

Maritime Professional

Title: Market expectations from DNV and GL merger

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Though a major change may be expected as a result of the DNV and GL merger, as far as the Indian shipping industry is concerned there will hardly be any effect.

The recent announcement of the merger of the two classification societies Germanischer Lloyd (GL) and *Det Norske Veritas* (DNV) seems to have caused an unsettling effect on shipping companies, classification societies and others related organizations. Though many have taken the development in their stride as a phenomenon of no consequence, others appear to be on the either end of a spectrum of expectations. Some are reported to be gearing up to make a big catch while others feel they need to shore up their services as the competition could turn out to be unpleasant.

The merger has been on the cards since a long time and now that the market is down you could say it is a fait accompli points out the head of one of the societies not wanting to be named. "But this may affect other class societies on the global front but not in India," he said. "GL is strong in container vessels and there are not many in India besides the Shipping Corporation of India and the Shreyas Shipping & Logistics Ltd who operate container ships. DNV is already strong in offshore sector. An email received from GL says, 'Until the merger formalities are complete we are still competitors'. But I don't see any change likely in the Indian market situation."

DNV charges are considered comparatively steep by most ship-owners but the company is strong in the offshore, ISPS and ISM surveys. With regards ISO 9000, DNV is very reasonable and GL is not into it so much. Being a bigger operator this is expected to have an overbearing effect on GL whose charges are comparatively low.

An official from another class society well-established in India was also in agreement. "The areas of operation and expertise are different with the two," he said. "DNV is more in the offshore, hi-tech vessels segment and chemical tankers, while GL is more into container ships. Ship owners who are classed with GL may find themselves paying more after the merger. As is well known GL is very sound in containers, tankers and bulk carriers. It is quite likely that ship owners could find the new rates on the higher side and may look to migrate to other classes which are ever ready to grab them. ABS is also strong in the offshore and is direct competitor to DNV. Whereas, class societies like Class NK and Lloyd Register who offer more reasonable rates can turn out to be better option."

As an analyst puts it DNV are profit making and doing well in their field. Being much larger than GL and much stronger there is no reason why DNV would review their options. If the existing customers are happy there is no reason for them to migrate. If there is a rationalization of the rates the pressure is expected to come on GL customers. Coming to focus on India, the country's shipping tonnage is little over 11 million Dwt. Indian owners are basically engineer oriented and do not like a change in the class which is good policy. If their ship is classed with a certain Classification society, then that society has all the details of that ship right from its inception. Such information available at one source is extremely useful where ever a need to refer to original documents is required. Ask anything and that class will be in a position to provide the answer.

According to Anand Sharma, Director, Mantrana Maritime Advisory, there is no likelihood of any change in the operations of the two entities at the outset and the two would be adhering to their current tariff rates. "It won't be prudent to raise the tariff at this juncture. On the contrary, the new merged entity would find it advantageous to offer better service in order to attract more ship owners," he said. "According to me, they must have done their own analysis and would resort to rationalization right away. After the merger is complete, may be in a year or two, they will resort to cost cutting, downsize the combined staff to the bare essential and in pursuit of workforce consolidation, they may even lay off surplus personnel. Accordingly, they could also consider reducing the number and size of their offices, research focus and enhance their portfolio of services." For example, DNV is very popular in offshore, but GL also has its presence. GL-Noble Denton has its core research and focus in the offshore segment. The merger could lead to rationalizing of research and services to provide better products to market.

Generally, the purpose of merger during the downturn is to survive and grow. Already the ship building activity is down by about 60 to 70 per cent, which reflects on the operating cost. Regardless of how it affects their revenue, no one would be in favor of their operating costs going up. It is possible some ship owners may consider migrating to other class societies. But on the whole it is

doubtful that any paradigm shift could take place. It would take at least 2 to 3 years before any visible impact of this merger would be felt in their Indian operation.