance and medical assistance as required.
- 3.25 To arrange for, and carry out, the Principals' requirements concerning claims handling, P & I matters, General Average and/or Insurance and the appointments of Surveyors.
- 3.26 To attend to all necessary cargo documentation and to attend to consular requirements if required.
- 3.27 To arrange and attend to the clearances of the vessels and to arrange all other services appertaining to the vessels' movements through the ports.
- 3.28 To report regularly to the Principals, the vessels' positions and to prepare statements of facts of the calls.
- 3.30 CONTAINER AND RO-RO TRAFFIC (Delete this Section where this Agreement is in respect of a conventional service, or such parts as may not be relevant to the Principals' unit load service.)
- 3.31 To arrange the booking of units within the space allocation on the vessels.
- 3.32 To arrange for the stuffing and unstuffing of LCL cargo at the port(s) and to arrange for the provision of inland LCL terminals, and the supervision of these activities where required.
- 3.33 To prepare the additional container shipping documentation.
- 3.34 To provide for and administer a proper system for the control and registration of units. To arrange for equipment stock within their territory, and, if required, make provision for storage of the equipment on hand.
- 3.35 To comply with Customs requirements and arrange for equipment interchange documents in respect of the movements for which they are responsible, and to control the supply and use of locks, seals and labels.
- 3.36 To make equipment available to shippers and receivers and to arrange inland haulage as required.
- 3.37 To undertake the leasing of equipment into and out from the applicable system as and when required.
- 3.38 To operate an adequate equipment damage control system. To arrange for equipment repairs and maintenance, when and where necessary, and to report on the condition of equipment under their control.
- 3.40 ACCOUNTING AND FINANCE
- 3.41 To provide for appropriate records of the Principals' financial position to be maintained in the Agents' books, and to prepare periodic financial statements.
- 3.42 To check all vouchers received for services rendered and to prepare proper disbursements accounts in respect of the calls.
- 3.43 To advise the Principals all amendments to port tariffs and other charges as they become known.
- 3.44 To collect freight and related accounts and remit to the Principals all freights and other

monies belonging to the Principals at such periodic intervals as the Principals may require. Bank charges are to be for the Principals' account.

The risk in respect of outstanding collections for the Principals' account unless the Agents have acted without due diligence.

- 3.45 The Agents shall have authority to retain money from the freights collected to cover the anticipated advance disbursements unless the Principals have provided the Agents with all necessary funds in advance.

- 3.46 (Optional clause for adoption by National Associations)

The Agents in carrying out their duties under this Agreement shall not be responsible or answerable to the Principals for any Banker, Broker or other person instructed by them in good faith, with whom any monies or effects of the Principals shall be placed out, nor for any misfortune, loss or damage which may happen in connection with the execution of their work or duties hereunder or in regulation thereto unless the same happens by or through the wilful neglect or default of the Agents. The same to be proven by the Principals.

#### 4.00 PRINCIPALS' DUTIES

The Principals are to provide the Agents continuously with: —

- 4.01 —documentation necessary to fulfill their task together with any stationery specifically required by the Principals.
- 4.02 —full and timely information regarding the vessels' schedules, ports of call and line policy insofar as it affects the port and sales agency activities.
- 4.03 The Principals will provide the Agents in advance with all necessary funds to cover all creditors and advance disbursements and which occur due to the fact that the Principals' service operates within the territory of the Agents.
- 4.04 The Principals shall indemnify the Agents at all times from and against all charges, losses, damages and expenses which they, as Agents only, may incur in and about the making of any contracts for account of the Principals, in connection with the fulfilment of the duties of the Agents. Such indemnity shall extend to all acts, matters and things done, suffered or incurred by the Agents during the duration of this Agreement, any termination thereof notwithstanding, provided however that this indemnity shall not extend to matters arising by reason of the wilful misconduct or the gross negligence of the Agents. Such misconduct or negligence to be proven by the Principals.

#### 5.00 REMUNERATION

- 5.01 The Principals agree to pay to the Agents and the Agents accept as consideration for the services rendered by them on the Principals'



behalf, the Commission on gross freight and fees set forth in the schedule attached to this Agreement. Any fees specified in monetary units in the attached schedule, shall be reviewed every 12 months with a minimum projected increase to cover inflation and in accordance with such recognized index of inflation as is published in the country of the Agents.

- 5.02 Should the Principals require the Agents to undertake full processing and settlement of claims, then the Agents are entitled to a separate remuneration of .....% on all amounts recovered or saved for Principals' benefit with a minimum charge of ..... per claim.
- 5.03 Remuneration in respect of Conference expenses will be fixed six-monthly, taking into account activities of the Conference and/or the Pool, and also the responsibilities and tasks assumed by the Agents.
- 5.04 The remuneration in respect of passengers shall be supplementary to this Agreement.
- 5.05 General Average shall be subject to a separate agreement between the Principals and the Agents according to the amount of work performed by the Agents.

#### 6.00 DURATION

- 6.01 This Agreement shall remain in force for an indefinite period provided always that either party may terminate this Agreement by giving to the other party not less than ..... months notice in writing.
- 6.02 If the Contract for any reason should be cancelled at an earlier date than on the expiry of any notice given under Para ... hereof, the Principals shall compensate the Agents.
- 6.03 If for any reason the Principals withdraw any service, or it is interrupted or suspended, the Principals shall compensate the Agents.
- 6.04 Where applicable the locally deposited General Conditions, and failing those of National Law, on the termination of Agency Contracts will apply to this Agreement in all aspects including that of compensation. Where no such conditions or Statute Law applies, the basis of compensation shall be the monthly average of the commission and fees earned during the previous 12 months or if less than 12 months have passed then a reasonable estimate of the same, multiplied by the number of months from the date of cancellation until the contract would have been terminated.

#### 7.00 JURISDICTION

In the event of any dispute under this Agreement, jurisdiction is to take place in the country, and according to the law of the country, where the Agents are situated.

#### 8.00 REMUNERATION

The agents are entitled to the following remuneration:

8.01 Where the Agents provide all the services enumerated in this Agreement the Commission shall be:

Services outward: .....%  
inward : .....%

A .....% For cargo when only booking is involved.

C .....% For cargo when only handling is concerned.

D .....% For cargo when only freight collection is concerned.

E An additional agents' handling fee for containers and unit-loads of ..... full or empty, inward and outward.

F .....% For bulk cargo outward.

G .....% For bulk cargo inward.

8.02 Where the Agents provide only the services as non-port agents the remuneration shall be: When actually booked/originating from their area:

A. Services outward: .....%  
inward : .....%

B. An additional agents' handling fee for containers and unit-loads of ..... full or empty, inward and outward.

C. ....% For bulk cargo outward

D. ....% For bulk cargo inward

8.03 The total remuneration per call shall not in any case be lower than the local agency fee applicable.

The commission is to be calculated on the gross tariff freight earnings, including all surcharges and other freight additions to be paid in Agents' local currency.

8.04 Clearance and ship's husbandry fee shall apply as per the local tariff.

8.05 A Commission of .....% shall be paid on all ancillary charges collected by the Agents on behalf of the Principals including for example PLT charges, LCL, DiC and Depot charges Container Demurrage, etc.

8.06 If inland transport has to be arranged by the Agents on carrier haulage basis, .....% of the inland freight is due to them.

8.07 Communications: Principals will either pay actual communication expenses on a cost plus basis or pay a lumpsum monthly on an average cost plus basis, to be reviewable.

8.08 Travelling Expenses: When the Agents are requested by the Principals to travel outside their national frontiers, voyage, accommodation and other expenses will be for Principals' account.

Principals

Agents

## Appendix 4

### FONASBA

#### GENERAL AGENCY AGREEMENT

Approved and recommended on October 19th, 1978

Between:

Messrs. .... (hereinafter referred to as Owner(s))

and

Messrs. .... (hereinafter referred to as General Agent(s))

It is hereby agreed that:

1.00 Owners hereby appoint General Agents (G.A.) as their agents for all services and vessels calling at G.A.'s territory for a period of years with effect from

1.01 The territory and ports in which the G.A. shall perform his duties under the agreement shall be:

Agreement, and, where not covered by this Agreement, by the local general conditions, where these are in existence, which form part of this agreement.

#### 3.00 DUTIES OF THE G.A.

3.01 To represent Owners in above territory and to supervise all activities in that territory, while complying at all times with any specific instructions which they may reasonably give.

3.02 By agreement with the Owners and on their behalf, to recommend/appoint Port and/or Inland Agents, if required.

By agreement with the Owners and on their behalf, to recommend/appoint stevedores, watchmen, tallymen, terminal operators, container-haulers, and all kinds of suppliers, if required.

#### 3.10 MARKETING

3.11 To supervise, activate and coordinate all marketing/sales activities or Port and/or Inland Agents in said territory; to use every effort to obtain business from prospective shippers; and to consolidate the flow of statistics and information.

3.12 To provide Port Agents and/or Inland Agents with space allocations in accordance with Owners' requirements.

3.13 To arrange for public relation work (incl. advertising, press releases, sailing cards and general promotional material) in accordance with the budget agreed with Owners and for their account.

3.14 To attend to Conference matters for their account.

#### 3.20 OPERATIONS

3.21 The G.A. shall closely supervise and coordinate all activities of Port and/or Inland Agents, as set forth per Standard Liner Agency Agree-

#### 2.00 GENERAL CONDITIONS

2.01 This General Agency Agreement covers the General Agency work and includes the Duties, Marketing, Operations, Container and Ro/Ro Service (delete if not appropriate) and Finance and Accounts mentioned below. Any work performed as Port and/or Inland Agents by the G.A. organization will be strictly separated from the General Agency, both in work as well as in remuneration, for which separate Standard Liner Agency Agreement will be applicable.

2.02 The G.A. undertakes not to accept the representation of other shipping companies in direct competition with any of Owners' transportation activities without written consent, which shall not unreasonably be withheld.

2.03 The Owner undertakes not to appoint any other Agent, Sub-Agent, or Contractor in the G.A.'s territory.

2.04 The activities and services rendered by the G.A. in the territory are governed by this

- ment, in order to ensure the proper performance of all customary requirements for the best possible operation of Owners' vessels in the G.A.'s territory.
- 3.22 To arrange for an efficient rotation of vessels within the territory, in compliance with Owners' instructions.
- 3.23 To arrange for most economical despatch in the ports of his area within the scope of the schedule.
- 3.24 To liaise with Port Agents, if and where required, in the territory in arranging for bunkering, repairs, crew-changes, ships' stores, spare parts, technical and nautical assistance, medical assistance.
- 3.25 To instruct and supervise Port and/or Inland Agents regarding Owners' requirements concerning claims handling, P & I matters and/or insurance, and the appointment of Surveyors.
- 3.26 To supervise Port and/or Inland Agents' documentation.
- 3.30 CONTAINER AND RO/RO SERVICES  
(Delete this section where this agreement is in respect of a conventional service).
- 3.31 In addition to the above obligations, to ensure that Port and/or Inland Agents can provide for and administer the requirements of a Container/Ro-Ro service (delete whichever in-applicable) including *inter alia* equipment control, haulage, storage, maintenance and repairs.
- 3.32 To provide for an equipment control and reporting system in the territory.
- 3.40 FINANCE AND ACCOUNTS
- 3.41 To provide for separate accounts of the Owners' financial position to be maintained in the G.A.'s books and to prepare periodical financial statements.
- 3.42 To check the accounts of Port and/or Inland Agents.
- 3.43 To check that Port and/or Inland Agents transfer all balances of accounts to the G.A. and that same is accounted with Owners.
- 3.44 To remit to Owners all freights and other monies belonging to Owners at such periodical intervals as Owners may require.
- 3.45 The Owners to provide the G.A. immediately upon request with all necessary funds to cover advance disbursements (failing which the G.A. shall have authority to retain money from the freight to cover advance disbursements).
- 3.46 The G.A. shall co-ordinate Port and/or Inland Agents' correct collection of freight due in the G.A. territory.

#### 4.00 OWNERS' DUTIES

Owners to provide G.A. continuously with:

- 4.01 —all documentation necessary to fulfill his task.
- 4.02 —full information regarding the vessels' schedules, ports of call, and line policy.
- 4.03 —sufficient funds to enable G.A. to perform their duties.

#### 5.00 REMUNERATION

- 5.01 The Owners agree to pay to the G.A. and the G.A. accepts, as consideration for the services rendered by him on their behalf as provided in this Agreement, the commissions and fees set forth on the schedule attached hereto:
- 5.02 Communication expenses to be for Owners' account.
- 5.03 Travelling expenses to be for Owners' account.
- 5.04 Any stationery required by Owners and showing Owners' letter-head to be provided by Owners at their expense.
- 5.05 Any fees specified in monetary units in the attached schedule shall be reviewed every twelve months.

#### 6.00 DURATION

- 6.01 This contract shall continue beyond the period mentioned in para. 1.00 unless terminated at the end of that period or any time thereafter by either party giving to the other not less than six months notice in writing.
- 6.02 If the contract for any reason should be cancelled at an earlier date than on the expiry of any notice given under para. 6.01 hereof, Owners shall compensate the G.A.
- 6.03 If for any reason Owners withdraw any service or it is interrupted or suspended, Owners shall compensate the G.A.
- 6.04 The compensation under 6.02 or 6.03 shall be based on the monthly average of the commissions and fees earned by the G.A. during the previous twelve months (or if less than twelve months have passed, then on a reasonable estimate of the same) and shall be calculated as follows:—
- (a) In the case of cancellation under 6.02:—
- (i) during the period of this Agreement under para. 1.00 hereof except the last twelve months, twelve times the said monthly average;
- (ii) during the last twelve months of the said period an amount equal to the said monthly average multiplied by the number of months from the date of

- cancellation until the contract would have terminated; and
- (iii) at any other time an amount equal to six times the said monthly average.
- (b) In the case of the withdrawal of a service, the same compensation as for cancellation, except that the monthly average shall be of the commissions and fees earned on the service withdrawn.
- (c) In the case of interruption or suspension,

the monthly average of the service interrupted or suspended multiplied by the number of months during which the interruption or suspension continues.

#### 7.00 JURISDICTION

- 7.01 In the event of any dispute under this Agreement, jurisdiction to take place in the Country and according to the Law of the Country where the G.A. is situated.

### ADDENDUM

#### RIDER TO GENERAL AGENCY AGREEMENT

dated: .....

between: .....  
as Owners

and .....  
as General Agents

The G.A. is entitled to the following remuneration:

- (1) A commission of .....% on all gross freight earnings of Owners' liner vessels to and from the territory; (calculation of commission should include surcharges or other freight additions).  
The commission not to be lower than ..... per annum (minimum).
- (2) For any non-liner vessel calling at ports within

G.A.'s territory, a fee of ..... per call, which shall not be less than the appropriate supervisory (husbanding) fee.

- (3) For each container or unit entering or leaving the inventory control system of the G.A., a fee of .....
- (4) For processing abnormal claims the G.A. is entitled to extra remuneration to be mutually agreed.

OWNERS (Signature)

GENERAL AGENTS (Signature)