

Ship shape and  
ready for business  
Our expertise in  
the shipping sector



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# A closer look at the market – An industry in transformation

The shipping industry continues to face financial, operational and structural challenges. At the same time it faces fundamental reform arising from both geopolitical and technological change, and increasing regulatory challenge from a number of national and international agencies.

Sustainability-driven decision making is gaining momentum. Corporate responsibility and climate change will need to be looked at from strategic, tactical and operational levels. New risk management instruments need to be set up to counter these developments.

## Operating in the shipping crisis

The widespread oversupply of capacity across dry and wet bulk and the container fleet shows no immediate sign of reducing, and the new build pipeline is such that many older vessels may never again attract charter rates sufficient to compensate operational costs.

There is a significant collective will to restructure debt in the industry, with lenders, owners and operators seeking to jointly address the difficulties presented by increased distress. However, the continued weakness of charter rates is forcing lenders to call in loans by way of seizure of assets, while the absence of bank financing is depressing the second hand market.

The contraction in bank lending and the effective shut down of the IPO market to major sectors of the shipping industry has led to a significant increase in expressed investment interest from private equity and alternative fund structures.

At an operational level there have been recent signs of an acceleration of charter party default and vessel arrest as the depression in day rates continues, making it ever more important for operators, owners and charter parties to fully understand not only charter party risk, but also charter and contract compliance.

## Increased regulation and customer pressures

UK owners, operators and charterers alike now have the UK Bribery Act 2010 to consider, with potential wide reaching changes to operational procedures and internal controls.

IMO regulation and guidance on emissions reductions, customer pressure and general operating cost reduction imperatives are already leading to new vessel design, alternative fuel sources and a return to slow steaming.

The shipping industry in general, and the container fleet in particular, will face increasing pressure from major global businesses to conform to emission reduction criteria in order to achieve approved shipper status within the procurement process.

## Business as usual

In addition to the many challenges facing the sector, some of which are outlined above, the shipping industry is also facing many of the same issues as the wider business community – including greater transparency of governance and reporting for publicly held entities, a shortage of skilled labour, increased complexity of operations, geopolitical influences such as the increasing influence of BRIC and N11 economies, oil prices and the changes shale gas and growing use of LNG will bring to the industry.

Although IFRS accounting is widely used within the publicly listed sector, mainly outside of the US, it is going through a period of change which could fundamentally alter the way the shipping industry reports its results, engages with its lenders, and even change its operational behaviour.

Despite the excess of vessel supply over demand, at present there is a clear shortage of qualified crew which will be exacerbated as new capacity is delivered to the market and as trade levels increase.

Changes in major trade routes, port location and types of cargo, be it crops, minerals or other dry bulk, will require changes to planning and reporting systems in the dry bulk sector. Domestic and economically feasible shale gas discoveries could massively alter the LNG transport market. While global consolidation and integration of logistics and supply chain operations are likely to have a profound impact on the container ship market even as the global economy returns to better health.



A selection of the customised services offered to shipping clients to tackle the current challenges they face include:

Issue	What this means to the shipping sector
<b>Debt restructuring</b>	<p>While the market continues to see widespread distress there has been a general reluctance on the part of lenders to call in loans by way of seizure of assets.</p> <p>What we are seeing instead is a collective will for all stakeholders to participate in restructuring. As the challenges facing the shipping industry persist, the role of an independent advisor to manage stakeholder agenda and expectations has become an essential part of successful restructuring.</p>
<b>Access to finance</b>	<p>As traditional bank lending falls to minimal levels, companies need to consider a broad spectrum of alternative capital such as private equity, leasing, sale and leaseback, and Initial Public Offerings (IPOs).</p>
<b>Charter party risks</b>	<p>There have been recent signs of an acceleration of charter party default and vessel arrest as the depression in day rates continues, making it ever more important for operators, owners and charter parties to fully understand not only charter party risk, but also charter and contract compliance.</p>
<b>International Financial Reporting Standards (IFRS)</b>	<p>Although IFRS is now widely accepted and used within the listed company shipping sector, it is currently going through a period of significant change and ever increasing complexity.</p> <p>A number of new standards which challenge the fundamentals of accounting for the shipping industry have either been issued recently or are working their way through the exposure draft stages. With everything from joint venture accounting, consolidations, revenue recognition, derivatives to lease accounting, the proposals are wide ranging in scope and far reaching in their potential impacts on IFRS reporters in the shipping industry.</p>
<b>Cyber security</b>	<p>The impact a cyber incident could have on your organisation now transcends the IT security function. Cyber attacks are considered a strategic business issue with far reaching risk implications. The recent ENISA report <i>Analysis of cyber security aspects in the maritime sector</i> highlighted that increased dependency on Information Communication and Technology (ICT) systems combined with operational complexity, make the maritime sector particularly vulnerable to cyber attacks which could result in severe services disruptions. However, the report further highlights that awareness regarding cyber security aspects is either very low or non-existent within the maritime sector – across all levels from government bodies to individual companies. While there is a recognised need, given the criticality of the maritime sector to European Member States and economies, for international, national and regional bodies to align their policies on maritime security and raise awareness of cyber risk in the maritime sector, such joint efforts inevitably take time. Preventing a cyber attack is aspirational, but being able to deal with one effectively under customer, public and media scrutiny is essential.</p>
<b>IT implementation</b>	<p>Technology systems are vital, whether in the form of vessel availability, consignment tracking, contract management or straight forward financial reporting.</p> <p>As the shipping industry becomes more complex and rapidly changing, these technology programmes become notoriously difficult to handle.</p>
<b>UK Bribery Act</b>	<p>The UK Bribery Act came into force on 1st July 2011. It places substantial additional regulatory obligations upon businesses with operations in the UK.</p> <p>The UK law moves beyond other anti corruption legislation, such as the US Foreign Corrupt Practices Act, since it makes no distinction between bribes and facilitation payments, and therefore unofficial payments made to customs, immigration and port authorities are deemed illegal.</p> <p>The act creates a corporate criminal offence of failing to prevent the payment of bribes. A business may be guilty of a crime if bribes have been paid by its staff, or by any person performing services on its behalf including subcontractors, consultants and agents except where the company is able to prove that it has in place, adequate procedures to prevent the payment of bribes.</p>
<b>Sustainability services</b>	<p>Devising a robust and broad-ranging sustainability strategy that integrates social, environmental and ethical considerations into overall business operations is becoming a key management objective for shipping companies.</p> <p>There is a clear expectation from stakeholders that companies take a proactive approach to corporate governance and management of their sustainability performance whilst continuing to demonstrate strong financial returns.</p>

## Deloitte solution

By combining restructuring service partners and shipping sector experts from around the globe, we are able to provide comprehensive, experienced teams to support stakeholders throughout a restructuring process. Our familiarity with lenders and appreciation of owner sentiment enable us to provide stakeholder management services designed to facilitate consensual restructurings.

Our debt advisory and capital market professionals between them cover a wide range of financing options from IPOs through to asset based financing or refinancing, combining corporate finance, financial reporting and taxation skills.

Our contract risk and compliance professionals help to ensure that business partners deliver on their obligations through validation and verification of performance under a charter agreement.

We fully understand that while promoting compliance with contracts and charters is important, protecting your relationships within your extended enterprise is paramount. Accordingly our approach is collaborative, transparent, proactive and fact driven.

Our audit professionals can assist companies in making an early evaluation of the potential impact of these new standards on their IFRS financial statements.

We can also help in assessing any wider implications of the changes, including the potential impact on distributable reserves, financial covenants, tax and executive compensation arrangements. For those companies in the process of converting to IFRS, we can perform readiness assessments and implement IFRS conversions, as well as providing support with technical research, project management and training.

As a current market leader, Deloitte's Security & Resilience practice is experienced in delivering cyber security services to organisations across a range of industry sectors. Our Prepare. Aware. Respond. services help organisations become better prepared for a potential attack, heighten their awareness of the risks they are exposed to and develop a robust response when the time comes. Cyber security is not a one-size-fits-all solution. We work with clients to identify and prioritise the business risk to their organisation, and tailor flexible and adaptable solutions to their diverse and ever-changing environment.

Our consulting professionals have an unrivalled track record in helping some of the largest and most demanding technology programmes in the world succeed, as well as turning around potentially high profile project failures.

The methodology is based on a shared clarity about what is to be implemented, a culture of truth in estimating, reporting and communicating project progress and having people with the right skills and experience for the task.

Our anti-corruption professionals can assist clients with understanding risk and benchmarking the current control environment; designing and implementing control improvements; assessing, designing and implementing compliance programmes; integrity and enhanced due diligence; transactional due diligence; and forensic accounting investigations of alleged violations of anti-corruption legislation

In many instances we work alongside legal providers. Our broader expertise in understanding operational risks, processes, controls, data and broader compliance tools and programmes very effectively complements the more legally orientated enhancements often needed, for example, to develop policies and enhance contractual terms.

Our sustainability professionals have created a suite of innovative management tools to support companies along all stages of their sustainability journey.

Recognised as a leader in delivering value added strategic solutions which range from value mapping, policy development, gap analysis and benchmarking, monitoring practice to reporting and assurance services, we have assisted our clients increase the credibility and robustness of their sustainability practices.

# What do we offer?

Drawing on the talents of 182,000 people – of which over 550 are maritime industry-focused – across 150 countries, Deloitte member firms assist clients in responding to critical issues arising as a result of regulatory changes, competition, globalisation, advances in technology and the ever changing demands of their customers. Deloitte member firms offer real value to clients by combining strong technical skills across many disciplines, thorough knowledge of the industry and a global network. Without geographic barriers, Deloitte member firms are able to respond quickly to clients' needs.

Deloitte member firms provide a comprehensive range of services to the shipping sector across the following disciplines:

- Audit
- Tax
- Consulting
- Corporate Finance
- Enterprise Risk Solutions

## Why work with us?

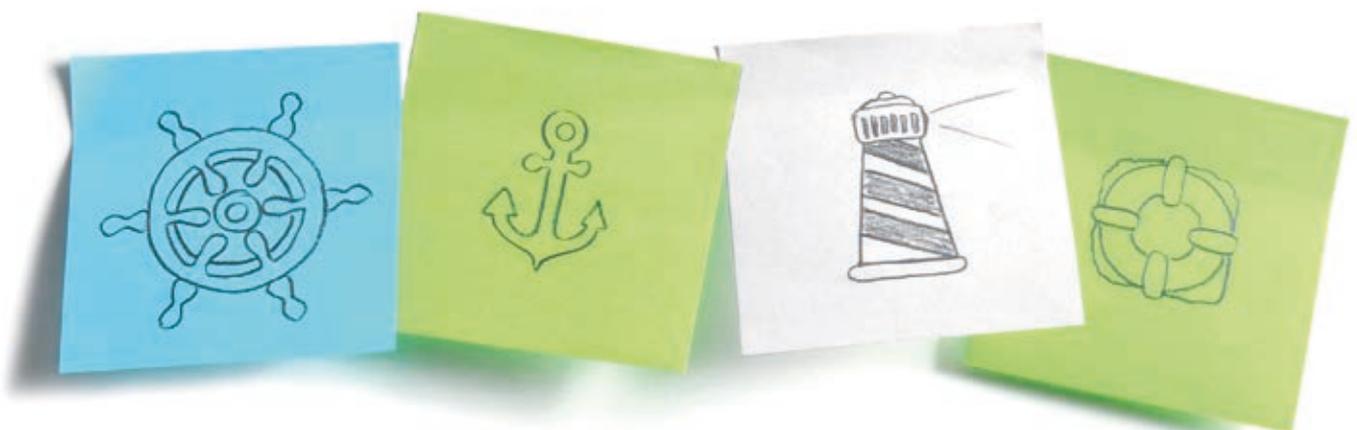
Forming part of our Global Energy & Resources group, our growing shipping team has in-depth expertise enhanced through regular networking and knowledge sharing platforms on a global basis. This ensures clients have up to the minute advice and detail on market developments.

Deloitte member firms have an established track record within the shipping sector and, as a consequence, have the specialist skills and market knowledge to help clients at all stages of their business' development.

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