Spearheading the recovery

No escape from boom and bust

Financiers say shipping will remain a cyclical business

Liz McMonn

There is no chance of a paradigm shift that will see shipping move away from its violent cycles of boom and bust, according to finance experts speaking at Lloyd’s List inaugural summit.

HSBC Northbank management board member Torsten Temp said the last time the industry spoke of such a change was in 2008. That discussion intensified in 2009, leading to the 2008-2009 crisis. The industry had experienced “big problems” in the 1970s and 1980s but pointed out that there had been a 25-year gap between the end of the 1970s and the present downturn.

“I don’t know of any other financial industry that has had 25 years of uninterrupted growth. This is a wonderful industry that makes many mistakes and I am concerned, but not because of any change in paradigm. It is the cycle,” Mr Temp said.

GMS president and chief executive Anil Sharma said any business that sold silver bullets would have a problem.

“Change is everlasting and gradual,” he said.

“Companies that survive are those that see a change coming and plan for it. I don’t see any major shifts coming up but there are several paradigms. There is room for large shipowners and those who own seven ships.”

He said scrapping was a tool that the industry needed to offer opportunities for shipowners who used it as a proactive strategy, but that the problem for the market was the 3:1 ratio between newbuildings and scrapping, which created oversupply.

“It’s like a marathon where we keep on running but the new ships keep coming,” Mr Sharma said.

However, he added that the accepted 25-year vessel lifecycle was decreasing. Although it depended on vessel type, he said the average could fall to 23 years and added that he had recently scrapped a five-year-old handysize bulker.

“Today, really nice vessels are sent to the scrapyard. It’s said that it’s a fact of life,” Mr Sharma said.

Independent director and adviser Flemming Jacobs said there was a danger in thinking that shipping was just called shipping, as the business consisted of so many sectors.

“What has happened recently is that participants’ portfolios often only span a couple of years,” he said. “You have individuals saying, if I buy low then sell as soon as I can then I am successful. To me that is not very successful.

“There are reasons for our boom-and-bust culture. The bankers have contributed to this through their collective amnesia. Boom and bust is created by those who have forgotten the basics.”

Chaing the debate, Baltic Exchange chief executive Jeremy Penn asked a question that was meant that there was nothing new to learn or whether the problem was that the industry never learned from its mistakes.

Jeffries global head of maritime investment banking Jeffrey Prior said shipping was not a monolithic sector.

“Coming from Wall Street it was interesting to see that stratification of interest from potential investors. I remember in 2007 people trying to invest reasons why the cycle might stay up for a long time, and of course it didn’t.”

“So when I see people thinking the market won’t pick up until 2020 I am somewhat encouraged as it reminds me of the other side and maybe we have got to that point where we think it may never happen and it does.”

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Divided over diversification

The importance of diversification divided opinions at Lloyd’s List’s inaugural Summit with just over half the delegates believing it was key to survival in shipping, written Liz McMahon.

In the Back to Basics debate, chaired by Baltic Exchange chief executive Jeremy Penn, 57% said diversifying product lines was the key to survival in the long term but 43% of attendees thought that other factors were more significant in delivering success.

Independent director and adviser Flemming Jacobs questioned whether diversification or specialisation was the way to make money in shipping in the long term. “There is the value of a diversified portfolio on one hand of the argument, but there is also the matter of buying the right ships for the right trades,” he said.

GMS president and chief executive Anil Sharma said that when it came to product differentiation, it was possible to charge a premium if customers could genuinely see value in that purchase. HSBC Northbank management board member Torsten Temp said that

“There is the value of a diversified portfolio on one hand of the argument, but there is also the matter of buying the right ships for the right trades.”

Flemming Jacobs

“There are those that lost money but they are actually saying that they now need to get it right.”

Jeffrey Prior, Jeffries

Restructuring can offer shipowners and banks a win-win solution

Restructuring can be a win-win situation, according to delegates at Lloyd’s List’s inaugural Summit, written Liz McMahon.

More than two-thirds (76%) agreed with the statement that a financial restructuring can create a win-win situation for the owner and the bank.

Panellist Jeffrey Prior, head of maritime investment banking at Jeffries, said it was important to remember that there might not be just two parties involved in the restructuring. He said that it could be a case where the bank and the owner win, while the bond market, for example, loses.

“It is complicated and very much depends on the situation,” he said. “There are so many types of restructuring. Chapter 11 may be the most dramatic but there are also examples of recapitalisation that aren’t even referred to as restructuring.”

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