Report on the Shipping Economist Ship Finance & Investment Conference in London November 2008 for the Nautical Institute.
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The Nautical Institute was a Supporting Organisation at this year's 21st Lloyd's
The conference was ably chaired by Michael Drayton, chairman of the Baltic Exchange. In his opening remarks Michael described the current crisis in the shipping industry as the worst in 25 years. Eminent bankers speaking at the conference presented much supporting evidence to that effect: charter rates have collapsed; shipyards are losing orders rapidly; ships are being laid up; owners are clamouring to refinance loans; banks are struggling to increase margins to cover their costs and so on. The general message from the ship financiers present was – don't speak to us for at least six months, there is no finance available.

It was all quite depressing and confirmed the stories appearing in the shipping press regularly these days. However several brave souls attempted to forecast the turning point in what is obviously a very severe downturn in a highly cyclical industry. Ted Petropoulos of Petrofin SA reported on a survey conducted among 23 leading banks. The consensus was that the credit crisis which triggered the reaction in the shipping markets was expected to last for up to two years; the current depressed charter rates are seen as an aberration and not expected to last more than three months before the markets returned to more sustainable levels and in the longer term the various government stimulus initiatives will create a surge in demand for shipping to cope with higher levels of trade.

In the meantime oil is expected to remain close to $US 65 a barrel in the foreseeable future; banks will certainly demand greater security over loans and the cost of loans will rise to cover the bank's cost of funds rather than a margin over LIBOR (the inter-bank lending rate) as was the usual practice. In short finance will be much harder to get and will cost a lot more.

The more positive tone emerging towards the end of the conference was that this is a bad crisis but we (the grey heads in the audience) have seen it all before. The real threat hanging over the industry remains the huge outstanding order book at the yards. It was thought that many of the newer Chinese yards would close or merge but that they would fight hard to retain orders and hold owners to contracts. This is particularly relevant to container and dry bulk carriers but tankers were experiencing less pressure.

Of particular interest to members were the remarks by Douglas Lang of Anglo-Eastern on crewing problems. He referred to the shortage of experienced and competent crews, the overwhelming demand for good people by the offshore industry and the escalation in salaries. Virtually all the OECD countries have the same problems with ageing crews and diluted competences which are being compounded by language problems with ships now averaging four nationalities in each crew.

Established owners are now in a position of having to compete with others who are offering incentives to switch owners as soon as they leave a ship. Experienced and qualified seafarers are offering their services to the highest bidder at the end of a voyage. The erosion of competence is also leading to higher incidence of machinery damage, a higher risk of collision and grounding.

Will the pendulum swing back? Douglas believes that a crew size of 22 to 25 people is about right, substituting technology for people is not an answer but also increasing wages has not worked in attracting people. The industry has a poor image in the community as news of shipping only ever hits the headlines when there has been an accident; the authorities should stop sending masters and seafarers to prison and they need to solve the problem of piracy.

He believes the challenge will be to slow down the rate of promotion to allow senior ranks to gain experience. The Tonnage Tax has been a great success and has attracted many new cadets of first class quality to the industry but they are being promoted too quickly because of the skills shortage. One solution is to offer specialised career options to junior ranks similar to those in the Royal Navy. Another is to prepare good staff for a shore career through continuing professional development and exposure to the work in office and shore-based management while continuing a sea-going career into the 35 – 40 year bracket. At present he is aware of some masters who are still at sea in their seventies!

I believe the Nautical Institute made a good move in supporting this conference. The Institute’s profile was certainly enhanced in the important area of ship finance by influential people who can assist in furthering our aims and objectives.