From The Shipping BOOM To The Shipping GLOOM

Mr G. Sarris speech at the 1st Shipping Investment & Asset Management Forum of the University of Piraeus on 14/05/09

All shipping cycles follow a similar pattern: a solid economic growth leads to an extensive growth of the world seaborne trade, which in turn results in a substantial increase in freight rates. At the same time, the economical institutions are prosperous enough to invest in shipping and this leads to an increased orderbook.

When the world economy declines, coupled with the oversupply of newbuilding vessels, the shipping market falls into recession. The same applied in today's shipping market, the only difference being that the situation was critically deteriorated by the global financial crisis. And the system corrected itself in an abrupt and sudden manner.

The market fell on to a level well below the one that it should have been occupying thus creating a "spring effect" which took sometime to stabilize.

OUR CONCERNS A YEAR AGO: The beginning of last year, we enjoyed an exceptionally good market and on May 20th the BDI reached its record high level. During the market frenzy, things were very simple: if you could secure a main engine from the Makers you could also secure a vessel and if you could secure a sizable coastal piece of land almost anywhere in China or Korea you could create a shipyard.

The extent and duration of the shipping boom was such that led to an enormous outburst of the shipbuilding industry. Any existing shipbuilders expanded their facilities, others expanded in more locations and many others were newly established but without any previous experience (greenfields).

Last year, I expressed my great concern about the shipbuilding practices in the shipyards but mostly in the greenfields and the new inexperienced yards, where, profit was their only criterion. Quality, safety and control standards were significantly compromised due to the market frenzy as well as other reasons such as the lack of skilled labor, materials, equipment, technologies, refund guarantees, etc.

Today, thank goodness these yards tend to disappear, together with their opportunistic attitude, their unreliability and their lack of commitment.

THE PRESENT: The world's financial boom proved to be based on wrong assumptions and the expected drop of the shipping market at the end took place earlier than it was anticipated. The speed and the scale of the crisis took by surprise the shipping industry and while the BDI had reached 11.793 points on 20th May it fell to 663 points on December 5th of the same year.

The slowdown in trading, forced the Shipowners in an effort to reduce their exposure to consider cancelling or postponing deliveries creating problems to shipbuilders which have invested heavily on equipment, facilities, design offices, personnel etc.

New orders for construction seized and numerous cancellations since the second half of last year have taken place;

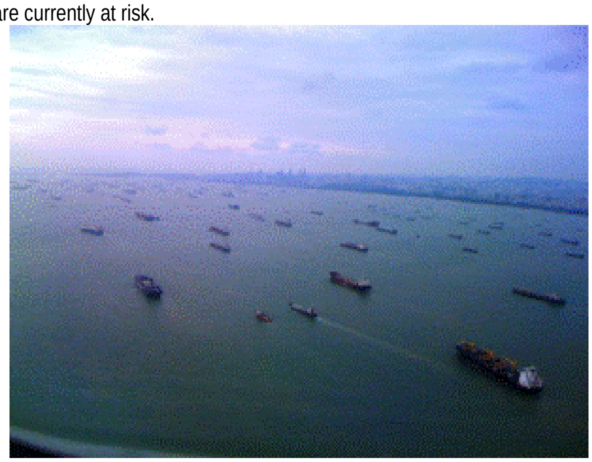
New ships that were already on the line of production are being delivered amongst the uncertainty and the present economic turmoil.

Since no construction has started for the scheduled deliveries of 2010-2011 relevant finances which could have assisted shipbuilders to cope with the economic crisis were never placed or in some cases just the initial deposits were remitted.

Greenfield yards that have taken orders were not established as they faced problems getting financed, vanishing overnight together with the sums of money that they were trusted with.

Reduction in vessels' values leads Shipowners and Shipbuilders to renegotiate newbuilding contracts;

THE SHIPYARDS' DILEMMA: Shipyards are now striving for their survival and therefore, seek to cut corners to minimize costs. In addition, shipping finance has completely vanished and we have reached a point today where even the established shipbuilders are at question. It is therefore very important that all stakeholders, namely the Shipowners, Shipbuilders, Classification Societies, Banks, Makers, etc. are alert and cooperative in order to tackle this problem effectively. The current newbuilding market is very ambiguous. At the moment, almost 9.5% of the existing bulk carrier orderbook has been cancelled, with expectations for this number to grow vigorously. According to one of the biggest engine makers, 24% of their ordered engines are currently at risk.



SHIPOWNERS' DILEMMA: The problems can be particularly acute in China which is challenging South Korea as the world's leading shipbuilding nation. As it seems, the major Korean shipbuilders will thrive when the newbuilding prices get back to normal due to their superiority in quality and reputation, while some Chinese shipbuilders will close down or change over to shiprepairing yards. The current situation is purely a game of stamina where only the fittest will survive, thus changing the current scenery to a condition where only a few players will dominate. However, it is very essential and healthy for the shipping business to have many players in every sector and all stakeholders should work together towards this direction.

The future of the shipping industry depends on the decision each stakeholder will make. Accountability is the key word which will protect the image of the global shipping.

By the end of April this year, the BDI stood at 1800 which can be interpreted diversely by the Owners, depending on their position of investment. In other words, we face the paradox that the current market can be interpreted at the same time as good for some and modest or bad for other Owners. Some years ago, I recall a charter rate of $18,000 per day for a modern capesize bulk carrier was considered to be very robust. Today, the same vessel is chartered in excess of $22,000 but, for some Owners, this is not necessarily considered a good rate.

Owners' opinions vary also about the future to come: some are optimistic while others are pessimistic. This depends mostly on the strategies they deployed during the last years and how accurately they assessed them. The Owners who placed newbuilding orders at high prices with huge loan agreements, now feel the financial pressure intensely. Some Owners have laid up vessels in order to cut down their costs while others are considering the option of even filing for bankruptcy should the economic crisis last.

Shipowners are monitoring closely market trends and are reviewing the prospects of cancelling, postponing, or re-selling deliveries. On the other hand owners with solid economic background may wish to avoid their new deliveries scheduled for 2009 and 2010 as the prospects for recovery of the shipping market may be delayed. However, there is little they can do as a significant percentage of their contract value has been already remitted. In regard to the deliveries scheduled for 2011, the feelings are mixed and they depend on each Shipowner's prediction for the future, some will maintain their position and some will either renegotiate, delay or even cancel their contracts.

As far as the deliveries of 2012 onwards are concerned, it is still too early and premature to endanger a forecast as to what will happen with these contracts.

THE FUTURE: I personally think that it would be a shot in the dark to venture a guess on where the market is heading to. We should all try and understand that what has happened since last year was clear evidence that a greedy system will definitely collapse at some stage and we should all learn from our mistakes. In today's turmoil, Shipbuilders are still alive and maintain relatively high prices due to their existing contracts. However, as time goes by and the market unrest is prolonged, the number of cancellations will vastly increase and the Shipbuilders will gasp for breath in order to meet their financial commitments and their huge exposure.

It is therefore almost certain that, at some point, the prices will be forcibly reduced to a level that will be in direct correlation with the market conditions. Something similar to what the Shipping market experienced a few months ago.