

Lloyd's List

EXCLUSIVE: Charterer guarantees could reduce shipping risk

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Ted Petropoulos.

Taking out cover at their cost may benefit medium-sized charterers as much as owners, claims Petrofin's Ted Petropoulos

REPUTABLE charterers should be encouraged to cover themselves with financial performance guarantees, in a bid to introduce greater security into shipping markets to the benefit of themselves as well as shipowners.

The proposal is the brainchild of Ted Petropoulos, founder and managing director of the Petrofin shipping, research and consultancy group. He told Lloyd's List that the scarcity of financial guarantees in such a risky industry up until now was "a joke".

Mr Petropoulos' onus on charterers stems from a spate of operator failures and major charter renegotiations in the last few years.

It would address the problem that owners are often in effect "blind" when committing expensive assets for significant periods and it could get around the reluctance of many charterers to disclose their finances to owners.

The idea also reflects the fact that only a few owners have been successful in obtaining charter insurance and that this can be expensive and inflexible.

Under Mr Petropoulos' proposal, charterers could confidentially disclose financial information to their insurers and the cover would come at a more reasonable price, since it would be "based on hard information".

"Insurers usually have no access or contact with charterers and base their rating solely on market reputation," he said. "Insurers often decline to provide cover or owners may be obliged to obtain an expensive blanket cover for all their fleet charterers' risk, instead of selectively.

"But charterers would be able to provide this guarantee to all their fixtures, which would render them more attractive to owners and may enable charterers to obtain better terms from owners."

Mr Petropoulos said a two-tier market could be created, if widely enough applied, "comprising charterers with guarantees and those without".

Meanwhile, owners and their banks would be able to better rely on period charter business. Financiers could consider preferential margins, where charter income would be guaranteed, he said.

The need for guarantees is generally more acute in the case of operators rather than with chartering cargo owners.

"In dry bulk there are maybe about 10 charterers which dominate the industry but relatively little is known about the state of many of the others," he said. "Something needs to be done and there should be an element of self-interest for many of the middle-ranked charterers."

He said that unless charterers were public companies, which was relatively rare, charterers provided no statements or other financial information to support their creditworthiness.

"Consequently, owners today can only make their selection on charterers' reputation and previous performance. However, this is no guarantee as to future performance."

He said that, through embracing the concept, the industry "would reduce market risk in shipping, something that would assist all participants".

Recent strife among prominent charterers and a spate of high-profile charter payment wrangles have sown insecurity in the market over the virtues of longer-term deals.

Owners differ as to whether, as some experienced hands claim, charter renegotiations have long been part of shipping's cycles, or whether faith in employment agreements is near an all-time low.

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