Newsletter September 2011

September 2011

"Never buy what you do not need because it is cheap. It will be dear to you"

I have not been blessed with the happiest of days to start my prologue to our latest Newsletter. On top of what I and IMIF have long been forecasting, there is now tangible evidence of incipient bankruptcies among owners particularly at this instant with the tanker market.

The simple fact is that without substantial scrapping the VLCC Fleet will increase in 2011 by 14% against a projected oil consumption (ie demand) increase of 1.3% on an already oversupplied market. VLCC earnings have descended to around $1,800 per day against a break-even of close to $30,000. It does not take a mathematical wrangler to work out that owners who have not put away very substantial cash balances are facing a debt abyss. And there are more newbuilding orders in the pipeline spurred by an alleged belief by some that this is an unrivalled opportunity to place “cheap” building orders. Indeed it is but only if you have vast cash reserves as your bulwark to ride out the storm.

A rather different scenario has erupted in the Dry Bulk Market. Rates are very low and suddenly considerable excitement has been aroused by one owner “arresting” a COSCO ship over a charter rate dispute. The excitement is understandable because COSCO is such a major Charterer of outside ships (allegedly some 250 at a time). Nevertheless a publicised row of this kind is very much not the style in which China, the major user of Bulk Shipping, likes to do business and present itself to the world. On the other hand the catastrophic collapse of Freight Rates due to oversupply will place an unprecedented strain on many long-term charterers. The matter will no doubt heal itself but scars may remain.

The general picture is the same. Oversupply exists in all sectors. The container trades see an enthusiastic ordering of mega-ships – more than 20 exceeding 16,000 teu’s – resulting in the cascading of smaller ships from the already over-supplied East-West trunk routes into the adequately supplied smaller North-South routes. The big players must surely be expecting not only major growth in trade but also the squeezing out of the smaller owners.

Meanwhile the Shipbuilders are urgently seeking orders and China particularly and even India are increasing capacity.

The huge increase in Bunker prices may help Shipbuilders in selling their new fuel-efficient vessels (after all the saving of 10 tons a day represents a saving of $16,000 a day). But what will happen to the huge fleet of existing marine “Gas Guzzlers” is open to doubt.

The above paragraphs read rather like the ingredients of the Mad-Hatter’s tea party conversation so the financiers are understandably muted and their lending heavily suspended while the situation works its bruising way out.

On the broadest front the economic shift towards the East continues while the World Population increases exponentially.

My mind buzzes when I take in the fact voiced by my Clare Cambridge Contemporary Sir David Attenborough that the World Population has increased THREE TIMES since we left university. The demands of this huge population may mean that the oversupply in the maritime industries that I have been ranting about above may prove ultimately self-adjusting. We in IMIF must continue to address this extraordinary state of affairs and try to encourage reasoned thinking and action in our treasured maritime industries. But how long will it take? And what will happen meanwhile?

NEW CONTACT DETAILS

Please be aware that IMIF has recently set up new email addresses. Although the previous address of imif@btconnect.com is still currently working we have been experiencing problems and have therefore created new addresses as follows:

Mr Jim Davis CBE K(DK)	:	j.davis@imif.org
Mr Ian Bouskill Office	:	ian@imif.org
Home	:	ian@bouskill.freeserve.co.uk
Miss Victoria Mott	:	victoria@imif.org
General contact	:	imif@imif.org

Forthcoming Events

Thanks to the goodwill and generosity of the many IMIF members who have so kindly agreed to act as hosts, IMIF has for the past twelve years been able to arrange a series of buffet luncheons with guest speakers. Each of those speakers has been renowned for their specialist knowledge on a particular subject. The subject selected has always been of immediate relevance to the current maritime market and open to discussion by IMIF members from all parts of the maritime industries. If you feel that a particular topic should be discussed at one of these luncheons then please do contact the Secretariat on imif@imif.org and we shall try to arrange for the topic to be incorporated into a future luncheon. Thank you.

Monday 16th January 2012
IMIF Buffet Luncheon 12:30 – 14:30

Venue:	ITF House, 49-60 Borough Road, London. SE1 1DS
Host:	David Cockroft, General Secretary, International Transport Workers' Federation – ITF
Speaker:	Koji Sekimizu, Secretary General Elect, IMO
Subject:	"Current Challenges and The Way Forward"

As from 1st January 2012, subject to formal endorsement by the IMO assembly at its meeting in November this year Japan's Koji Sekimizu has been elected as the next secretary general of the International Maritime Organisation by its 40 member council. Sekimizu-san is currently director of maritime safety at IMO with a broad background in the maritime industry and 22 years service in IMO. He joined Japan's Ministry of Transport as a ship inspector in 1977, joining the IMO secretariat in 1989 as technical officer in the maritime safety division. His time in the division included phasing out single-hull tankers. He recently signed an agreement for the IMO to fund anti-piracy training centres in Djibouti. Observers point out that Mr Sekimizu faces some tough challenges including having to deal with the growing anger among seafarers and owners about the lack of international action on piracy attacks on shipping, particularly off the coast of Somalia. Other issues include achieving a consensus on the industry's approach to climate change and the reduction of greenhouse gas emissions. Koji and IMIF Chairman Jim Davis are old friends and Jim suggested, before Sekimizu-san becomes totally immersed in United Nations demands on his time that he might address IMIF delegates at a buffet luncheon. We are delighted that Koji has agreed to Jim's request. IMIF is also grateful to David Cockroft for so generously agreeing to host this luncheon. To participate on Monday 16th January 2012 please email victoria@imif.org or Ian Bouskill on ian@bouskill.freeserve.co.uk and we will be pleased to include you on the attendance list.

IMIF delegations to:

Paris MoU on Port State Control – The Hague

Richard Schiferli, General Secretary of the Paris MoU on Port State Control contacted IMIF Chairman Jim Davis recently congratulating Jim on his Lloyd's List Lifetime Achievement Award and wondered whether there might be an opportunity for an IMIF delegation to visit the Hague again sometime. It is indeed several years since our last visit. Would any IMIF members who would like to participate in just such a visit please let me know on ian@bouskill.freeserve.co.uk and I will sort things out to find a mutually convenient date for an IMIF delegation to visit Richard at the Paris MoU offices in the Hague.

Copenhagen Business School (CBS)

Executive MBA in Shipping and Logistics (The Blue MBA)

Irene Rosberg, Program Director for the Executive MBA in Shipping extended an invitation earlier this year for IMIF members to visit the unit in Copenhagen to meet some of the sponsors, pupils and her colleagues and we would now like to organise just such a visit. As with Richard Schiferli's invitation would any IMIF members who would like to participate please advise me on ian@bouskill.freeserve.co.uk and I will look for a mutually convenient date to arrange for an IMIF delegation to visit the Business School at Copenhagen. In May this year the Blue MBA was awarded the BEST EDUCATION AWARD at the Award ceremony of the International Forwarders Awards in China – for seizing the opportunity to bring the art of academic research together with the more practical side of the business in shipping and in doing so provided the industry with valuable tools to stay competitive.

REPORTS

International Maritime Industries Forum Annual Dinner 2010 – Report by James Brewer NUJ

On the occasion of the 35th anniversary of the IMIF Wednesday 10 November 2010

Venue: Radisson Blu Hotel, Portman Square, London W1H 7BG.

We begin this report of such a grand prandial occasion where chronologically we should: with grace. As always, Canon Ken Peters of the Mission to Seafarers, composed a thanksgiving message with both rhyme and reason. IMIF, recited Canon Peters, is there "to argue the case for the maritime industries with good grace," and offer "solutions to put in place without revolutions." At which the "people of esteem, regarded by many as the maritime cream," began their repast in great good humour.

After their splendid meal of roast Mediterranean vegetable tart, char grilled guinea fowl, lemon and lime cheesecake and coffee, the 320 guests settled down for the traditional rapid-fire review of the year from chairman Mr James G Davis CBE K(Dk). Much of this focused on the substantial capacity of shipyards and an order book that remained large.

Last year, said Mr Davis, freight rates were dreadful. “Today, I am not quite sure what to say on that one, but they are not exactly something to rejoice about.” If you can secure an average rate for an ultra or very large crude carrier of $30,000, “you are doing extremely well.” Meanwhile, there were huge numbers of bulkers under construction.

The chairman expressed particular concern about developments in liability. Referring to the BP rig explosion and pollution in the Gulf of Mexico, which led to much “noise” from the US president and his administration, he asked: “Was it the greatest disaster that America has ever had? Many in this room are experts and will know it was something different.” The liability issues arising from the oil spill and from the reaction of the leading economic power were something that “all of us” had to face up to.

The container sector was hugely over-supplied. Would that continue? It was likely there were going to be further “interesting situations.”

On the spread of wind farms, Mr Davis worried: “Somehow ships have to make their way through these new banks of windmills.” Perhaps the deputy master of Trinity House would put a light on every one of the wind turbines “to make sure we do not run into them...”

On piracy, he said that all sorts of people were making all sorts of remarks about what can be done. Piracy had to be tackled on a global level. “The high seas and oceans have always been free and they are being dangerously threatened by a small body of people. Unless we support the United Nations and the IMO on new rules of engagement, the more we concede the more it will go on.”

Mr Davis warmly thanked Mrs Jennifer Wybrew-Bond, his personal assistant for many years, for her invaluable administrative support for IMIF and for her skill in organising the annual dinners, and wished her well in her retirement. He had further praise for Ian Bouskill, IMIF secretary, who continued to work hard for the organisation despite being unwell in recent times.

Bernard Anne, managing director of the marine division of Bureau Veritas, took the floor to express thanks on behalf of members and guests to Mr Davis for his leadership in ensuring the progress of the IMIF and its contribution to the success of the shipping industry.

IMIF Buffet Luncheon Tuesday 29th March 2011– Report by James Brewer NUJ

Hosted by:	Mr Richard Greiner, Partner, Shipping Industry Group, Moore Stephens LLP
Guest Speaker:	Mr Peter Stokes, Senior Adviser and Head of Shipping, Lazard & Co
Subject:	The impact of the (continuing) financial crisis on the shipping industry

Everyone present noted straight away those menacing brackets around the word ‘continuing’ in the title of the presentation by the distinguished analyst Peter Stokes of Lazard & Co. He set out to give what the IMIF chairman Jim Davis described as a “realistic airing” of conditions in the main shipping markets, all of which have their own determinants, and of the macro-economic scenario.

So we all realised that what would be, as Jim put it, a masterly *tour d’horizon*, would give little succour to any optimists. This was underlined by Peter’s conclusion that "shipping companies would do well to shore up their balance sheets in anticipation of continued heavy weather."

Peter Stokes first reminded us that there are as many views about the current state of the world economy and financial markets as there are practising economists. “Indeed, there is even disagreement as to whether the financial crisis – affecting primarily the banking industry and sovereign debtors – is still with us or has largely been resolved through the actions of governments and central banks." As far as Peter was concerned, "I am pretty sure that the financial crisis is still with us."

After the 2008 crisis, "governments have so far sought to apply a liquidity solution to a solvency problem in the hope that a return to economic growth will defer the reckoning yet again. 2011 will, in my view, pose a stern test of the sustainability of this policy."

Up to now, said Peter, shipping has been a prime beneficiary of the global response to the financial crisis. Artificially low interest rates had the effect of maintaining asset prices, including those of ships, at artificially high levels. This has relieved what would otherwise have been intense, perhaps unbearable, pressure on the balance sheets of shipping companies and their banks.

Low interest rates have also enabled shipping companies carrying very high leverage to remain viable in cash flow terms, whereas they would quickly have gone under in the interest rate environment of the early 1980s. The continuing problem for shipping companies was not so much the servicing of their existing debt, but the funding of their capital commitments on newbuildings. Peter quoted Clarksons as estimating the value of the order book at just under $400bn, down from almost $570bn at the end of 2008. Within this total, there were heavy concentrations in contracts for capesize and panamax bulk carriers, and panamax and post-panamax container ships. If we assume a funding gap of, say, 20-30%, this would equate to approximately $80-$120bn.

Shipowners and shipbuilders have generally managed to muddle their way through this, much to the annoyance of financial investors on the sidelines waiting to pounce on distressed assets, "but the problem has certainly not gone away."

The governmental response of throwing liquidity at the banking industry, rather than permitting a rigorous write-down of assets and orderly restructuring and recapitalisation of institutions, has also helped shipping by stimulating industrial and manufacturing activity. The most spectacular state-financed revival has occurred in China, the most important single economy for the shipping industry. The most striking example of this was the increase of 41% in seaborne iron ore imports to China in 2009, which rescued the capesize bulk carrier market from what looked like meltdown.

We have also seen the influence of liquidity-driven Chinese economic growth in the container shipping sector, which has seen extraordinary swings in profitability, moving with dizzying speed from financial catastrophe in 2009 to unprecedentedly high operating margins in 2010, helped by double-digit growth in volumes on the Far-East-Europe and transpacific trades. There appear to be many in the dry bulk and container sectors of the shipping industry who have only a dim recollection of the traumas of 2008 and 2009 and assume that the way ahead will essentially be a return to business as usual. "Perhaps they are right, but there are in my view a number of hazards which remain to be negotiated before that can be safely assumed.

"I would say that the consensus view about the three main shipping sectors for the current year envisages stabilisation for container shipping, continued poor freight markets for tankers (but with hopes of an upturn in 2012), and worsening market conditions in dry bulk. Undermining the longer term prospects of all sectors is the structural over-capacity of the world shipbuilding industry, which is now capable of delivering well over 150m dwt of vessels per year. This is a serious concern, because newbuildings currently look cheap in relation to second-hand vessels and owners are being tempted to place multi-ship orders which they hope will be delivered when freight markets have fully recovered. The problem is that this outcome will be negated if too many owners with the same idea place too many orders, as has happened all too frequently in the past."

Peter said that the shipping industry itself could counter this threat by means of self-discipline, but other threats were outside its control. Chief among these is the possibility that banks will finally be forced to restructure and recapitalise by their governments, probably leading to a thorough-going marking-to-market of assets and an increase in interest rates. Financially stressed or distressed shipping companies which have so far been kept alive in intensive care by their banks would then find their life support systems switched off. Highly indebted companies would feel the cash flow strain of higher interest payments, with downward pressure on asset prices.

The second factor lying outside the control of the shipping industry is the performance of the Chinese economy. The stakes are high, in terms of social unrest if inflation, especially in the price of foodstuffs, is not brought under control and in terms of widespread financial losses if a credit contraction collapses the property market. The consensus is that China will continue to walk the line between these two unwelcome outcomes.

High commodity prices were a negative indicator for shipping, implying stagnant or weakening trade volumes. In such circumstances, the value opportunity may lie in the cargo – at least for a while – rather than in the ship. It is not surprising, in this connection, that a diversified shipowner like John Fredriksen is showing much more interest in his offshore oil and gas-related asset portfolio than in adding to his shipping fleet.

Under current policies of governments, the outlook is for anaemic growth from a base level of world output which has already been significantly reduced. If these policies are abandoned in favour of a fundamental restructuring of the balance sheets of financial institutions, then we are in for another severe shock, "followed, one hopes, by a return to more vigorous and soundly based growth. Either way, shipping companies would do well to shore up their balance sheets in anticipation of continued heavy weather."

During question time, Peter added: "There are more big companies out there that are reaching the point where the banks are saying, you have to do something. There are a lot of newbuildings coming out, for which there is no equity from the original source, and the banks are going to have to take this on. It will be a bit of a reality check, and we will get a re-set of asset prices this year."

A member of the audience asked whether the financial institutions would exercise a similar discipline to that which was expected of shipowners. "Yes, I think that is happening," replied Peter. "Funding restraints are limiting the extent of further new ordering. What we need to see more evidence about is the extent to which the Chinese will seek to encourage ordering from abroad by the activities of their own institutions. The big question is how aggressive the Chinese institutions will be." There was some talk of private equity investment interest, but by and large such people were interested more in older assets that newbuildings, so that they could put their money to work more quickly.

Winding up the proceedings, Jim Davis thanked Peter for his extensive review of the market, and expressed appreciation to Richard Greiner and his colleagues for their excellent hospitality amid pleasant surroundings.

N.B. there is also a report of this meeting and Peter Stokes' presentation by Steve Matthews in Lloyd's List – Thursday April 7th 2011- page 7 "Flurry of Finance for Listed Companies"

Seatrade Awards Ceremony Dinner Monday 4th April 2011 at Guildhall, London

As you will know IMIF has managed to book a table at this event for each of the past nine years thanks to the generosity of individual IMIF members who have agreed to cover their costs for this event at their own expense.

IMIF is delighted to advise that for the tenth successive year IMIF members have again agreed to cover the cost of a table at their own expense enabling the IMIF flag to be flown at this event. IMIF would like to thank all the IMIF members listed below for this show of support. It is very much appreciated.

Mr Stephen M Allum	JLT Speciality Limited
Mr Graham Barnes	Bankserve Insurance Services Limited

Ms Maria E Bobadilla	Patton, Moreno & Asvat
Mr Anil G Deshpande	Foresight Limited
Mr Richard Greiner	Moore Stephens LLP
Mr Ravi K Mehrotra	Foresight Limited
Ms Chrysa Papathanasiou	H Clarkson & Co Limited
Ms Nadya Price	Patton, Moreno & Asvat
Mr Ian Teare	Norton Rose LLP

IMIF Buffet Luncheon Thursday 2nd June 2011– Report by James Brewer NUJ

Hosted by:	Mr Simon Stonehouse, Senior Hull Underwriter, Brit Insurance
Guest Speaker:	Mr Timothy Congdon CBE
Subject:	Whither the EU?

With our guest speaker very much a political figure, our chairman Jim Davis made clear at the outset that the IMIF was non-political and concerns itself with matters maritime. “But today, we have to address once again the behaviour of Brussels, which is more and more intrusive into shipping.” Tim Congdon was founder of consultancy Lombard Street Research and one of the so-called wise men who advised the Chancellor of the Exchequer between 1992 and 1997; challenged unsuccessfully in 2010 for the leadership of the UK Independence Party; and was recently appointed honorary chairman of the Freedom Association. He was appointed honorary professor at Cardiff Business School in 1990 and for every year until 2006 lectured on monetary economics. “So I sometimes call myself 'Professor Tim Congdon', although no longer having an academic affiliation,” he says in his formal biography.

Mr Congdon began his address to IMIF with an unusual disclaimer, leaving the audience in no doubt of his position. “If you expect an academic, measured presentation, I am going to let you down. I absolutely loathe the European Union: I have always disliked it,” he said.

In Europe, democracy has been replaced by a funny mixture of bureaucracy run by Eurocrats backed by international lawyers. EU policymaking is not transparent, and those responsible for it are not accountable, he asserted.

Eurocrats have a job for life, no matter the mistakes they make. They indicate policies to ministers of nation states, and in practice decide those policies, more or less in secret. The proceedings of the Council of Ministers are secret, although the voting does come out. If a nation wants to block what is coming out from the Council of Ministers, it is extraordinarily difficult, Mr Congdon went on. Changing civil servants in Britain is very difficult, and changing Eurocrats is, as far as we are concerned, virtually impossible.

Then, in a first for our IMIF meetings, he added a quote from the television series *Yes Minister*. Sir Humphrey Appleby, the fictional senior civil servant, says: “Bernard, if the right people do not have power, do you know what happens? The wrong people get it: politicians, local councils, ordinary people.”

The EU class of bureaucrats backed by international bureaucrats want to make things as safe as possible, Mr

Congdon said.
Turning to the way the EU was dealing with heavily indebted states, Mr Congdon asserted: “Greece is completely bust, there is no two ways about it. For the first three months of 2011, the Greek budget deficit was double what it was in the first three months of 2010. It is higher than it was in 2009, and Greek national income is falling. The deficit in 2011 is heading for 20% of gross domestic product.
What Greece needed was a government to be serious about stabilising the country, and a big boom to increase asset prices. They should have lots of inflation, just to get rid of this problem. Greece is going to go bust, the question is when, he repeated, but the problem is, it is not just Greece. If Greece has debt forgiveness, what about Ireland... and the Portuguese or Spanish, why would they be let off the hook?
He said he had forecast from the beginning that the Euro would be hard to hold together, although it had survived longer than he believed then. He admitted: “I don’t know what is going to happen about the Eurozone. This whole thing of the European Union was a tower of Babel, and the single currency was the link. The traditional way out for a country when reducing their budget deficits was to have a big devaluation and a squeeze on domestic credit. Because they are in the Eurozone they are ‘in prison,’ they cannot devalue.”
Asked about recent interventions by Brussels in the maritime field, such as raids on the offices of shipping companies in an investigation into whether there had been pricing collusion, and its review of the agreements of the International Group of P&I Clubs, Mr Congdon said he had insufficient knowledge to comment directly on such matters. He did say that he was aware of worries at Lloyd’s, where he is a third-party capital provider. He surmised that EU officials would have to be aggressive in their regulation; they don’t really care about the industry.
Thanking Mr Congdon, Jim Davis said the speaker had delivered a very gloomy but realistic talk. The chairman extended the thanks of the gathering to Dane Douetil , chief executive of Brit Insurance Holdings, and to senior hull underwriter Simon Stonehouse, for hosting the meeting and providing excellent hospitality.

IMIF Buffet Luncheon Tuesday 28th June 2011 – Report by James Brewer NUJ

Hosted by:	Mrs Jean Richards, chief executive, SecondWind Shipping Ltd
Guest Speaker:	Jean Richards
Subject:	Reality Check – Where are we in the Cycle? Preserving Value and Seizing Opportunities in a Bad Market

A clear warning came from this meeting about the way that cash flow is immediately critical to the ability of some shipping businesses to carry on trading, and that new financial restructurings and even bankruptcies lie ahead, although the latter would not necessarily be of the spectacular kind as seen in the past.
Jean Richards opened her presentation by insisting that in the shipping market, “nothing really changes very much, although everyone would like you to think things are different from what they were in the 1980s.”
After an overview of 2008 and 2009, when shipowners suffered as freight markets fell and the newbuilding order book was high, Mrs Richards referred to continuing suffering in 2010 and 2011 even as world trade and growth resumed.
In 2010, iron ore and coal demand picked up quite strongly. World trade growth grew enormously, with India and China back on track. In 2011 the economic reality was “a tale of two worlds.” The forecast for growth was modest in the traditional industrialised nations, while much faster rates of growth were seen for the BRIC – Brazil, Russia,

India, China – nations. In OECD countries, banks were still lending very little. Some banks were saying they are starting to lend, but Mrs Richards questioned to what extent this might be. In shipping, some banks were agreeing to relax terms, including repayment schedules, on existing loans, and “lending to themselves” by transferring distressed assets to new, so-called friendly owners and passing new loans to these entities.

There was a view that “the forecast for 2011 is demand growth – this is going to save the shipping industry. Wrong! Tanker rates have carried on going south, and bunker rates have been going north,” said Mrs Richards. The tanker market was fundamentally a spot market, with payment after delivering the cargo, so you need the cash to be able to do business. With a stem of bunkers on a very large crude carrier costing around $2m, a fleet of 10 VLCCs would demand a huge cash flow at a time when the banks’ ability to supply that was diminished. During 2011, while demand would be high, fleet supply would be higher and rates were likely to carry on falling. Mrs Richards showed a graph from Clarksons which indicated that VLCC time charter rates had declined to the levels of 2002. Rates for large tonnage had fallen 10% in the first quarter.

On the dry bulk side, most people knew how badly the capesize market had fared, and the rate being paid for a panamax now was nearly the rate being paid for a capesize, a type that can carry three times as much. We expect a 14% increase in the dry cargo fleet this year, while the Baltic Dry Index has fallen back by 23% in the first six months; overcapacity was going to get worse as more ships came on stream. Time charter rates in the first quarter of 2011 were 60% down on the final quarter of 2010. A secondhand panamax could be bought for little more than the price of a handymax. Even in this bad market, we still saw an orderbook amounting to 44% of the fleet.

It was the big ships that always suffered, but everybody had wanted to order big ships. Orders for VLCCs amounted to 31% of the fleet, and capesizes were heading towards a 50% fleet uplift, a colossal figure whatever the needs of China and India. ‘Big is Beautiful’ looked true in 2007 and 2008, “but in terms of now, it is looking pretty sad,” said Mrs Richards. Demolition was “a drop in the ocean” and many lay-up berths were full. More ships would go into lay-up, but not enough to restore freight rate levels.

Illustrating how shipowners were running out of cash, she said that someone who bought a capesize for $153m at the top of the market and was earning $13,750 per day had based their calculations on earning $40,000 to $50,000 daily. Even if you just pay the interest on that $153m, money would be pouring out. “You are going to get more failures, and it will accelerate.” When charterers ‘disappeared,’ a lot of owners who were not used to playing the volatile spot market would be left with ships with cancelled charters. Owners were litigating against charterers, and with the litigation process taking two to three years, “in the time taken to get your money, you may have gone bust.”

Owners would increasingly be unable to subsidise their loss-making vessels. She warned that restructurings agreed in 2009 and 2010 were expiring, or companies were in breach of not only covenants but also payment terms. Many banks, investors and shipowners needed to prepare for the next rounds of restructurings and, ultimately, the failures. “The biggest danger is oversupply, existing and expected.”

The IMIF chairman, Jim Davis, considered that losing momentum in remediating finances “sounds like going spectacularly bust.” He referred to the changing balance of power with the owners of cargo, for example China, tending to take control of the whole transport element, affecting the traditional workings of the market. Mrs Richards commented that China has already stated it wants to become the largest shipbuilder as well as shipowner in the world, the largest iron ore importer, and the largest coal producer. This large capacity was definitely an advantage to China to secure cheap freight rates.

In reply to a question about the extent of financing problems, Mrs Richards said we were seeing “a lot of quiet failures. We are seeing a lot of banks doing their own thing. But as a percentage of the whole, it is never going to be huge."

She said that of all the markets, "I am still relatively bullish about the container market, simply because I have always believed every sector is supply driven. The container sector got this overbuild in 2007 and 2008 and has now absorbed that tonnage." In teu terms, growth forecasts looked frightening, but if you looked at it in terms of the number of ships, the picture was less daunting. The market would take shape in terms of what ships were used as feeders and where.

Thanking Mrs Richards for her frank presentation, Mr Davis said: "You have said things as they are, and we are very grateful." He reminded the audience that shipping was a difficult industry in having to adopt its long term outlook to short term markets. On behalf of IMIF, the chairman expressed gratitude to Mrs Richards and her team for their excellent hospitality.

Lloyd's List Awards, Global 2011

Report by Struan Robertson Head of Legal Services H Clarkson & Co Ltd

Described as the shipping industries most acclaimed, credible and well-supported event, Lloyd's List Awards, Global 2011 took place at the London Hilton Park Lane, Tuesday 20 September, 2011 attended by some 500 representatives of a wide range of companies from the maritime sector, many from overseas.

The Lloyd's List Awards, Global exists to acknowledge great achievements and in 2011 the focus for these awards was across many issues facing the maritime industry ? safety, the environment, financing the industry and innovation throughout the shipping community. One award however was in a different category, it was the Lifetime Achievement Award (Maritime Hall of Fame). This award recognises an individual that has, over the course of his or her career, contributed to the well-being of the industry in a profound way.

Each of the awards is independently judged by a panel of nine leading experts in the shipping world and it appears the panel had little difficulty this year in choosing Jim Davis CBE K (DK) as the worthy winner of the Lifetime Achievement Award for 2011 which was presented to him by the Editor of Lloyds List, Richard Meade.

Jim claims to have been taken by surprise. If so, he carried it off remarkably well and gave a short but much appreciated speech to genuinely warm applause from all the other guests.

A picture, they say, is worth a thousand words The picture below (which is copyright of Lloyds List) shows Jim as he should be—in the centre with a beaming smile brandishing a very well deserved trophy.

Press Cuttings

The below article was sent to you from Janet Porter (janet.porter@lloydslist.com)

Shipping failures on the increase as owners run out of cash

Thursday 30 June 2011

SOARING fuel costs, weak freight rates and tight credit conditions will force more shipowners out of business, but many are likely to disappear quietly rather than collapse in a blaze of headlines. Commercial and financial shipping adviser Jean Richards expects to see an increase in the number of shipping failures over the coming year as a combination of adverse conditions finally drives some companies into bankruptcy. Others will have to be restructured.

However, most of these failures will be handled discreetly and go largely unnoticed in the wider world, said Mrs Richards, who is chief executive of SecondWind Shipping, which provides support services to banks and investors with problem shipping loans.

In the 1990s, Mrs Richards was involved in the repossession of Adriatic Tankers' fleet of 49 vessels. That is still the largest ship repossession action undertaken to date, and one that was followed closely by the media, but Mrs Richards does not expect to see a repeat of the publicity that surrounded Adriatic Tankers' spectacular collapse.

She is nevertheless pessimistic about prospects for many parts of the industry, with capesize bulker and tanker owners facing some of the biggest challenges.

Addressing a lunchtime meeting organised by the International Maritime Industries Forum, Mrs Richards said container shipping was the sector she was least concerned about, with the orderbook now back under control after the excesses of 2006-2007.

Elsewhere the future looked far more bleak, with cash flow requirements potentially crippling for very large crude carrier owners, and the "colossal" newbuilding programme for capesize bulk carriers pushing down daily earnings that are now well below breakeven for those who ordered ships at peak prices.

"Shipowners are running out of cash," said Mrs Richards. Other factors, such as the failure of a charterer, were compounding matters for even first class operators. That could expose owners to volatile spot markets.

Much more money has been raised through syndicated loans in recent years and that, too, could pose a potential risk. Shipowners who have tapped this market may run into subsequent problems should bank syndicate members disagree with each other over refinancing requests. Owners could then be left struggling as they wait longer for a fresh cash injection.

Although some ship finance banks say they are now lending again after a two-year standstill, Mrs Richards said those in Organisation of Economic Co-operation and Development countries remained on the sidelines. Banks in the Bric countries of Brazil, Russia, India and China had resumed lending, but in most cases only to projects with a local flavour.

With shipyards ready to accept orders "at almost any price" to fill newbuilding berths, demolition activity having a barely noticeable constraint on fleet growth and lay-ups unlikely to reverse the freight rates slide, Mrs Richards said many shipowners "need to prepare for the next round of restructurings and, ultimately, failures".

Likewise, bankers and investors should also to be braced for more payment defaults, as opposed to covenant breaches, as the restructurings agreed in 2009-2010 expire.

Far from being over the worst, most sectors of the shipping industry face another difficult year because of the massive number of new deliveries and depressed earnings that are creating severe cash flow problems for owners who will in turn be unable to service their loans or pay creditors, Mrs Richards said.