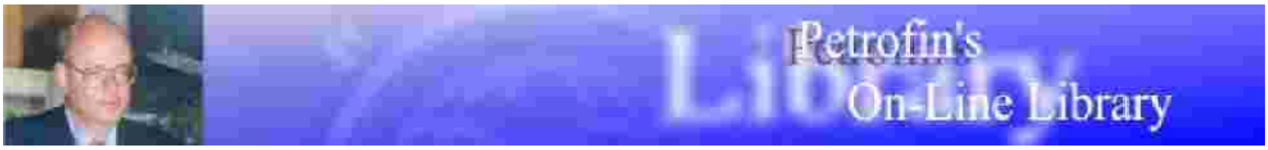

Banks must keep their traditional market role

Interview with Mr. Ted Petropoulos, Shipping Manager of ABN, London

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The banks are not drawing out the market crisis, maintains the shipping manager of ABN in London, Mr Ted Petropoulos. If the banks, he says, do not stick to their traditional role and if try to guide and show shipowners the directions they must go in, then the practice entails business risks.

Are banks prolonging the shipping crisis by assisting clients who are unable to meet their loan obligations?

Leaving aside what may well be sound reasons for continuing to assist owners in trouble, banks can only be accused of prolon ing the crisis if their actions directly or indirectly result in artificially maintaining / increasing shipping tonnage that would otherwise have left the market or would never have materialised.

A tougher line for a bank, in most cases, concerning a second hand vessel, would merely result in a change of ownership of the vessel, which will continue to trade and compete in the market. As such, only when such "hand-holding" results in keeping vessels in the market that ld otherwise have been scrapped, is there an element of t th in the charge. Even here though, such old tonnage would invariably be laid up anyway and, as such, this factor is a very marginal and delay one.

A small technical reduction in tonnage available might result out of a sudden toughness by banks insofar as vessels under arrest or awaiting auction are temporarily removed from the market.

On the main, though, the charge as it relates to secon hand vessels does not really hold.

Regarding new buildings, it is unlikely that banks wou pport new building expansion plans by their troubled customers. Should these owners have existing orders on which they would default following bank action, then it is very likely that a new buyer will be found for these new buildings at reduced prices.

However, to the extent that their resale results in fewer fresh orders, there may be a longer term effect here. Even so, the number of vessels under this sub-category is unlikely to be large and, as such, the ben it should not be overestimated.

On the whole, the benefits in reducing the supply of shipping tonnage through a concerted tough line strategy by banks are inconclusive, marginal and not immediate. The costs to the shipping industry of such action, however, would be real, immediate and major.

Should banks encourage shipowners to invest in one par icular shipping sector rather than another?

Banks develop views on medium term loan conditions for various shipping sectors that shapes the sector bias of their shipping portfolios. Their role, however, is a protective and passive one.

To actively and formally support / encourage owners to invest in specific sectors allows the bank into an entrepreneurial risk bearing role which most banks wish to see rest squarely on shipowners' sh ulders. Except under special circumstances which can be assessed on t eir own merits, banks should not create conflict of interest situation hat may prejudice their positions and should stick to what they should k ow best i.e. assessing shipping risk.

There has been increasing speculation in shipping and an emphasis towards quick capital gain rather than longer-term operating profits. Do you think that this is harming the shipping industry?

In a market displaying such vessel price volatility as well as yielding rather disappointing long term returns to equity for most sectors over the past decade, it is not unusual to see a buy low - sell high capital gains approach to shipping investments with a reduced emphasis on lon term trading in an effort to bring about a satisfactory return on equity.

As more and more owners realise that the above holds, there will be increased speculation at times that may be construed as being cycle lows.

If we assume that the profit element is paramount in any investment decision, is a quick capital gains decision an investment action hat is less pure or moral than a trading one?

Speculators in shipping "as in any other market" prov liquidity and the chance for owners who believe that the bottom has not been reached or wishing to sell because of difficulties to effect their decisions. If anything, speculation controls and may improve prices for a time, near perceived market lows, whereas otherwise prices may well fall fu her.

If the speculation is premature, then the speculator will lose out. Only when speculation is done by owners unable to absorb th losses that other innocent parties may be affected i.e. creditors, crews etc.

Second-hand tonnage speculation does not increase shipping tonnage as such, unless it can be argued that the vessel concerne uld have otherwise been scrapped.

Speculation in new buildings made easier by special soft loan schemes do add to shipping tonnage, which is harmful to the industry facing surplus capacity conditions almost everywhere. I believe, thou h, that your question primarily relates to second-hand speculation, which, in my opinion, is rather positive for the industry as a whole provided that it is done by owners able to afford wrong decisions without harming others.

Is there any other view or subject that you wish to ra se?

For some time, I have been thinking of the need for a hedging mechanism against market volatility that could be offered to the shipping industry which should provide comfort to both ship owners and bankers alike:

A ship owner receives protection through insurance, fo n exchange hedging if he has a foreign exchange risk as well as interest rate hedging. When it comes to market hedging, chartering and contra s of affreightment provide some protection but these are not available to all, tend to dry up from time to time, and are time and eff rt intensive to finalise.

Finally, there is also the performance / credit risk aspect of the transaction as well as the inability to move away swiftly from suc arrangements let alone the luxury of changing one's position as often a e thinks appropriate.

It is in order to meet this requirement which ship own rs may have from time to time that I wish to see the emergence of a shipping futures market to work broadly along the lines of other commodity futures enjoying so much success primarily in Chicago and New York and lately in London.

In this futures market, owners and speculators will be aking views as to the market on say a 3, 6, 9 or 12 month basis, the former primarily for hedging purposes given their fleet's employment profile and the latter for profits.

A reliable and not manipulatable shipping index is required for each of the major shipping sectors i.e. V.L.C.C.'s, product carriers, Panamax, handy size etc., to be produced on a daily basis, based on reported market fixtures.

Positions can be taken on future index months which will be displaying either a premium or discount over the actual daily ind depending on the overall views of the participants as to whether the market is expected to go up to down. Participants will be able to take views on ontinuous basis as often as they wish following changes in their fleet's employment profiles of expectations market or other important information/market news. Performance of obligations will be assured by the main enance of margins as well as the combined strength of the actual members of the market.

The creation of such a market and the use of futures f r hedging would offer an important new tool for shipowners wishing to smooth their earning profiles.

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