

In this still difficult climate everyone has been looking at a policy of 'belt tightening'. This plus a small number of 'casualties' has resulted in some resignations among our members, although concurrently we have achieved four new members. The net result has been a slight reduction in IMIF's income.

I have therefore been addressing the situation in a positive way. Here are some facts:

1. I remain convinced that IMIF is still doing a useful job and remains a respected forum in the maritime industries. Its carefully maintained stance of objectivity is paramount, allied to its unique eclectic membership.
2. Jennifer is, alas, "retiring" at year's end.
3. Ian continues to provide excellent though rather different service mostly from home.

We are working on reducing our costs by sharing of accommodation and a full time secretary (Jenny has been part-time/three days a week).

As one matures (a more kindly description than "gets old") there is an increasing temptation to muse, even rant, on things that are intruding into our daily life.

Consider "information". In 1898 the Spectator magazine deplored a World that was "for purposes of 'intelligence' reduced to a village" in which "a catastrophe caused by a Jerry-builder in New York wakes in two hours the sensation of pity throughout the civilised world". How very much more so is the state of affairs today. I recall vividly my years in Calcutta some 55 years ago. Indeed we had somewhat clumsy telex but most of our communication with Head Office in London was maintained by letter (by air but not too fast in that a recent Comet crash had resulted in reversion to slower propeller aircraft). Thus major decisions were taken locally and without the fear of untutored kneejerk reactions by politicians and journalists far away. Making a telephone call home routed through a variety of land lines and radio connections resulted in fuzzy noise and drainingly unsatisfactory conversations.

The point at issue information per se translate into wisdom become progressively with all this is that does not necessarily Furthermore we have over-informed.

A nice illustration of this is the anecdote of the great lawyer FE Smith explaining a complex case to an unusually bone headed judge. After a most careful explanation by Smith the judge exclaimed "I fear Mr Smith that I am no wiser" to which Smith rejoined "No wiser, my lord, I agree, but better informed".

In the continuing economic and shipping crisis there is a plethora of information in the shape of analysis and forecasts resulting in those at the pit-face of the industries tending to ignore most of it and make their investment decisions based on their gut-feelings and "experienced" judgement.

For years I, through IMIF, have been advocating scrapping/"scrap and build" to attack the chronic over tonnage situation. Somewhat ironically today this doctrine has come round again as a brand new initiative. I remember leading a high level IMIF delegation including such as Derek Kimber, Ian Hartigan, Walter Behrmann, M H Liang, Henk Rootliep and Bill Kirkpatrick to, among other places, Korea where we convinced Hyundai for a period only, alas, to set up robotic ship scrapping. It was abandoned as being unprofitable and a somewhat low grade activity for a high tech yard. Similarly with, for instance, 'slow steaming' it has needed a colossal hike in the price of bunkers to induce containership owners to come to the blindingly obvious conclusion that steady "pipe-line" like deliveries may be better suited to shippers and consignees than projectile-like high speed sea transits and the cost- efficiency of the former is extreme. The convenience of what amounts to free warehousing during transit is

under- appreciated and combated by a somewhat specious argument about the "cost of inventory" due to just a few days' longer transit.

I continue to plead that instead of industries that have seemed to exist on a formula of "boom and bust" (my head is bowed for using a Gordon Brown phrase) industries involved in shipbuilding, shipowning, forwarding etc etc should adopt a level-headed approach instead of their formerly cherished casino-like behaviour. Interestingly over a period **everyone** would profit from this and freight rates could reach steady profitable levels. Transport is after all the ingredient that has made possible and keeps alive the astonishing progress of mankind, but at the same time it has never been properly rewarded for its contribution. When back in 1980 I was President of the Chartered Institute of Transport I made my address theme "Transport the under rewarded Industry!" Just examine the freight element in the c.i.f. value of goods - particularly manufactured goods - landed in the US, UK and Europe and isolate the f (ie freight) proportion and my argument is made.

IMIF has since its formation maintained a steady course in its endeavours to formulate and induce a reasoned stance and behaviour plus sustained profitability for all the maritime industries.

Today on top of the 'old' problems we are faced with unprecedented political interference. (A good example being the European Commission's on-going endeavours to control and regulate marine equipment certificates, "overseeing" Flag States and Classification Societies. This measure of regulation is proposed in order to meet the alleged vital necessity of "harmonisation".) There are plenty more examples of EU interference. The interesting knee-jerk reaction by the US President and government individuals on the Deepwater Horizon incident also has catastrophic potential consequences particularly in the area of unlimited liability way beyond what these people seem to have realised. The ecological lobby has much logic but the known "information" on such areas as global warming surely needs to be consistently reexamined, cf the recent criticism of the Intergovernmental Panel on climate change's report on global warming.

At the time of writing neither the tanker nor the bulk market is looking at all good (eg a VLCC fixed recently at under \$4000 a day).

However the incredible swings in the world economy will over time result in equally big swings in freight rates. Undoubtedly better times will come but only after more thrifty years and only if we do not allow ourselves to be blinded by false dawns.

Jim Davis

REPORTS

IMIF Buffet Luncheon Monday 10 May 2010

Hosted by:	Mr Ravi Mehrotra CBE, Executive Chairman, Foresight Limited	
Guest Speaker:	Rear Admiral Sir Jeremy de Halpert KCVO CB, Deputy Master, The Corporation of Trinity House	
Subject:	Trinity House — The Corporation and The Fraternity	

IMIF Chairman Jim Davis called the luncheon at the Baltic Exchange to order and having thanked Ravi for agreeing to host the luncheon he introduced the guest speaker Jeremy de Halpert. You will note, said Jim, that in

spite of all his noble efforts Jeremy is still only the **Deputy** Master of Trinity House. The one remaining role is denied him - possibly because it happens to be occupied by HRH Prince Philip. Jeremy thanked Ravi, Jim and Ian for giving him the opportunity to address IMIF. The one thing I shall not be talking about, Jeremy commenced, referring to the IMIF newsletter, is the light dues!

Instead he opened with an introductory view of the elegant front elevation of Trinity House itself. The Corporation was founded in 1514, "yes we shall soon be marking our 500th anniversary" with the present elevation being carried out in 1794 at the behest of William Pitt the Younger, Master of Trinity House. The building felt the full force of German bombing during the Second World War but was fully restored to the 1793 Wyatt design as you now see it.

The Corporation encompasses four main areas, the first and most important being Navigation Safety under the auspices of the General Lighthouse Authority. The second is the largest endowed maritime charity in the country with an income of £4M per year for distribution to maritime causes. A third involves the running of the largest Deep Sea Pilotage - it administers and licenses 69% of the UK's Deep Sea Pilots. The fourth element is the 'Fraternity' comprising 350 Senior Maritime people in the country along with the Younger Brethren. Your Chairman is of course one of the Younger Brethren, said Jeremy, and I can assure you that no-one in the Brethren is Younger than him! Then there is a Court presided over by the Master, HRH The Duke of Edinburgh. Jeremy emphasised that NO money from Navigation Safety light dues can be spent on the other three areas - the GLF is absolutely ring-fenced.

A slide illustrating a coastal map of the UK was highlighted to reflect shipping density around the UK coast on an annual basis, the colours ranging from pale blue for up to a thousand movements to bright red along the Channel and East coast reflecting up to 20,000 recorded vessel movements in that area per year.

The Statutory Service comprises 'Emergency Response' - to mark wrecks and remove them if necessary; 'Prevention' providing aids for general navigation (600+), 7 DGPS stations and 1 eLoran station - and 'Inspection', the superintendence and management of all local aids to navigation (10,000+) on behalf of the Secretary of State. Structurally Trinity House functions under the Merchant Shipping Act of 1995. A Revision in 2010, 'Marine Aids to Navigation Strategy' is underway in conjunction with the Trinity House Corporation Plan of 2009 / 12.

Governance involves three authorities, the Department of Transport in conjunction with the Lights Advisory Committee (Shipowners representatives), both in direct contact with The Trinity House Board comprising the Executive Chairman; 3 Directors - Navigation, Operations and Finance/Support; 4 non-execs comprising 3 S of S Representatives and the Director Research & Radio Navigation (RRNAV) in attendance.

Another coastal chart displayed 'Delivery: Emergency Service and Levels of Risk response' ranging from 36 hours to 6 hours in the Channel area. And another - 'Aids to Navigation - casualties and wrecks 2003 - 2008' clearly pinpointed the relevant sites and the Sunk Traffic Separation Scheme.

Other series of charts dramatically visually illustrated the sheer density of vessel movements for the Outer Thames Estuary - routes to Harwich Haven, London and the Medway; also the 'roundabout' system devised by the MCA/Port Authorities and Pilot Authorities. On 1 July 2007 Trinity House deployed 12 aids to Navigation to mark this international scheme.

An unusual navigational hazard and the manner of its resolution was then illustrated. In 1918 an Imperial German Navy submarine met its end in the English Channel. Having sunk 47 ships on 21 patrols the U-38 was mined and sunk on 8 February while attempting to escape pursuing destroyers. Its final resting place was located on the sea bed south of Dover and it became a designated war grave with its complement of 90 crew together with its complement of torpedoes. It lay in a part of the Channel transitted by some 33,000 vessels annually. Some of

those vessels were now of a vast size and the war grave had consequently clearly become a potential hazard. Grainy computer images showed her location on the solid chalk sea bed. A detailed survey of the wreck was carried out in May 2007 involving Multibeam Bathymetry, single beam echo sounder, side scan sonar and other surveys. A request was sent out over the Internet asking for any information that anyone might have concerning UB-38. A diagram showing a cross-section of the Channel at half tide with a VLCC of 400,000 tonnes with 22 metre draft positioned immediately above the submarine showed a probable clearance gap of just 4.6 metres. In addition to the problems involved in the safe physical relocation of the submarine (incidentally as a war grave she was not allowed ever to break the surface of the water while being moved) there were the legal aspects of the contract to be sorted in relocating a war grave. These were attended to by IMIF member Philip Roche of Norton Rose. A combined operation involving the Heavy Lift Barge 'Norma' and the Trinity House Guard Vessel 'Alert' resulted in the successful relocation of the submarine some two miles away in deeper water and in an area recommended by Trinity House as being clear of the regular sea lanes.

More slides illustrated a surface hazard in the Channel. The LT Cortesia took evasive action to prevent colliding with another vessel. Unfortunately this involved her proceeding at 21 knots on 2 January 2008 directly 'between' the two warning buoys demarcating the presence of the Varne Bank on which she then firmly embedded herself.

Another slide showed a close-up of the East Goodwin Light vessel with an enormous gash in her side where a Polish cargo ship had rammed her head on. "I do wonder what the officer of the watch was actually looking at at the moment of impact" Jeremy said, shaking his head in disbelief.

New coastal factors requiring accommodation include the allocation of sites for off-shore wind farms. Some 20,000 wind turbines are planned - each requiring from 15 to 40 metres clearance. Jeremy showed a proposed site for just such a cluster to the east of the Humber estuary and then superimposed the AIS vessel tracks for 4 weeks in the same area. Needless to say the proposed sites were located in the busiest of the sea lanes. "It would make life so much easier" Jeremy said with a sigh "if the Crown Estates and Lord Mandelson actually consulted with Trinity House 'before' they went public with their proposals!"

The future of eLoran and GPS vulnerability with details of the Flamborough Head jamming trials in 2008 were then discussed along with the development of eNavigation which, said Jeremy, will lead to better Bridge layout. There are difficult financial times ahead, Jeremy added, and Trinity House was already considering the implications of say a 50% reduction in Depots, a 25% reduction in the Fleet and a 33% reduction in manpower to achieve efficiency gains and improved service. Last but not least were the Marine Navigation Bill to resolve GLA responsibilities outside Territorial Waters, to improve Local Lights Inspection Regimes, to increase GLA ability for commercial issues and to resolve Pension issues - and the GLA Review which had received close surveillance. This was intended to ensure that the GLAs continue to be European and world leaders in delivering a reliable, efficient and cost effective safety service.

A final slide showed just how Trinity House consulted with all the maritime bodies in the UK.

IMIF Chairman Jim Davis recalled how in 1940 he had been a temporary deck boy on a Trinity House pilot cutter during prep school holidays. The questions that followed the presentation were wide-ranging and included Ravi Mehrotra asking how much the submarine relocation had cost (£1.8M paid for by shipowners). Jeremy Penn voiced the 'perception of unfairness' because leisure users, the yachtsmen, did not contribute to the running costs of the service and that Ireland drew on some Trinity House funds for rarely used lights, (the Government has accepted the principle that the leisure user should pay / and a 5 year scale for Ireland to look after itself was envisaged). Michael Laurie asked 'Is the USA turning off eLorans?' (This September GPS may switch on eLorans -

or switch it off!) From Michael Grey "If you turn off a lighthouse will you kill anyone - do you know who is using your lighthouse?" Jeremy replied "You can analyse traffic - just what goes where, the type and size of ship and can then, say, lift some buoys because no-one uses that area." The Deputy Master finished by saying "On Wednesday we are going to publish a list of changes we want to make and over the next 5 years see how it works." A round of applause followed Jim's thanks to Ravi as host and to Jeremy for a most comprehensive review of "Trinity House".

Seatrade Awards Ceremony Dinner Monday 24 May 2010 at Guildhall, London

IMIF would like to thank the following delegates, who, by meeting the cost of the seats of themselves and their guests at their own expense, enabled IMIF to continue flying the flag by taking a table at the Seatrade Awards Ceremony Dinner. It is very much appreciated. We understand that the evening was a great success:

Ms M Bobadilla	-	Patton, Moreno & Asvat
L Chapman	-	RTI Ltd
M Kanafani	-	Perm. Representative of Syria to the IMO
T Kinoshita	-	Nippon Kaiji Kyokai (ClassNK)
R K Mehrotra	-	Foresight Limited
Mrs M Mehrotra	-	Foresight Limited
Ms C Papathanasiou	-	H Clarkson & Co Ltd
Mrs J Richards	-	SecondWind Shipping Limited
Dr A Mandaraka-Sheppard	-	LSLC Maritime Business Forum
I Teare	-	Norton Rose LLP
B Veldhuizen	-	Lloyds TSB Corporate Markets
I Waterston	-	BankServe Insurance Services Limited

Lunch Tuesday 25 May 2010 for Captain Wei, President/Chief Executive of COSCO

At the request of COSCO, our new Members, IMIF arranged a luncheon on 25 May 2010 in honour of Captain Wei.

At the conclusion of the meal Captain Wei gave a lucid and very optimistic overview of China's present and future. He said that the "urbanisation" of the country was increasing and that the improvement in life quality for all citizens both in the countryside and cities was continuing apace.

Questioned about the burgeoning shipbuilding industry (many of them yet "Greenfield" sites) and their effect on an already oversupply situation Captain Wei felt that in his view the renovation of the world's fleets would justify this investment.

Jim Davis our Chairman complimented Captain Wei on a most interesting talk delivered by a genuinely charismatic

IMIF Buffet Luncheon Wednesday 16 June 2010

Hosted by:	Ms Julie Clegg, Partner / Jonathan Ward, Partner Stephenson Harwood
Guest Speaker:	Duncan McDonald, Partner, Stephenson Harwood
Subject:	What has the crash in the shipbuilding market taught us about the wisdom of ordering Chinese?

IMIF Chairman Jim Davis thanked Jonathan Ward and Duncan McDonald for welcoming IMIF through their portals. Everything goes round in China, he said and shipbuilding is not very well aired - we all look at China with some awe. However we will know a lot more once we have listened to what Duncan has to say.

Duncan McDonald is a partner in Stephenson Harwood's Shipping Litigation Group and has not only witnessed the response of Chinese shipyards to the crash in the market, which has seen demand all but evaporate, with buyers looking for grounds to cancel contracts, but is also currently handling a large volume of claims and arbitrations on behalf of buyers against Chinese shipyards and refund guarantors.

Duncan introduced the background to the China problem, notably the growth in Chinese shipbuilding. There was a growth in world demand for raw materials leading to an explosion of demand for ships. Between 1977 and 2008 there was an unprecedented increase in world output - an increase (gt) well over 200% in China's share. By 2008 the number of vessels on order was nearly as high as that in Korea. The Chinese Government wants China to be No 1 in the world by 2015. So why has Chinese shipbuilding expanded so rapidly? There is a growth in demand worldwide for newbuilds, and the Korean and Japanese yards are simply unable to cope with this. China has the resources - there is cheap plentiful labour; space to build new yards and China is able to produce low-priced vessels at very competitive prices - so with Government subsidies and encouragement we have a very low price, Duncan said. A quotation appeared as the next slide. "Let China sleep for when she wakes she will shake the world". In answer to Duncan's question, the author of the quotation was correctly identified as Napoleon Bonaparte.

Duncan then produced a series of slides showing details of Newbuilding Completions. A graph from 1997 to 2008 showed Japan as the world leader in the early years followed by Korea, with China a very tiny third runner. Gradually, Korea overtakes Japan but the notable increase in production is that of China which is steadily catching up with Japan. A similar graph of New Orders repeats the early pattern but although Korea still dominates the field China has now overtaken Japan, and is rapidly catching up with Korea. An analysis of the World Order Book for 2008 shows the Rest of the World with 16.4%, Japan with 15.7 %, Korea in the lead with 35.8 % but with China now accounting for 32.1 %.

Duncan alluded to issues for buyers to consider in China. Many new yards have been built on Greenfield sites. There is the problem of unskilled labour and the need for Buyers to appoint super-efficient supervisory teams. There are reports of quality issues including welding, painting and coating. Is there a ticking time-bomb with ships yet to develop structural problems? Many vessels have been delivered late. There is the background risk of Builder insolvency, or the threat of insolvency or the lack of working capital - leading to sometimes cynical

demands from builders for an increase in price. The priority for the Builder often seemed to be to get the job 'finished' rather than finished properly. Duncan showed some bizarre side effects of these problems. Two gigantic bull blocks, unable to be accommodated within the shipyard, were 'parked' across a roadway outside the yard. Another slide showed a main engine in tarpaulin mothball storage - for two years! And talking of delivery delay Duncan quoted the example of a shipyard, the construction of which was not actually completed by the cancellation date quoted for the vessel.

Duncan then introduced the contractual side of things, the problems of enforcement of English Awards and Judgments. China is a signatory to the New York Convention - that is the theory, Duncan said, but in practice things often are very different. As to English Judgments, as there is no reciprocal enforcement treaty these are of 'evidential' value only. Therefore enforcing Awards or Judgments could be difficult or impossible. Further, Rule B attachment to secure claims against shipyards were not available in the U.S.

After the crash how have Builders responded? There has been a spate of cancellations by buyers. Builders have failed to repay instalments claimed back. The yards are financially overstretched. Duncan commented that he is not aware of a single case where the builder has paid up voluntarily and on time.

He then went on to discuss the importance of 'Refund Guarantees' generally and their particular importance in the context of the Chinese yards. Before the market crash Chinese Refund Guarantees were largely untested. Duncan is now spending a lot of time chasing refund guarantors. It is clear that in many cases in the rush to 'order Chinese' a lot of buyers did not read the guarantees properly. The results are potentially catastrophic. He has seen refund guarantees which expire on the Delivery Date - so they are effectively useless. The buyer can be left with a Builder which is not delivering and a guarantee date that is not enforceable. There is an impression that some builders are hand in glove in collusion with some refund guarantors. The buyer cancels and claims under the guarantee. The builder then contests the terms - which freezes the refund guarantee until the arbitration is sorted. There is often a failure to communicate and no reply to demands. All potentially can result in significant delays in the return of instalments when contracts are cancelled.

So what have we learned? 1. That Chinese Refund Guarantees have now been tested (- and found wanting) 2. Prospective and existing buyers should be concerned. 3. The importance of taking legal advice on Refund Guarantee wording and contract amendment.

In future we must ask - first - do buyers still want to order Chinese? (Problems will diminish as the yards improve - although the `structural' time-bomb is still there.) Second - do buyers and their financing banks want to rely on Chinese Refund Guarantees as currently worded? There are some alternative wordings - Payments into escrow / payment out where the shipbuilding contract is terminated under Common Law. There is a need for wider rights to terminate under shipbuilding contracts where there is a delay in construction - there is a need for alternative solutions / instruments (a standby letter of credit? - it may facilitate being paid more quickly / and Performance Bonds.)

Duncan asked the question: Have we learned quickly enough? New buildings orders are picking up. Now is the time to negotiate additional / alternative security and more responsive refund guarantees. Now is the time to persuade Sellers and Guarantors to change the standard wording. "It will not be easy!" Duncan emphasised. "You should be aware that some risks are inherent in China - for the time being at least." Some recommendations - 1. Choose your yard carefully. 2. Check your documents with lawyers. 3. Go in with your eyes wide open - 'price' is not everything!

Jim Davis had a question for Duncan before he left the luncheon to go to BV in Paris. "How much is Chinese shipbuilding controlled by the Japanese?" Duncan confirmed that there was not a controlling interest. Struan

Robertson, Deputy Chairman of IMIF then took over asking "Has a Chinese yard gone into bankruptcy?" Duncan replied that he was not aware of one folding but felt that it was less than likely that the bigger yards would be allowed to fold - such an event would damage the National image. Anil Deshpande asked about the wording of Chinese Refund Guarantees - are they different from those of Korea and Japan? Duncan confirmed that the wording was much the same but that not enough attention was paid to detail. Jonathan Ward confirmed that the forms were all roughly the same but that there is always something that doesn't work. In the past the bankers didn't pay enough attention, there wasn't proper scrutiny but that would be a bankers' problem - not the buyers. Ed Harris asked about the possibility of agreeing to a delay subject to new documents being incorporated. Duncan replied that there was a problem with the way the Chinese understood these matters - dates needed to be adequate to allow for cancellation. Jonathan Ward added that there had been instances where the yard might well be willing to agree to an extension of the delivery date but that the yard could not get the agreement of their banks! The pros and cons of Greenfield sites were debated. Les Chapman then raised the issue of welding and Class. "The yard should build to Class requirements" he said, "so how do the yards duck the Class requirements?" Perhaps a lack of supervision at the time to check about proper welding, said another. Struan Robertson was not happy about this outburst of "Class bashing". Derek Hodgson of IACS said that suggestions of lack of supervision by the Class inspectors "were disgraceful". When the Koreans were the top boys there were always rumours being spread then about welding. Nothing happened - no ships failed. "What about 'Evangelical' - there was genuine concern whether the welding was okay - and Derbyshire and the other bulkers." "I'm not bashing the Class societies" said Les "but they are still ducking the issue." Struan Robertson intervened. "If a ship is not up to standard then class won't issue a certificate" he said. Rex Harrington enquired concerning this talk of welding and contractual problems - are they substantially repeated in Korea or Japan? "No" was Jonathan Ward's short reply. Rex shrugged. "As I recall when I was responsible for ordering, the Dalian ships were always first rate." Struan thanked host and speaker for an excellent lunch and an excellent presentation and thanked all the delegates "for supporting IMIF."

IMIF Buffet Luncheon Monday 28 June 2010

Hosted by:	Quantum Shipping Services Ltd
Guest Speaker:	Mrs Jean Richards, SecondWind Shipping Ltd
Subject:	First Aid Measures for Shipping Companies in Distress

Beneath the surface of seemingly routine trading activity by some shipping companies lie worrying financial problems, IMIF members heard on a particularly hot and humid day in London. The air conditioning was doing its best, but perspiration-inducing home truths for the industry emerged as Jean Richards, chief executive of SecondWind Shipping, outlined what she saw as the misapprehensions by many bankers and analysts as to the state of the shipping market.

For a start, "the guys that trade paper have no idea whether the paper they are trading is distressed, problematic or trading immorally or unethically," she said. "The paper keeps trading, so the problems remain out of sight." New

and existing shipping companies have raised new money from the financial markets with a view to buying distressed ships and shipping companies but as these opportunities have not materialised, yet, they have instead ordered new ships from the yards. Their typically short-sighted view of the newbuilding order book and demand forecast is dangerous. "We can overbuild very quickly and we have done it time and time again."

It had to be remembered that ships being built now are larger and faster than those they were replacing, which meant "you have a larger oversupply than a quick and superficial glance at the orderbook would indicate." Ship scrapping was not so easy today, she said, citing the recent halt to deals with Bangladeshi yards that were under legal pressure to change their practices. "There is a real problem with older tonnage" and "the scrapping facilities are not there. Once you start improving the conditions, you cannot dismantle the ships on beaches anymore." Would owners have to pay in the future to get their ships broken up? - if so, they would keep them trading even longer.

Thus the supply forecasts could be seriously wrong. Owners do not scrap ships just because they are 25 years old. An owner would not scrap his ship while it was still making money, so he would keep the vessel going until the next expensive special survey. Also, very few operators had put their ships into cold lay-up, and a lot of ships were "hanging around" without being fixed, so we lacked the full statistics about idle ships.

Mrs Richards went on to warn about misinformation circulating over the extent of order cancellations. "Just because an owner walks away from a contract, it does not mean the ship will not be built. We have got 'slippage,' but the ships have not gone away and will be sold to other owners, foreign or domestic." Furthermore, a lot of the existing order book was without financing.

If you paid the 2007 price for a ship, you might not earn enough to service the debt. However, as the banks are reluctant to acknowledge any book losses at the moment they are likely to agree to restructurings, particularly if it is not a question of a payment default but only a so-called covenant default, typically caused by a breach of the loan to value clause.

Indeed, most banks do not realise the extent of the owners' problems, because owners prefer to pay the banks ahead of the trade creditors. "I have had 30 instructions in the last six months as an expert witness relating to defaulting charterers, contracts of affreightment, time charters and bareboat charters; all business done in 2007 before the market collapsed."

She said that the first sign of something going wrong is typically when a trade supplier arrests a ship. "I have always advised a trade supplier to arrest early. If you go in early, the bank will probably pay you in full. The bunker suppliers are taking action already and, mostly, the banks authorise the necessary payment." Rule B attachments had been a popular mean of redress in the last couple of years, under which payments could be frozen as they passed through the New York banking system. This had now been over-ruled by the court, and a plaintiff had to look to arrest a ship to make sure he got his money.

"However, it always amazes me how long the trade creditors will hang on; and the insurance industry is particularly patient. A lot of insurers let ships run without premiums being paid — please remember you are an unsecured trade creditor," she admonished.

Mrs Richards forecast that the industry was in for a rough ride for at least five years, with the picture likely to be a lot gloomier than that presented by analysts at the recent Marine Money conference in New York.

Jean Richards founded SecondWind Shipping in 2008 to provide comprehensive support services to banks and investors with problem shipping loans. She has been providing this type of assistance since 1984 (previously through Fairwind).

The talk set off a lively Q&A session, after which IMIF chairman Jim Davis led a vote of thanks for the lucidity Mrs

Richards had brought to the subject. There was much added gratitude for the excellent hospitality and catering arrangements for the meeting.

IMIF would like to thank James Brewer, NUJ, for his detailed coverage of this luncheon.

<u>Press Cuttings</u>	
	
Established October 2008	Issue 11 of 2010
WISTA-UK Digest July 2010 Edition	
2. Jean Richards warns of dangers of tonnage oversupply	
<p>Bankers, analysts and paper traders are labouring in many cases under misapprehensions about the state of the shipping market, Jean Richards of SecondWind Shipping told the latest meeting of the International Maritime Industries Forum. She said bluntly: "The guys that trade paper have no idea whether the paper they are trading is distressed, problematic or trading immorally or unethically." "The paper keeps trading, so the problems remain out of sight."</p> <p>Having raised new money from the financial markets for opportunities that were yet to materialise to buy distressed ships and companies, new and existing shipping businesses were ordering again from the yards. "We can overbuild very quickly and we have done it time and time again," said Jean, in a message echoing that which IMIF chairman Jim Davis has sought to hammer home over many years.</p> <p>It had to be remembered that new ships are larger and faster than those they are replacing, which meant "you have a larger oversupply than a quick and superficial glance at the orderbook would indicate." Very few shipowners had put their ships into cold lay-up, and owners were reluctant to scrap older ships if they could keep them earning money until special surveys proved too expensive.</p> <p>Nor were reported order cancellations all they seemed. "Just because an owner walks away from a contract, it does not mean the ship will not be built." The ships might be delayed, but they would be sold to other owners, foreign or domestic.</p> <p>And as to the banks, most were unaware of the extent of the problems of owners, who preferred to pay their financiers before paying trade creditors. The first sign of something going wrong was typically when a trade supplier arrests a ship, but "it always amazes me how long the trade</p>	

creditors will hang on; and the insurance industry is particularly patient. A lot of insurers let ships run without premiums being paid – please remember you are an unsecured trade creditor," she warned.

Jean, who founded SecondWind Shipping in 2008 to provide comprehensive support services to banks and investors with problem shipping loans, having specialised in this field over the years, notably at Fairwind, was one of the earliest member of WISTA.

As is so often the case these days at such events, there was a good presence at the IMIF function of members and supporters of WISTA, including Mr Davis himself, whose support for WISTA events including the 2009 Conference has been invaluable. We are delighted that Mr Davis takes pride in being a WISTA-UK ambassador.

SHIPPING

INTERNATIONAL MONTHLY REVIEW

May 2010

Lighten our darkness...

The latest IMIF buffet luncheon, held at the Baltic Exchange on 10 May 2010 proved to be a truly illuminating affair. Delegates were addressed by Rear Admiral Sir Jeremy de Halpert KCVO CB, Deputy Master, The Corporation of Trinity House. As IMIF Chairman Jim Davis explained when introducing him, Sir Jeremy cannot become Master of the Corporation of Trinity House as that particular role is reserved for someone well known to the Greek Community, namely HRH Prince Philip, Duke of Edinburgh.



Jennifer Wybrew-Bond, Philippa Wright, Jean Richards and Mara Estefani enlightening... err illuminating the event

Sir Jeremy gave a brief historical background to the Corporation. Founded in 1514 with its five hundredth anniversary not too far off now, the present Trinity House headquarters was built in 1794 at the behest of William Pitt the Younger, Master of Trinity House. As Sir Jeremy wryly commented, the building was 'redesigned' by the Luftwaffe in the Second World War and finally rebuilt to the 1793 Wyatt designs as it is now.

Obviously Navigational Safety is its main aim but it wears other very significant hats. With investments in various properties it is the largest endowed Marine charity. It is committed through the Sea Cadets and scholarships to youth training. Also training and safety programmes, and it is the largest of the Deep Sea Pilotage administrations, administering and licensing 69% of UK Deep Sea Pilots. The Fraternity comprises 350 senior maritime personnel with a court drawn

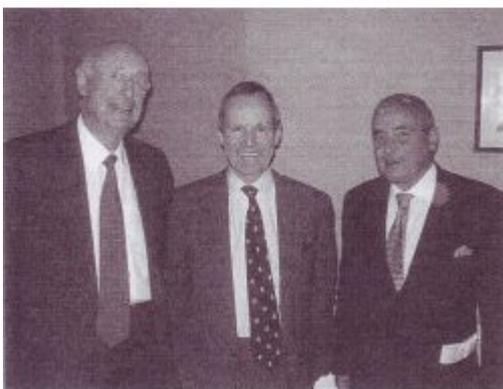
from some very senior shipping personalities waiting on the Master. Prince Philip. Then there are the Younger Brethren of whom, said Sir Jeremy, none is younger than IMIF Chairman Jim Davis!



Les Chapman, Michael Grey and Mark Dickinson



Howard Snaith, Jim Davis and John Noble



Jim Davis, the speaker, Rear Admiral Sir Jeremy de Halpert and host Ravi Mehrotra

The Deputy Master was careful to emphasise that no money from the light dues, covering the cost of Navigational Safety, can be used to support the work of the Maritime Charity or Deep Sea Pilotage or the work of the Fraternity. Diagrams showing some 20,000 movements recorded in UK waters led to an explanation of Emergency Responses, Prevention with some 600+ aids to general navigation and Inspection, the monitoring of 10,000 lights, beacons and buoys. Using more recorded movements in UK waters the Deputy Master extracted some of the more notable problems Trinity House had to deal with including the relocation of World War One German submarine UB38 which sank in 1918. Loaded still with torpedoes and other high explosives and sitting in one of the busiest shipping lanes for tankers, it had to be carefully removed to a new location out of harm's way. It was also an official war grave as the bodies of its dead crew, 90 personnel, were still entombed in it. He cited the case of LT Ortesia which securely grounded itself by choosing to pass between the two warning buoys indicating the location of Barne Bank at approximately 21 knots while avoiding another vessel. A photo of the East Goodwin Light vessel with a gaping hole in her side led Sir Jeremy to

wonder just what the officer of the watch was doing on the Polish vessel that rammed the lightship head on. He wondered why Lord Mandelson's Department and the Crown Estates should confirm and issue agreements for the location of wind farms before consulting Trinity House to discover that they were again smack bang in the centre of busy and established shipping lanes, necessitating a quick return to the drawing board! eLoran and GPS vulnerability was discussed at length including GPS jamming trials and future developments in eNavigation. The meeting was opened for discussion and the expected questions concerning light dues finally surfaced. From 1993 — 2009 there had been no increase in light dues which made the new charges even more noticeable. Why was it that leisure users didn't pay towards the upkeep? Why was Ireland apparently subsidised? After all it is not part of the UK - and we don't subsidise France. The Deputy Master reminded delegates that up to five years ago we were still the "British" Isles. He advised that the Government had accepted in principle that leisure users

should pay and that a five year scale plan of disengagement with Ireland was being examined. Michael Laurie understood that the USA is planning to turn off eLorans. Was that so? Sir Jeremy confirmed that this was indeed the case and that it was a cause for concern. Michael Grey asked 'If you turn off a lighthouse will you kill anyone - do you know who is using your lighthouse?' Sir Jeremy replied that by analysing, traffic, size and type of ship and what goes where, it can become possible to, say, lift some buoys because it can be proved that no-one uses that area. Sir Jeremy finished by saying that "on Wednesday we are going to publish a list of changes we want to make and over five years see how it works". (Apparently it has to be approved by government - assuming there is one by then!) Jim Davis thanked Sir Jeremy for a most enlightening presentation and Ravi Mehrotra for so generously hosting the luncheon. Last but not least, Ian Bouskill, Secretary of IMIF was there too; all the best Ian!

"The Delegate"

Lloyd's List

Tuesday July 6, 2010

The Last Word...

Turning to typists

JIM Davis, chairman of the International Maritime Industries Forum is a hugely knowledgeable, experienced and highly respected authority on all matters pertaining to shipping.

His long standing is sometimes reflected in a lack of modern political correctness. At a recent lunch in London he betrayed his golden era in commenting on efforts to persuade young people to go to sea.

"In the old days, the only people who travelled to Asia were probably seafarers. But now every young typist is able to visit the Far East, so seafaring has lost its unique attraction."- But then young typists on board ships might work wonders for recruiting seafarers.

Lloyd's List

Wednesday June 30,
2010

Banks kept in the dark as owners hide scale of outstanding debts

JANET PORTER

SHIP finance banks are being kept in the dark about the parlous financial plight of many of their shipowner clients, who are leaving bills unpaid rather than risk loan defaults.

Trade creditors owed money by cash-strapped shipping companies are often slow to take action, leaving lenders unaware of the debts being run up by some owners as they struggle to meet interest and principle payments.

"Banks don't realise what is happening," said Jean Richards, director of Second Wind Shipping, in a presentation outlining the still troubled state of the industry.

Challenging some upbeat and often misleading forecasts from analysts, Ms Richards said far too much attention was being paid to demand projections and not enough to the supply side where bulk carrier orders, in particular, are piling up again. Neither is ship demolition likely to be nearly as high as some commentators seem to think, Ms Richards warned.

With the shipping industry still highly imbalanced and facing yet another bout of excessive shipbuilding, Ms Richards said shipowners needed to prepare for further restructuring as their finances continue to weaken and creditors finally lose patience and start to arrest ships.

Insurers are particularly poor at demanding prompt payment from shipowners and will often extend cover without the premium being paid, while other creditors will also bide their time before taking action.

Ms Richards, whose company provides commercial and financial consulting services to banks and investors with problem shipping loans, said she was "amazed" at how long some trade creditors were willing to wait.

But that position could soon change because of declining rates in some market sectors that have placed owners under renewed financial pressure, with the added problem of an increasing number of time charter and affreightment contracts being broken as trade conditions deteriorate.

After a bumper five years that left many shipowners with plenty of cash in the bank, most managed to defy the sceptics and struggle through the slump of 2009, assisted by banks that were happy to waive loan-to-value covenants rather than foreclose on their clients, and auditors who "looked the other way".

But trade creditors may soon have no choice but to arrest ships if the markets do not come to the rescue of shipowners, with bunker suppliers next in line, followed by the International Transport Workers Federation if crew wages go unpaid. At that stage, it should be clear to all concerned that the owner in question is in "a great deal of trouble", said Ms Richards, since seafarers traditionally are reluctant to press for such an extreme sanction. Furthermore, arresting a ship is an expensive process.

But should the ITF intervene on behalf of an unpaid crew, that would trigger a second round of action against the shipowner with the banks finally stepping in as well.

Addressing members of the International Maritime Industries Forum, Ms Richards also drew attention to the paper trades where participants appear to have no real understanding of what they are dealing in, and where prices could be five times net asset value of the business in question that may in fact be the owner of distressed assets.

She also criticised the behaviour of vulture funds that had been set up to look for investment bargains when asset prices plunged last year. But with surprisingly few forced ship sales, this money was now being directed towards newbuildings, but with the business case based on shortsighted and inaccurate assumptions about market fundamentals.

Lloyd's List

Thursday June 3, 2010

Leading with confidence delivers desired results

HERE was an interesting thought offered to us a few days ago. "Do what you know, in a place you don't know - or do what you don't know, in a place that you know."

It was a remark attributed to James Lyle MacKay, the Earl of Inchcape, who had begun his working life in 1874 as an office boy and clerk to a ropemaker, and by the 1920s was just about the world's biggest shipowner, with a fleet well in excess of 500 vessels, including the massive P&O and British India operations.

Lord Inchcape, who at one time was considered as a possible Viceroy of India, but was rejected for "being in trade" and had incongruously been offered the throne of Albania, might be thought of as a maritime and entrepreneurial inspiration.

As a giant of British and imperial industry, he was the subject of intense scrutiny by speculators and what passed for stock market analysts in those days and if he was even seen looking at a passing ship he did not already own, the shares in its owning company would soar on the assumption of an imminent takeover.

In my possession, I have a letter from his executors to my uncle, in 1933 a chief officer with British India and in this position qualifying as a recipient of £50 from his Lordship's estate. All the masters in his employment received £100, these bequests perhaps revealing something of the character of the man, and his appreciation of their contribution to his fame and fortune, during his long and extraordinary life.

But I have rather diverted from Lord Inchcape's trenchant advice for expanding business, quoted

above, and which I heard in the boardroom of the Baltic Exchange, which many will know had once been the headquarters of the Inchcape Group.

But the real fascination was that this useful suggestion was delivered by the guest of honour at a lunch given by the International Maritime Industries Forum for Cosco chairman and chief executive Wei Jiafu.

One does not wish to make too many parallels between the lives of the old Earl of Inchcape and Capt Wei. I do not suppose Capt Wei, who the evening before had accepted an industry Lifetime Achievement Award, has been offered foreign kingdoms, although if he had, I am reasonably sure he would, like the P&O chairman, have politely declined the offer.

But Capt Wei, who would have begun his working life as an apprentice in the Chinese merchant marine and has indeed achieved something really spectacular with his career, does stand as something of an inspiration to younger people in the maritime industry, all over the world.

Like Inchcape, Capt Wei knows that a good company can never stand still.

"What is the next new market?" he asked his audience, inferring that while there was plenty of growth remaining in the vast industrial engine room of China, there are plenty of other fish in the sea.

Dynamic companies should have strategic plans to move into these new markets. Perhaps, after the "China Factor", he suggested, the "India Factor" suspect Capt Wei learned many useful lessons during his long years at sea, one of which was that if the master radiates uncertainty and gloom, or even fear, the ship's company is infected by the same, while outward confidence and decisiveness puts spring in the steps of the crew, no matter how fierce the storm would be a magnet for the questing entrepreneur.

Lord Inchcape, whose own climb to fame and fortune began when he clambered ashore as a young man in Calcutta to work for Mackinnon, Mackenzie & Co, probably would have appreciated this remark tremendously.

If you were a young person in Britain during the first 30 years of last century, Inchcape would doubtlessly have been a figure of inspiration, showing what could be achieved from humble beginnings, in a working lifetime.

The maritime industry once had scores of similar, if perhaps not quite so spectacular, inspiring role models. I guess Capt Wei, who certainly inspires me with his confidence and energy, is one of a relatively small number of modern maritime motivators who can demonstrate the potential of the industry in which we work. He spoke to us about the importance of co-operation, of the value of diversification in a volatile and uncertain globalised commercial scene, and of the importance of confidence, which he recalls Premier Wen Jiabao asserting — "is more important than gold".

Confidence is an important characteristic that is all too often neglected by today's industrial leaders, who seem to be chiefly paid to whine and moan about the present trading conditions,

which are always handicapping their progress.

I suspect Capt Wei learned many useful lessons during his long years at sea, one of which was that if the master radiates uncertainty and gloom, or even fear, the ship's company is infected by the same, while outward confidence and decisiveness puts spring in the steps of the crew, no matter how fierce the storm.

I recall a meeting with Capt Wei, when several freight markets were coincidentally grim and other shipping company leaders were emitting noises of misery and pain. I asked him what strategy he was employing to get Cosco through the downturn. Would it be lay-ups and layoffs, cost-cutting on a vast scale? Not a bit of it. "We will all work harder"— he exclaimed with a beaming smile."