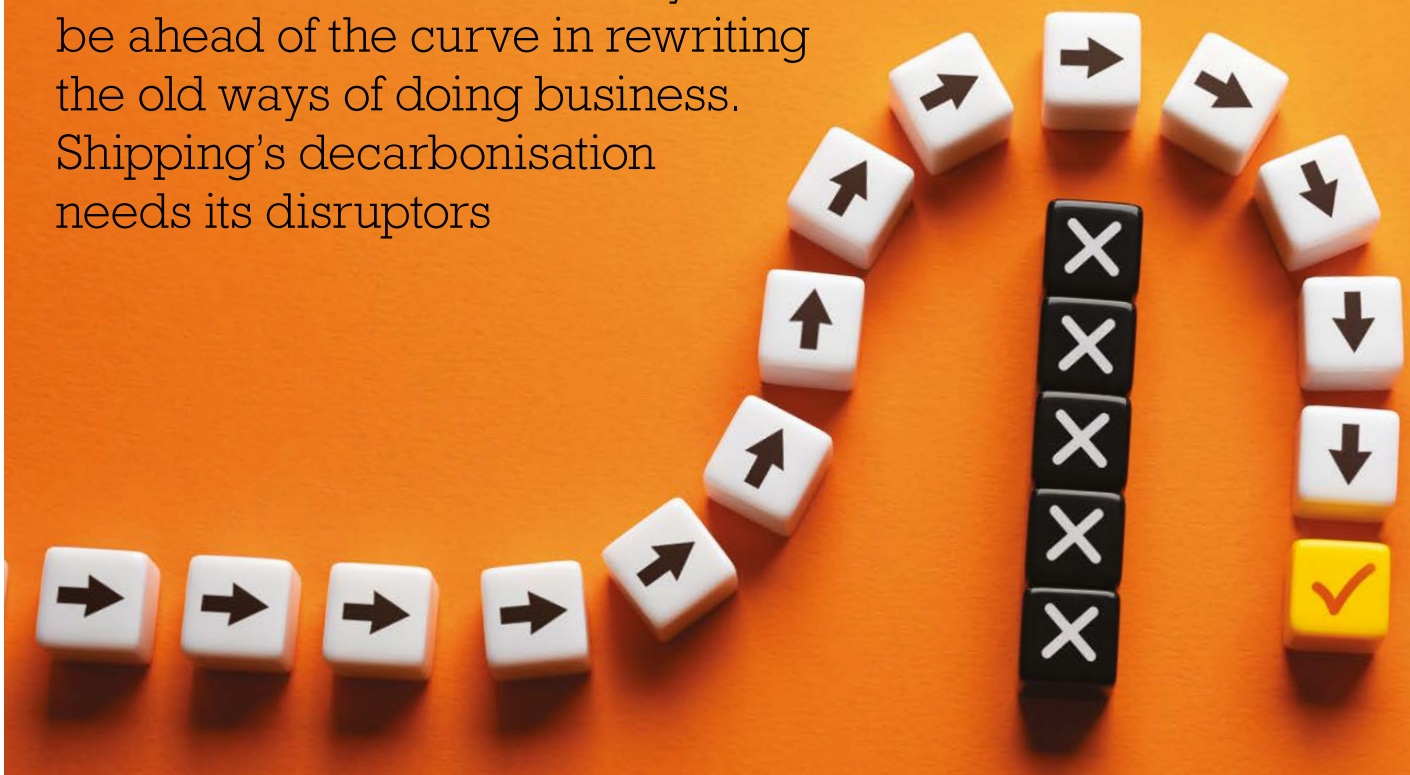
The shock of the new

For shipping to achieve an effective and efficient energy transition, ambition and expertise on the part of multiple industry stakeholders will be required. All of them will need to reevaluate their appetite for risk and innovation, and they will need to be ahead of the curve in rewriting the old ways of doing business. Shipping's decarbonisation needs its disruptors



In these 'companion' articles, **Fernando Alvarez** of Z-Joule explains how two core sectors in the shipping ecosphere – shipbroking and shipping finance – need to instigate change and step up to the 'zero' challenge

Shipbrokers - seize the initiative!

I recently visited the offices of one of the most prominent shipbrokers in Oslo. I met with a senior broker and several of his colleagues, and asked them: 'How is your firm preparing for the fuel transition in shipping?' The host replied: 'We are not very proactive on this matter, because we expect the owners to guide us according to their own choices.'

Some days later, I visited one of the largest Norwegian shipowners, just a few blocks from the brokerage firm. I asked my host the same question. He replied: 'We are not doing much, as we expect our brokers to do the legwork and then present the best alternatives to us.'

Although merely an anecdote, this story does support a more generally held view that, with a few notable exceptions, the brokerage segment is not sufficiently prepared for the many opportunities that the fuel transition will bring.

In this article we describe several such opportunities, including new business models and natural extensions to the brokers' role. We also discuss the perils of remaining on the sidelines as one of the most critical transformations in the history of shipping unfolds. Let us take a step back and observe the state of the segment, with an emphasis on newbuild brokerage.

OUT WITH THE OLD

First, we argue that the business model of newbuild brokers has remained largely unchanged for decades. We observe a lack of business model and service innovation. The adoption of new technologies is rare and cautious in this segment. Needless to say, and particularly during times of rapid change, this becomes detrimental to the very customers brokers aim to serve.

Second, we note that fuel choice[1] has not been a significant part of the brokerage engagement. Rightly so, as, traditionally, there was nothing to discuss. An owner would commission a vessel, and upon delivery, the bunker desk would procure high sulphur fuel oil (HSFO) (or very low sulphur fuel oil (VLSFO), more recently) and marine gasoil (MGO) under spot or longer-term contracts.

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With narrowly limited exceptions, there was no business advantage, or even opportunity, to select a different fuel strategy. Today, fuel choice has become a strategic imperative, top-of-mind for vessel owners and operators worldwide. Nevertheless, many brokers seem ill-equipped to provide meaningful advice on this critical issue.

Finally, as is common in shipping overall, the brokerage segment relies on personal relationships to conduct and preserve its business. These relationships serve as a moat to protect the incumbents from newcomers. In addition, the moat protects brokers from each other and provides a measure of stability in market shares.

To summarise, we have a segment with a staid business model that uses its existing moat to avoid or delay innovation. We have seen this before.

AN 'UBER' MOMENT?

Could the fuel transition lead to the Uber moment of brokerage? Let's examine the parallels. Up until 2010, the taxi industry resisted any changes to their business model, ignoring technological advances in mobile telephony, GPS, and software interfaces. The taxi unions relied on scarce medallions and other regulatory barriers to protect their outdated business practices. Traditional taxi services were notorious for unpredictable availability, poor customer experience, and opaque pricing. Payment systems were largely cash-based, and tracking or rating drivers was impossible, resulting in inconsistent service quality.

Although there were plenty of opportunities for service improvement by way of the aforementioned technologies, the incumbents could not be bothered to modernise their business model for the benefit of their customers. Their moat was successfully breached by Uber, a venture capital (VC)-backed newcomer. Uber quickly captured market share by offering a more customer-centric alternative with several novel features. Traditional taxi operators were forced into a defensive position and their market share was decimated.

Now, let's keep in mind that analogies to Uber (and AirBnB, Spotify, Kodak, Stripe, or Netflix) are a dime a dozen, so let's not jump to conclusions. To be clear, brokers do have a somewhat reliable moat. It would be surprising to see a startup backed by a major VC entering the brokerage segment. If nothing else, the segment is too much of a niche for the taste of mainstream VCs. That said, there are smaller VC firms that are narrowly focused on shipping, and we might yet see some interesting developments there.

Additionally, brokerage is a B2B (busi-

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ness-to-business), rather than a B2C (business-to-customer) segment, with customers numbering in the hundreds, rather than millions. This probably makes explosive change less likely.

With this, the threat to incumbents is unlikely to come from an outsider. Rather, there is a clear threat of market share losses to existing competitors. Those that manage to put together a compelling value proposition in the strategic context of the fuel transition are likely to gain market share at the expense of late adopters. At that point, the late adopters will be left to play catch-up on someone else's terms, and perhaps entirely excluded from any new business models that leverage network economics (see below for an example). More importantly, their customers might lose faith in their (former) broker's proclamations of customer focus, leading to further weakening of their moat.

LEADING FROM THE FRONT _

So, what opportunities might an innovative brokerage find in this new landscape?

- First, the brokers could enlarge their role to include brokerage of the first fuel offtake contract for a group of newbuilds. Clearly, in the case of ammonia and methanol (to a lesser extent for LNG) an owner will want to secure fuel supply concomitantly with the newbuild decision. But how much fuel will be needed? At which ports? What fraction of bio- or renewable fuels of non-biological origin (RFNBOs) will be supplied? At what price points? These are complex questions, and thus far, there seems to be an opening for the role of addressing them. Class societies do have some capabilities here, although their focus is mostly on technical, rather than commercial, matters. Here, the brokers have a natural extension to their services and core skills, where they would mediate a larger transaction between owners, yards, and fuel suppliers. Fuel supply contract negotiations are often complex and lengthy zero-sum games. Owners, yards, and fuel suppliers could find value in a third party that expedites convergence around a balanced and transparent agreement.

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- Next, the brokers could facilitate pooling agreements, such as are permitted under FuelEU Maritime regulations from 2025, and which might also become an IMO-sanctioned emission intensity compliance mechanism. Based on their relationship with multiple owners and operators, as well as their understanding of their fuel utilisation patterns, the brokers are in a privileged position to set up and manage compliance pools. This is a service where we might see a network effect at play. A better pool will attract stronger owners and operators, which will make for a better pool, and so on. The latecomers will find that the stronger pool participants are taken, and might therefore fail to form a stable, value-generating pool. We have seen a few entities setting up emissions compliance pools in recent months, and others (notably commodities traders) are vying to do the same. Will the brokers allow this new business opportunity to be pulled out of their hands by adjacent stakeholders?
- Thirdly, there will be new opportunities to provide compliance advisory services to owners. Again, class societies and maritime law firms already have a role in this space, as they observe the IMO and the EU, and issue regular updates on new and forthcoming regulations. However, when it comes to understanding the direct commercial implications of legislation on a specific fleet, and how this might guide a newbuilding program over several years, there is likely an opportunity waiting to be taken.
- Finally, brokers could create new service classes for small owners. Surely, the large shipowners can engage consultancy services on all topics related to the fuel transition. However, these engagements come with a hefty price tag, which places them out of the reach of most small owners. We believe that the relevant knowledge can be operationalised into software and offered to smaller owners as SaaS for a more accessible fee. A SaaS business model could be profitable in this space, given sufficient commercial reach.

These are only a few of the opportunities we see emerging in this space. We are aware of several additional concepts that are more narrowly relevant to charter brokers or S&P brokers. We are certain that many other innovative and fascinating concepts will arise as the fuel transition gains pace.

Shipbrokers typically earn a commission in the order of 1% of the transaction. This can amount to millions of dollars in the case of larger orders or more sophisticated vessels. Given the sums in question, the owners have every right to expect that their brokers are laser-focused on their clients' problems, and working tirelessly to improve their service offerings. Savvy brokers will recognise the fuel transition as a once-in-a-lifetime opportunity to serve their customers better and increase their market share in doing so.

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1. We use 'fuel choice' and 'propulsion choice' interchangeably, to refer to the strategic-level determination of the target fuel for a vessel. This is in contrast to the operational-level choice of taking a particular stem. For example, most alternative fuel vessels will be built either for LNG, ammonia, or methanol propulsion. In fact, almost all of these vessels will be triple-fuel capable, and can operate with VLSFO and MGO in addition to their target fuel. Nevertheless, we believe that if a vessel is being outfitted with, for instance, methanol-capable tanks and engines, then this should be considered a 'methanol vessel'.