



# Capital Link Shipping Weekly Markets Report



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IN THE NEWS

## *The next big thing...maybe*

Last week, I had an interesting conversation with a possible investor which is worth relaying. Instead of the usual discussion of "Buy this if the T/C rates are below \$xxxx/day, and sell that if the T/C rates are above \$yyyy/day", the discussion turned to the subject of disruptive technologies and how to invest in the next big thing.

The shipping business is not known for being early adapters of anything, indeed it's widely thought to be full of laggards and even a few Luddites. In the Harvard Business School context- where Professor Clayton M. Christensen coined the term in the 1990's, disruptive technologies and innovations are those that transform business processes. Winners thrive and then dominate, while losers exit the scene. Clearly, this very topic is at variance with the whole maritime mantra of evolutionary movements, rather than great revolutionary movements across chasms (another concept, from a noted venture capitalist, popularized in the tech literature of the 1990s).

So, what does all this have to do with shipping? Quite a bit, actually. Anybody attending any conference, whether it be a presentation at Posidonia (just completed), Marine Money (with its big New York gathering coming up in a week) or dozens of events aimed at industry professionals (a/k/a "middle management") will hear about technology concepts. My pitches vary depending on the audience- when talking to industry insiders, who lately have been in the line of more regulatory fire than at any time in recent memory, I describe hordes of invaders from the outside and the need to push back on every technological assertion being made. When talking to outsiders (seeking to invade, and perhaps plunder), the emphasis is on adaptation to the maritime business- of a technology or technique that's succeeded in a more mainstream context. How do you properly engineer the equipment, and then how do you brand it and market it to a fragmented business with decision-makers all over the world? What about Corporate Social Responsibility (CSR), which is sometimes lacking where smaller entities- often outside of the public domain, are the major players?

Shipping's trade publications, rather than those chronicling its financial activities and fund-raising, are the best place to observe the clash, transformations and technological infusions. Consider that Eco-tankers, the subject of much attention (and ordering of vessels) in 2013, seem to have faded from the limelight, as vessel must now be built, flipped (maybe) and absorbed into fleets. More efficient engines, often with slower design speeds than their predecessors of a few years back, are burning less fuel. Longer strokes- involving a slight (read- evolutionary) change in the engine configuration, in turn supporting more hulls forms that are slightly streamlined, are the way of achieving the economies. Fine-tuning, with improvements in electronic controls, also play a role in the new solutions. But all of these techniques have been in play for some time. What's more interesting here, and probably grist for more articles if readers want them, are alternative strategies such as

Contributed by

**Barry Parker**



Barry Parker is a financial writer and analyst. His articles appear in a number of prominent maritime periodicals including Lloyds List, Fairplay, Seatrade, and Maritime Executive and Capital Link Shipping.

LNG fuelling, where infrastructures are rapidly being created, and adaptation of scrubber technologies, a mainstay in the land-side power business. A few brave early adapters are putting their toes in the water- with support of beneficent (for now) regulators.

Ballast water treatment (BWT), a \$100 billion regulatory and technological morass, offers scope for evolution- yes, with adaptations for vessels of technologies that have found success in landside water filtration and treatment. Yet the performance based nature of the rules (specifying a desired outcome, rather than a "prescription" for exactly how to achieve the results) offers room for diverse approaches. One interesting item in the trade press showcased the successes of Ecochlor, one of many players (with diverse technological approaches) vying for a prominent place in the BWT firmament, in raising money in the private placement market. This is hardly the only game in town, but it's heartening to find niches where the established giants do not have a lock on technologies.

Moving further out into another set of firmaments, we come to "Big Data", where they invading hordes are now exploring entry points and trajectories. A few years ago, I did some writing on Condition Based Maintenance (CBM), where detailed data analysis is used to predict when parts might fail, and, therefore, to swap them out in advance of those fail points. CBM has found usage in the offshore sector of the business, where assets are deployed for longer periods, or for their entire economic lives, in out of the way places; ie, the nearest drydock is not just around the corner. CBM begot advances in remote monitoring of process and equipment; with the explosion of satellite bandwidth, it's now possible to do more monitoring and send back more data. Meantime, the notion of unmanned vessels, at least far out at sea, has seen increasing discussion. With added satellite communications capability, could data analysis be used to optimize operations aboard rusty bulk carriers (subject to the whims of spot markets and commodity pricing), rather than keeping CBM and the like only in the purview of high spec oil production vessels or LNG tankers, often deployed on long term charters?

For tech-minded investors, such ideas- certainly now in nascent stages, are worth watching. If readers are interested, I'd be happy to provide guided tours showcasing the thinking of both the invaders and the Luddites who will work hard to build walls and maintain the status quo.