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Dangerous temptation

IT IS hardly a great revelation to say shipping markets are going through a crisis with an increasing number of shipping companies experiencing liquidity problems. Such crises and resulting problems are a regular feature of shipping market cycles going back many decades — indeed, centuries.

But when such a leading and respected figure in shipping finance as Dagfinn Lunde, managing director at specialist transport finance bank DVB, puts a more profound and long-lasting interpretation on

what is happening than a temporary market downturn, it is time to take notice.

In the bank's latest in-house newsletter, Mr Lunde pulls no punches about the nature of the problems and their effects on shipping companies and banks providing debt facilities — although, of course, putting his own bank's position in a favourable light.

He describes the current crisis as a "long-term disruption of international shipping markets", with no recovery likely before the end of 2012. The DVB head of ship finance points the finger firmly at overcapacity, with a reference to the huge excess shipbuilding capacity in Asia, compared with what is required for normal replacements.

Mr Lunde starkly outlined the implications of this for shipping companies, with reduced income from poor rates leading to liquidity problems, which are now appearing in increased measure, with more companies having to restructure loan facilities and reschedule repayments.

Where this proves impossible, it is already leading to foreclosures and fire sales of vessels or entire fleets, with an increase in the numbers of ships being sold for auction, whether voluntarily or forced by lenders.

"It is always the lack of liquidity which kills a company," he said.

This coincides with many banks withdrawing from shipping, at least partly due to their own finance problems, leaving shipping firms with few options to raise funds for refinancing. With poor earnings likely to continue for another year at least, those liquidity problems can only get worse and more shipping companies will be forced to take drastic action to survive. Avoiding the temptation to order and finance newbuildings as prices fall will be a key decider for how long Mr Lunde's long-term disruption actually lasts.

Rejoice at peril

YOU know you are clutching at straws when upturns within downturns start looking good — and a case in point has been the celebrations accompanying the news that the Baltic Dry Index has hit a 2011 high.

Even outside the shipping world, the development was eagerly seized on in some quarters as evidence macroeconomic prospects may not be quite as bleak

as a raft of other indicators seems to suggest. With everything from US unemployment numbers to the stresses faced by the eurozone looking absolutely horrible, this is perhaps entirely understandable. But whether or not it is justified is another matter altogether.

Indeed, the BDI did close at 1,750 on Monday, the latest figure available at the time of writing. That, of course, is well down on the 2,800 or so seen this time last year — and you do not have to have been in this game too long to recollect the 11,171 touched in the dim and distant days of May 2008.

The obvious question is: where now? In this connection, forward freight agreements provide a useful pointer. Amid last week's hullabaloo, Clarkson Securities data's announcement that October-December capesize contracts were trading lower for the first time in 12 sessions, after gaining 16% the week before, went almost unnoticed.

The suggestion here is the apparent rally may not be long for this world — and analysts from other sectors who cling to the BDI for comfort should be keeping an eye out for other factors too. ■

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Industry Viewpoint



JOHN AC CARTNER

Shipping must take lead role over climate change

Whether or not we believe in global warming, can we really take the risk of doing nothing?

EACH of us deals with systems that shape our lives beyond our individual control. We measure money activities and express them in business terms. Money comprises a contrived social system which, if it were to disappear, would kill few of us. Barter would return in nasty, short and brutish lives, but many people would survive, prosper and reinvent money.

Another system is deeper and greatly more important than money. Unlike money, this system has the power to mortally wound. Unlike money, it can be managed but not controlled. Just as with money, we can do things that foul the system, as well as encourage it.

We can accurately project economic activity, but we cannot measure the accuracy of our projections of the effects of the second system. We do know this: when the second system is fouled, it takes a very long time to unfoul it.

We tend to think generationally. One works for money, saves, invests, retires and passes it on to one's estate, which then manages it and continues the cycle. The second system is not so property-bound. After death, we have no control of it.

The demise of money might be a factor in the collapse of a civilisation. A changing environment, however, could bring about the collapse of civilisation itself.

Shipping has been with us as long as there has been trade. It has seen innumerable economic cycles. It has also seen good climatic periods and bad ones over its recorded 5,000 years.

However, shipping has never seen anything similar to the climatic period we are entering. Will shipping survive? Yes. It will adapt and continue its quiet tertiary existence. But only if we survive...

I see the data and understand the arguments for and against the reality of global warming. I think the notion that one must have complete data and understanding before one acts is fundamental, wilful blindness and political stupidity for a matter which is threatening civilisation. Indeed, some factions would rather see things collapse than permit our leaders to prevent it.

In shipping, we never make a decision with full data and understanding. That is called risk-taking. We take calculated risks. Sometimes we win, sometimes we lose. If prudent, we come back to the table with most of our capital and try again. If imprudent, we are left outside the casino with no ante for re-entry.

The environment? If we lose this one, there may not be a casino in which to play. I think it is that serious.

How do we deal with changing climate? Tactically, we exploit opportunities. For example, there will be new trades and changing demands. These are already showing themselves. There will be money to be made — and lots of it.

In the strategic sense, we must look beyond applying our business and economic skills — which we will do anyway — and look at the larger challenge.



The ocean is shipping's environment — and the industry can lead in reducing emissions.

Then shipping must fully understand its collective power to lead and influence. If we do not embrace the environment and act as good stewards for it, it will surely embrace us in a fashion greatly more deleterious to life and health and our money than now in these superficially halcyon days of the Holocene.

As in thermodynamics, the current course of climate change is a poker game in which one cannot win — and worse, break even or leave the game. Do we want to play that kind of game? I think not. Do we want to change the climate game in our favour as a winning strategy? I think we should. I think we have no choice.

Unlike thermodynamics, collective

shipping can influence the game. It takes time, effort, commitment, money, social cohesion and leadership, but the game can be influenced.

Shipping is the key to arresting the climate downward spiral in its actions and its leadership. Science-fiction writer and futurologist Arthur C Clarke suggested the name Earth was a misnomer. Any fool looking at a globe can see that it ought to be called Ocean. The ocean is our environment. We understand it and we think in oceanic terms around the clock.

The ocean is also the key to climate change. We work and think daily over the medium that can, in the long run, ensure our continuation as a civilisation if it

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remains healthy — or can create a dragging doomsday suggestive of bad opera without good music if it fails. That is not acceptable.

Shipping is now the target and underdog of many social systems, including law. We are criminalised, inappropriately regulated, demonised for doing things that we may or may not do, but for which we are still demonised.

We are accused of habitually fouling the air and the water. Landsmen see us as uncaring evil capitalists. The data and the improvements be damned — we will be branded as evil for the foreseeable future. There is no rationality in anti-shipping protagonists. Therefore, we must fight emotion with emotion.

Turning climate change to our problem to solve does two things. We take the political emphasis off the vexing things being done to us and we create a new and effective image of ourselves as the only true guardians of the oceanic environment. It will cost little in real money terms. It requires, however, a common voice and a common message and a great deal of will for unity. It calls for private, not intergovernmental, action.

Shipping is as integral a part of the oceanic environment as the oceanic environment is a part of shipping. We do not foul our own nest. We do not want others to foul it either. We can lead in reducing our emissions that apparently contribute to the heating of the atmosphere.

We can use our pulpit and our trade clout to coax, cajole and change shippers who do not agree with us in their actions, but only in their words. We can move governments as well as economies.

If we get ahead of the politics of clean oceans and guide it, we can save our planet and ourselves. We own the oceans. Therefore we own two-thirds of the world. We need to understand our collective power to make change. We owe it to ourselves — and to the other third. ■ John AC Cartner is a maritime lawyer practising in Washington, DC. He holds the US Coast Guard's unrestricted master mariner certification and is the principal author of The International Law of the Shipmaster (2009) Informa/Lloyds. jacc@shipmasterlaw.com

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