US ports funding

Agents call time over ports funding stalemate

Decade-long controversy on the brink of boiling over

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A SILENT tug-of-war between owners and US ship agents that has brewed under the surface for well over a decade is threatening to boil over.

Agents are increasingly restive at not receiving the full amount of port costs that they intimate to the shipowner via pro forma disbursement accounts ahead of a ship call.

In a Lloyd's List investigation, ship agents operating on the US east and west coasts said that the percentage of their estimates that owners typically front up has dropped to 80%-90% in most cases, and 70%-75% in some instances.

The agent has to spend time chasing after the client if there are arrears after the ship leaves. With the ship no longer in port, the last — and only — asset with which the agent could have any leverage over the owner is gone. Unpaid sums as trivial as a couple of hundred dollars in some cases, and repeated bank fees, only add to the agents' irritation.

Apart from the financial and practical hardship this is alleged to cause to agents, especially the small firms, the underfunding problem is said to threaten the efficient turnaround of the vessel, and thus the smooth functioning of the shipping industry, as well as future service for the client.

The alienation caused with local vendors might cause future ship calls handled by the agent on behalf of entirely different principals to suffer as well.

Owners mostly sympathised with the agents' complaints. However, they put forth cash flow as the justification. Many of the costs that agents are supposed to pay also carry a 30-day grace period, one owner pointed out. On this backdrop, an agent has no reason to complain with a policy of 75-90% advance payments, this executive said.

There is no "resolution" to this standoff. However, the agents contacted for this article were all eager to reach a mutual understanding with owners, instead of launching an all-out war through the media.

A closer look at the situation throws up several interesting nuances.

Scott Jones, president of San Francisco-based General Steamship Agencies, which serves mainly dry bulk and grain clients, said the phenomenon of underfunding was more prevalent in the tanker sector.

"For whatever reason, maybe the financial solidity of grain and commodity houses with which we do business, these clients usually tend not to underfund that much," Mr Jones said. "However, I know that it is a big issue for the tanker agents."

Mr Jones also believes agents in the US are "unfairly tarred with the wrong brush" when it comes to owners' perceptions on inflated estimates.

"I understand if the owner is sceptical of the pro forma disbursement account, because from the global perspective abuses by agents are common," Mr Jones said.

"In some parts of the world, even the agent might now know in advance whose palm he may need to grease to get simple things done. In some other ports, cash 'incentives' that cannot be invoiced are common for certain local services. The agent then thinks it prudent to estimate in advance for such things.

"In North America, however, we have a different society. Corruption is not that commonplace, there is more transparency, and port costs are far more consistent and lower than the world norm. So yes, we do feel frustrated when our pro forma disbursement accounts are seen with the same jaundiced eye."

Another issue agents have to deal with is the increasing use by owners of third-party companies to deal with port costs. These providers sell their services on the premise of cash management and efficiency.

For the typical owner, agency costs usually make up 30% of operating expenses. In a global industry that operates on a cash basis but with assets floating all over the world, agency disbursements tend to spiral into thousands of small invoices.

This means an owner with a big fleet needs dedicated bookkeeping personnel to manage this task. Third-party providers take this task off the owner's hands, claiming to save the owner money into the bargain.

This arrangement poses two different problems for the agent. In some cases, the presence of the third-party intermediary allows the owner to "hide behind" this service provider, or for both parties to blame each other if the final payment to the agent is delayed.

Second, the underpaid agent, or one who constantly has to float out his own cash to pay his vendors, starts to lose reputation in the local market — a reputation on which the agent's very livelihood depends.

"Underfunding of disbursement accounts puts us in the situation of deciding which vendor to pay and which one to keep dangling"
Michael Ogle

"A port agency is only as good as its vendors," said Mr Jones. "If we have a ship in port with a broken radar, we want the repair guys to show up in the middle of the night. If a crewmember needs to go urgently to the only dentist in town in a small port town, we need the dentist to give us priority.

"A track record of delinquent payments could make the agent lose credibility. Other than the financial aspect, this is a bigger reason why underfunding of disbursement accounts is a very troubling trend."

Michael Ogle, principal of New York firm Ruggiero & Ogle Motorship Agency, a tanker-centric ship agency active in and around New York harbour, estimated that his principals nowadays typically front up only 80%-85% of the disbursement accounts.

"The idea that we would submit inflated estimates is inconceivable in today's age of technology, where advance emails and messages from the master and the owner give us almost a precise assessment of what the port call would cost," says Mr Ogle.

"All agents structure their accounts to keep different owners' cash separated, and frankly, agents are not banks. The truth is that we simply do not have the cash to float.

"Underfunding of disbursement accounts puts us in the situation of deciding which vendor to pay and which one to keep dangling. It is distressing that a maritime tradition that has worked for hundreds of years has eroded over the past decade. True, allegations of agents padding disbursement accounts are not always false, but it seems many owners these days simply have no trust left at all — or simply expect agents to provide interest-free loans in order to pay the hard working vendors who supply services to their vessels.

"Also, through no fault of their own, an agency could be subject to poor credit ratings as a result of not paying vessel-generated invoices on time."

A related problem, said Mr Ogle, is that agency fees in the US have remained stagnant since 1984, when the old system of publishing annual tariffs was outlawed following an antitrust controversy.

What followed was even worse, because now the agents have no frame of reference to govern their fees, nor any mechanism to adjust them for inflation, Mr Ogle said.

"While operating costs for all other service providers such as pilots, tugs, line handlers, launch services, etc have gone up, they have adjusted their tariffs accordingly with little or no resistance from the shipowner. Agents' costs such as gasoline, tolls, workmen's compensation, health insurance, have also skyrocketed. Not to mention the increased workload in a post 9/11 world and the owners' use of third-party bookkeepers.

"But any attempted adjustment in agents' compensation is almost always met with resistance. It is very hard to keep good people working as ship agents. This is not good for anyone, considering it is agents who are tasked with getting a vessel turned around efficiently."

These travails do not go entirely without sympathy on the owners' side of the fence. Brian Van Aken, operations director at Connecticut-based Heidmar, which operates various tanker pools, agreed that US agents are less prone to inflate pro forma accounts, and said Heidmar is always sensitive to helping out agents in genuine need.

Heidmar, which operates 126 vessels in all size categories contributed by a variety of owners, has switched to using a third-party provider to handle dealings with agents.

Almost all of the hundreds of ship agents Heidmar vessels employ around the world are appointed at the instructions of the charterer.

For an operation of Heidmar's size, it is simply more efficient to use a third-party service provider to oversee port costs, Mr Van Aken said.

However, as a rule of thumb, he said the experienced owner already has a good understanding of which agents overcharge.

"Our use of a third-party is by no means a call to 'remove' you," he advised agents.

"Heidmar takes great pains to be in touch with agents. We encourage them to let us know of any issues they may have."

Anecdotal evidence suggests that most responsible owners pay on time, but the big issue is cash flow. Of course, cash flow is the big concern on the agents' side as well.

Adam Anderson, president at T Parker Host, a national ship agency headquartered in Norfolk, Virginia, said his firm has found a solution to deal with this element.

This is the "departure pro forma". Instead of sending the final statement to the owner after all the invoices have been collated and the costs added up, T Parker Host from last year has started sending revised exact estimates immediately after the ship's departure, often on the day after. This means they begin chasing additional funds upon sailing, as opposed to 30-45 days later when the final accounts with original invoices are mailed out.

The agency has appointed a full-time staff person whose job is solely to speed up the processing and transmission of departure pro formas at all of T Parker Host's nine locations across the US.

"This staff position has helped us clean up a lot of ambiguity, and has been instrumental in helping our cash flow," Mr Anderson said.

Nonetheless, this is an extra staff position the agent has to bear — something a smaller firm might not so easily afford.

The Association of Ship Brokers & Agents USA, the trade association based in Englewood Cliffs, New Jersey, acknowledged the underfunding controversy.

ASBA executive director Jeanne Cardona drew owners' attention to an agent certification programme started by her organisation in 2005.

The process, mandatory for all ASBA agent members, is intended to assure existing and prospective shipowner clients of the agent's credibility in three areas — sound handling of principals' cash, adequacy of insurance and competence of staff.

It is backed up by an annual compulsory procedural review of the agent's books and operating procedures by a recognised accounting firm. Agents must foot the accountant's bill, typically \$2,000-\$5,000 a year, on their own.

In Ms Cardona's book, an ASBA-certified agent is already differentiated from the "bad apples" that give others a bad name, and perhaps serve as an excuse for owners to underfund port costs.

"ASBA's position simply is that owners should, as far as possible, choose only certified agents for US port calls, and then feel secure in this appointment to properly fund them. Ultimately, it is their own business and own ships that they are helping," Ms Cardona said. ■

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Agents are increasingly restive at not receiving the full amount of port costs that they intimate to the shipowner. *Shutterstock*

Ship agents: the basics

• Owners in this far-flung industry cannot have a local office in every port of call. Ship agents are hired to perform on-site tasks.

• Ships are busiest while in port. The agent arranges pilotage, schedules tugs and line service, handles customs and brokerage, pays port dues and procures spare parts. The agent may take a crew member to the dentist, arrange for flowers to be couriered to the master's wife, stock the ship with supplies, or all of the above.

• Such agency costs typically make up 30% of the owner's operating expenses.

• The agent sends the owner an advance pro forma disbursement statement that estimates the total amount required for these services.

• The "historic" standard, agents say, was 100% payment. In the last 10 years, however, the standard practice has become for owners to send 75-90% of the pro forma, leaving the rest to be settled on final invoice.

• Inflation of estimates and the fact that even agents have 30 days to settle dues incurred on the ship are primary reasons advanced by owners for this "underfunding".

• Agents believe this is a serious problem that could undermine their very existence, as well as spoil the smooth operation of ships.

• Most agents claim not to be "banks", or have spare cash sitting around. If they are unable to pay a vendor on time because the owner did not pay on time, the vendor could deny or delay service for the next ship the agent might bring into port — which might be owned by an entirely different owner.

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