

word of mouth

By Nigel Cleave

With the world experiencing a global financial calamity at levels not seen for 80 years, leaving banks with toxic debt, governments intervening to prop up their balance sheets and the associated knock-on effect in global trade, where does this leave the shipmanagement industry today?

Ship owners, who have placed newbuilding orders in not inconsiderable numbers when the market was high, are now facing significant difficulties, not only in securing finance but also in obtaining suitable charters to cover at least interest and operating expenses. With vessels in their hundreds entering hot and cold lay-up, coupled with the dramatic fall in ship values, many ship owners are also in technical breach of their loan-to-value covenants in respect of their existing vessels, thus providing a window for banks to renegotiate loan terms as well as increase margins, adding additional pressure to the already squeezed ship owner.

While banks grapple to resolve their own internal issues, it will not be long before the industry sees foreclosures in ever increasing numbers and, while this will no doubt provide a window of opportunity for the shipmanagement industry as a whole, those managers left with the fall out of existing vessels under their management, coupled with clearly inadequate and falling rewards, will invariably have some very difficult decisions to make.

Owners, once considered to be serious first class players with unblemished records, are today even finding themselves in default, having been let down by their counterparties or exposed to expensive newbuilding contracts, resulting in managers being asked to reduce operating expenses as much as possible and extend credit in the hope of surviving the recession. This leaves the ship manager with the dilemma of either trying to work through the problem in co-operation with the ship owner – also running the risk of bringing operational safety into question, mounting debts and direct exposure to insurance premiums and P&I calls, being named as co-assured – or walk away at the expense of losing a valued client.

Shipping is about relationships and, clearly, the most pragmatic way forward is for both the ship manager and the owner to be in frank and open dialogue with each other, addressing pertinent issues head on and without delay. Decisive action needs to be taken at an early stage, however uncomfortable this may be, failing which, the exposure, resources and management time in working out a management contract gone wrong, could have a profound effect on the entire businesses of both the ship manager and the ship owner.

Long-term relationships can be won or lost during these difficult times. Given the precarious state of the world economy today, the disparity between supply and demand and the risk of dramatically-reduced lending as banks focus on local business, the sooner the difficult issues are addressed head on, the better. On a positive note, shipmanagement customarily grows in times of adversity which brings the industry back to the thorny issue of stagnating reward, the subject of which should invariably have been addressed when the market was considerably better. As with the case of liner operators, will we now see a concerted effort to improve margins? Time will only tell. ■

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Did you know...

Denmark's AP Moller-Maersk hopes to clean up by ditching napkins to save money on its ships. According to Maritime Denmark, the use of paper napkins costs \$70,000 last year, with Maersk Line accounting for the largest share of this figure. The owner will switch to kitchen rolls instead, which are already in plentiful supply on the group's vessels. Crew are also being asked to come up with other ideas to save money.