



Finding balance between caution and courage Dahlman Rose's Kim Fennebresque says the client is still king

 Go

- HOME NEWS WORLD MARKETS AWARDS E-PAPER CAREERS

- Containers Dry Cargo Finance Insurance Ports & Logistics Regulation Ship Operations Tankers

HIGHLIGHTS: [Lloyd's List Global Awards – deadline extended](#)

A finely tuned balancing act

Monday 06 October 2008

SHIP OPERATIONS

- Send to Colleague Printer Friendly Format Email the Editor



A finely tuned balancing act

IT IS a very strange time to be alive. Outwardly there are the trappings of normality, but in reality, things are going horribly wrong.

IT IS a very strange time to be alive. Outwardly there are the trappings of normality: the queues at the supermarket checkouts; the commuter trains still packed; conversations on mobile phones still loud and not overtly redolent of dread. At sea, the ships are still sailing, demolition continues at a low level and, amazingly, there are still shipbuilding contracts being signed. Are they mad?

Related articles

- [Coping with oil on troubled waters](#)
- [Social networks to spur a sea change in working practice](#)
- [Beware modern tendency to charge pilots with negligence](#)
- [Shipping is vital to our sceptred isles](#)
- [VLCC rates set to hit \\$100,000 a day](#)
- [Rising VLCC rates may hit \\$100,000 per day](#)

In the Gulf of Aden, the pirates, perhaps because they are anticipating some diminution in world trade and the number of ships passing through 'their' waters, have stepped up their attacks. It is indeed a funny old world.

But nobody, unless they are seriously lacking in brain cells, can be unaware of the crisis in the financial markets. It has been more than a year since the sub-prime crisis exported itself from the US into international public consciousness, a year in which, as during the phoney war of 1939, people tried to reassure themselves with

comforting statements about 'business as usual' and the residual health of our fundamentals, whatever they are.

In our little cut-off world of shipping, rates stayed high, the Chinese thirst for raw materials and energy continued unabated, and oil and gas prices soared. There were danger signals, but not so many as to alert people. Commentators and politicians talked of the probability of a 'soft landing'.

In reality, it was all going horribly wrong, and all the checks and balances that we thought were in place, all the regulators and financial authorities, had in fact been outmanoeuvred by financial experts with several brains apiece, producing 'products' of such extreme complexity that only they were able to comprehend what it was they were doing.

Aided by gigantic computing ability and communications technology which shrank the world to approximately the size of a football, the free markets, lubricated by debt and leveraged with other people's money, shifted into hyperdrive.

The post mortem, and surely there must be several, will note that while there were various sages uttering warnings about governments printing money, and the level of debt companies and individuals were taking on board, their Cassandra-like advice was completely discounted as old and unfashionable. Prudence became politically incorrect. Other seers, indeed someone who was part of (or very close to) those governments printing all that money, eructed more palatable messages.

Today, as the buildings rock on their foundations, there is no shortage of people to blame. Nobody, even in good times, particularly loves the smooth traders at their City and Wall Street screens, with their monstrous bonuses and incomprehensible functions, but now we loathe them for their short selling, their amorality, the mess they appear to have got us into.

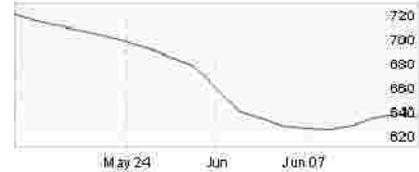
Archbishops, no less, suggest we should be blaming capitalism itself, others the deregulation of the 80s and reliable 'friendly' building societies putting on the cloak of investment banker and figuratively putting all our money on a three legged ex-milkman's horse in the 3.30 at Newmarket. In the UK, the struggling Prime Minister blames "global forces beyond our control". If there were Martians at hand, somebody would be blaming them.

In the improbable location of Monte Carlo a couple of weeks ago, whence DNV had gathered much of its surveyor workforce for a corporate meeting, the reverberations of crashing financial edifices reached into the air-conditioned quiet of the conference suite where we were gathered. Connectivity is as important to surveyors as it is anyone else these days, so the illuminated faces of several dozen Blackberry screens, and occasional sharp inhalations of breath, betrayed a certain amount of multi-tasking going on.

All of which gave extraordinary weight to a talk by Ted Petropoulos of Petrofin on 'Finance and the World Shipping — outlook, trends and challenges'. As a communicator of what was going on in the financial world literally minutes before he rose to speak, Ted Petropoulos is a Premier League player, and with a lifetime of ship finance behind him, is able to relate this extraordinary complexity, in a jargon-free fashion, to the maritime world in which most of us reside.

More Ship Operations Market Data

Clean 645 (-2) Dirty 915 (3) [Baltic Tanker Indices](#)



[More detailed charts and tools](#)



Arrival of a giant marks new phase for Vietnam
[Mathilde Maersk berths at SP-PSA Intl Port in Vung Tau](#)

More Ship Operations

- [German owners swap flags to protect against pirates](#)
Shipowners flag-out vessels to allow mercenaries on...
- [Call to keep flexibility over crew working hours](#)
Revised version of STCW code must ensure flexibility is...
- [Pirates attack Turkish vessel off Ghana coast](#)
Concern that piracy in West Africa is moving further...
- [Jan deNul oil spill clean up offer blocked](#)
Dredging giant's offer to help with oil slick turned...
- [DSME clinches \\$554m pipelay vessel order](#)
Yard to build world's largest pipelay vessel Pieter...

Governments must look after seafarers welfare
[International community have responsibility to do more](#)

He soberly communicated something of the tragedy of the moment, with great institutions, some of which had more than 300 years of history behind them, collapsing. He spoke of the abundance of money which had fuelled this conflagration, the foolish ratios and inadequate regulators, who just could not understand what was happening. The financial industry, he suggested, had "run amok", high on the drug of money where any caution "was not a welcome sentiment". And it was worth noting that in the US election year, governments are now paying for the mistakes they had made.

His message was both grim and thought-provoking, although he did remind us that "wherever there is a problem, there is an opportunity". But in a world where banks can only lend less, leading to the reality of this credit crunch we have been warned about, everyone will pay more for credit, and a period of deflation seems on the cards with its attendant unemployment. All will be opting for safety where they can find it. They will be investing less, and inexorably slowing down the economic cycle.

Mr Petropoulos estimated that the Far East will fare best in this turbulence — they have the money. But how long can the Far Eastern locomotive run?

In contrast, he suggested that the outlook was bleak in Europe, that the continent could face internal strife and even social upheaval, thanks to its more fragile social infrastructure.

Was there any positive side to this crashing fabric which had taken us all by surprise? From an investment point of view, Petropoulos suggests that we could see a certain rejuvenation. We could just expect the re-establishment of the principles of safe and responsible lending and the imposition of order by the authorities.

But it could be a hard couple of years as this new order is established, taking out all the banking "bad stuff" and encouraging the interbank market to start up again. There was, he said, "a need to get ahead of the game", and create a stable environment. There has been little evidence of such stability in the few weeks since Petropoulos made these remarks. In an audience composed largely of mariners, naval architects and marine engineers, if he had spoken of a financial world in a lolling condition, it would have described the situation perfectly, one of endemic instability.

Boiled down to the maritime world we inhabit, what does this mean for the vast orderbook, and the money that is necessary to finance these fleets? There are, he points out, demand side dangers in the spectre of surplus ships, although international trade, he believes will continue to grow. There are likely to be some problems in financing these ships, and a possible spinning out of deliveries. But while there may be a lot of headlines worrying about financial provision and a slowdown in syndicated lending, he believes that there will be no particular problem on the money supply side, once the liquidity crisis abates. And if up to 10% of the newbuilding orders never translate into cold steel, this particular problem diminishes. However, if the banks contract, and the credit crunch deepens, there will be more cancellations, but at the same time, reduced ship finance capacity.

One man's financial distress often marks another's financial opportunity, and Mr Petropoulos sees liquidity as the key. Consider your exposure, build up your liquidity, open down the hatches, he advises. If you have money, it is, he says "wonderful".

He was of course, speaking to a classification society, but there are implications in what Ted Petropoulos advises for all in the shipping industry. He suggests that there will be more contractual disputes, a slowdown in income that demands close monitoring of cashflow. Contract risks need to be looked at, while expansion plans need fresh analysis, as do the reserves situation and pension provision (with new risks appearing in this direction). And in what is undoubtedly the very best advice, he urges complete transparency and honesty between borrowers and lenders. Which, I suppose, could apply to all of us and not just somebody trying to service a debt on half a dozen capesizes, all anchored off a Brazilian port as the cargo interests try and jack up the price the buyers, as we are reliably told is the current flavour of the month in these unsettled times.

Extraordinarily, even with the strange conjunction of crashing markets and a rapid decline in the amount of manufactured goods flowing from the Far East to the US and Europe, there are still new buy orders of giant container ships coming along. Are they just very brave, hoping that all of this is some flash in the pan and that by the time their babies are delivered, all will be sweetness and light? I'm afraid my sympathies are with some of those old Greek owners, who have stuffed their safes with cash and will surely keep it locked away until the situation is clarified.

There will be some splendid bargains to be snapped up as the distress spreads around the world, ship prices slump and long term charters come to a precipitate end. I'd put money on it, if I only had some. At the end of the day at the DNV symposium, I went and looked enviously at some superyachts, a discretionary business, which I venture to suggest, will see a bit of a shake out in the next year or two. Opportunities are there, perhaps.

Keywords:

- Europe,
- Ship Operations,
- Shipbuilding & Repair,
- Commentary,
- Features



Lloyd's is the registered trademark of the Society incorporated by the Lloyd's Act 1871 by the name of Lloyd's. This site is owned and operated by Informa plc ("Informa") whose registered office is Mortimer House, 37-41 Mortimer Street, London, W1T 3JH. Registered in England and Wales Number 3099067

© 2010 Informa plc, All rights reserved

[Home](#)

[Subscribe](#)

[Trial](#)

[Contact Us](#)

[Terms & Conditions](#)

[Privacy](#)

[Containers](#)

[News](#)

[World](#)

[Markets](#)

[Awards](#)

[Dry Cargo](#)

[Analysis](#)

[Africa](#)

[Tankers](#)

[Global](#)

[Finance](#)

[Comment](#)

[Asia](#)

[Containers](#)

[Asia](#)

[Insurance](#)

[Features](#)

[Central & South America](#)

[Dry Cargo](#)

[Middle East & Indian Subcontinent](#)

[Ports & logistics](#)

[Profiles](#)

[Europe](#)

[Finance](#)

[Greece](#)

[Regulation](#)

[Special Reports](#)

[Middle East & Gulf](#)

[Gas](#)

[Italy](#)

[Ship Operations](#)

[Blogs](#)

[North America](#)

[Shipping Movements](#)

[Turkey](#)

[Tankers](#)

[Last Word](#)

[Lloyd's Shipping Economist](#)

[E-paper](#)

[Casualties](#)

[Today's Issue](#)

[Careers](#)

[Sub-Sectors](#)

[Advertise/Subscribe](#)

[General](#)

[Classified](#)

[Bunkering](#)

[Environment](#)

[Offshore \(Energy\)](#)

[Safety](#)

[Advertising](#)

[About](#)

[Casualty](#)

[Events](#)

[People](#)

[Sales & Purchase](#)

[Corporate Subscriptions](#)

[My Lloyd's List](#)

[Classification](#)

[Gas \(LNG & LPG\)](#)

[Piracy & Security](#)

[Shipbuilding & Repair](#)

[Individual Subscriptions](#)

[Events](#)

[CMA](#)

[Manning](#)

[Posidonia](#)

[Towage & Salvage](#)

[Links](#)

[Cruise & Ferry](#)

[Markets](#)

[Reefers](#)

[Careers](#)

[Dry Bulk](#)

[Norshipping](#)

[Ro-Ro](#)

[Classified](#)

[Why register?](#)

[Lloyd's List Group](#)

[Informa](#)