

Dubai, Incorporated –welcomes Marine Money

Event Report: 4th Annual Marine Money Gulf Ship Finance Forum, 5 March 2008

“Rome wasn’t built in a day”, goes the common refrain. But in Dubai it is frequently followed up with something along the lines of “but no one ever told the Sheikh”.

Anyone who has had the fortune to visit in the last decade can attest to the scale of the construction that has happened and is continuing to happen in this synthetic oasis. They also note that this Emirate is run more like a business than a state, its visitors and citizens frequently treated as clients and customers.

Those who are familiar with a bit of Dubai’s history may be aware that the Maktoum tribe’s vision in the 1930s was that a marriage between sea and trade was the way forward. Shipping has long had a special place here.

Building the city, however, required a focus on construction and real estate, which have developed into Dubai’s biggest industries. It was just a few years back when the city began to turn some of its momentous energy towards shipping with the decision to build Dubai Maritime City (DMC), the world’s first purpose-built maritime center. DMC has already reclaimed for itself a peninsula in the sea and built a fully operational dry dock. Ultimately the city will service shipping’s industrial and service needs. It will also go beyond these, providing residences and hotels, and even a new maritime university, whose curriculum is being developed through careful study of existing programs and of the industry’s needs. When completed over the next few years, the city will not only provide world-class infrastructure and networking opportunities, but is also working with the government to provide relevant regulations and act as a conduit between the government and the industry. It is, literally, a corporation that has been tasked to build the ideal maritime business center, and the results already are astounding. We had the opportunity to visit the site, explore the reclaimed land, go up the ship lift and witness dry-docking activities. Marine Money is also proud to support Dubai Maritime City in its drive to better service the needs of the global maritime industry, a relationship that was formally established this week at a signing ceremony in Dubai.

We begin with the discussion of DMC because it is in many ways symbolic of Dubai’s relationship with shipping and ship finance. It is a relationship that is still under construction, but with impressive foundations and incredible potential. Discussions with major regional shipping companies including GEM, NSCSA, and Gulf Navigation revealed a knowledgeable, transparent, innovative and energetic industry with big plans. They also revealed something else, however. Whereas most regions boast a particular ship finance “scene”, Dubai’s is still developing. Companies with close relationships to established parents may find relationship financing with local banks, while those seeking traditional ship finance at present must typically look outside the region. But that is beginning to change in a big way.

The signing of our co-operation with Dubai Maritime City is welcome, not only in Dubai but at each of Marine Money’s 14 ship finance conferences throughout the world in 2008. Our mission and theirs - to serve the shipping industry - is common.

Gulf Ship Finance Forum

That changed was evinced by the turn out of over 200 delegates for Marine Money’s 4th annual Gulf Ship Finance Forum. The delegates hailed from locally based business and from across the globe to talk about ship finance prospects in the Middle East. As many global banks struggle to meet their clients’ needs, many Gulf banks remain flush with the cash that continues to flow into the region.

Interest has reached a peak, for both Shariah-compliant and more traditional bank facilities. This gathering of experts in shipping and finance of the region was thus highly illuminating and instructive.

Mia Jensen and **Kevin Oates** welcomed delegates at a very civil 10 am start time, with a look at where we currently stand in the market.

Mr. Oates observed that while wet, dry and box charter rates are relatively subdued, vessel values remain high. Meanwhile as bank liquidity remains low, shipowners are more and more tapping into alternative forms of finance such as sale leasebacks, joint ventures, private equity, capital markets and export-import finance. **Jonathan Hill** of conference partner Tufton Oceanic’s Dubai office then took the podium commenting on the dry orderbook, which stands around 60% of the existing fleet, and asking if India can in fact do what China has done to help absorb all the supply. He also reminisced about his first job calculating break-even rates for laying up VLCCs, hoping that such history would not be repeated.

Following the welcomes, **Nick Davies** of Jefferies moderated the first panel, throwing out to start the current market concerns – subprime, write-downs, recession – and then asking panelists whether they were optimistic about shipping’s prospects. **Ahmed Al Falahi**, CEO of Gulf Energy Maritime (GEM), believed that while indicators suggest 2008 will be slow, he is optimistic that in the future demand will be strong enough to absorb new tonnage. **Lars Modin** of International Tanker Management was less worried about the market and more about finding enough qualified crew. He wondered if financiers were appropriately taking into account how the need to increase spending on crew would affect their clients’ ability to service debt in the future. **John Sindors**, who is now closely affiliated with Clarksons, considered how the sub-prime problems are actually a positive for shipping; before they hit, there was simply too much cheap money





available. He also does not anticipate sub-prime problems will lead to a global recession, expecting Chinese growth to continue, and pointing to the health of the Islamic finance markets. Rounding out the panel, **Marcus Machin** of Tufton Oceanic pointed out the serious inflationary impact the dollar's fall has had for shipping and encouraged owners to look for ways to add value, such as through the merging of shipping and logistics operations.

After this discussion by industry players, **Philippe Daubant-Pantanacce** of Standard Chartered Bank provided attendees with his outlook for the global economy. Rather than presenting them with loads of data, he emphasized the big picture, stating that while we are at a cyclically negative point, structurally the global economy is at a very positive point. Despite less than rosy news from the US and global inflation, the developing world's economy is quite strong.

The percentage of Chinese households with annual income over \$3,000 is set to triple, while the poorest part of the Indian population is moving from one to two meals a day. Even Africa, he noted, is doing relatively well, and this underlying strength should carry the world to an economic rebound.

Philip Rogers of Galbraiths then gave the shipping specific outlook. He expects world oil demand growth to be weak due to higher prices but for the Middle East to increase production slightly in 2008.

Tanker fleet growth, he notes, will peak in 2009 at 8.8%. As to the dry bulk market, he noted that 2008 has so far been the most volatile year yet, with the largest one-day fall and rise in history. While demand factors are generally positive, with congestion not disappearing though falling, the completion of iron ore negotiations, China's continuing exceptional growth and India's gradual emergence, the massive orderbook is still set to overwhelm the market – even if demand turns out to be underestimated by as much as 200%! However he noted the possibility that the orderbook is overstated due to greenfield yards and supply bottlenecks and expressed serious concerns about crew similar to those of Mr. Modin. He pointed out that yards are going to be delivering 4.3 ships per day for the next three years and wondered how we're ever going to find that many qualified captains.

Following Dr. Rogers' presentation, the focus turned to banking with a panel led by **Peter Measures** of Ince & Co discussing debt finance in the gulf region. **Nigel Anton** of Standard Chartered Bank, the biggest foreign bank in Dubai and a pioneer of modern Shariah-compliant finance, told attendees that higher margins, far from reflecting more profit for banks, are simply passing on the

higher Interbank loan market costs. **David Bonicel** of Natixis echoed this sentiment, putting forward statistics that the Interbank rates which historically ranged from about zero to 15 basis points were now up around 40 basis points plus. He also pointed out that shipping risk is currently considered preferable to many other markets, such as real estate and unsecured finance. **Vijay Kamath** of the National Bank of Fujairah added that banks are of course now more conscious of which credits they will and won't do, but cost shouldn't be an issue – margins may be rising but not as much as LIBOR is falling, meaning that money, ultimately, is cheaper. **Simon Deefholts** of HSBC agreed with Mr. Sinders' earlier assertion that the withdrawal of liquidity is in fact positive for shipping, adding that it creates a lot of potential opportunity for stronger players. Mr. Al Falahi asked whether banks will start to cooperate more, and Msrs. Deefholts and Kamath asserted that this is already happening, though some would disagree. In the final presentation before lunch **Geir Sjurseth** of DVB discussed offshore, sharing what he calls happy thoughts on an interesting market. He considered the last market peak in 1978 and asserted that despite large orderbooks, the fleet is due for renewal and prospects are good. This has attracted a great deal of private equity interest. Mr Sjurseth also pointed out that Bourbon Offshore, which will be delivering one newbuild every 12 days for the next three years, is trading at the highest multiple of any comparable public company, indicating investor confidence in the future.

A highly informative morning was followed by a garden lunch in full Dubai style, where delegates were treated to a variety of local and international cuisine on a sunny, breezy lawn. While many may have preferred to linger over lunch, their return inside was well worth the reward.

Richard Briggs of Hadeef Al Dhahiri & Associates moderated the first afternoon panel, which would be full of information on the workings of Islamic finance. **Mohammed Omair Al-Otaibi** of NSCSA, a 29-year-old Saudi public shipping company, gave a history of the development of modern Islamic finance, then explained several ways in which his company had applied such finance in recent years. **Jonathan Hill** of Tufton Oceanic emphasized the growing importance of Islamic finance as high oil prices have mushroomed into liquidity for many Islamic banks even as other banks are tightening up. He noted Tufton's recent launch of a new Islamic leasing portfolio with Kuwait Finance House last month, but called for the bar to be raised and for more predictability and consistency in the rules dictating Islamic finance; currently each bank has its own Shariah Board that determines on an individual basis whether transactions are compliant.





Michael Alexiou of Alexiou & Co pointed to S&P estimates of \$2.3 TRILLION in GCC state liquidity and Boston Consulting Group estimates of \$10.2 trillion in accumulated wealth among Middle East investors and ruling families to encourage attendees to take prospects for Islamic finance seriously.

He then looked at some guiding concepts behind Shariah financing, including riba, or increase, and gharar, or trading in risk, before discussing a few commonly used structures and potential applications in shipping.

Andrew Hampson of Tufton Oceanic moderated the next panel, which looked at project finance and leasing opportunities available to shipowners. **Nicholas Pitts-Tucker** of SMBC discussed the Middle East's location at the center of the LNG trade and his expectations that regional investors' appetite for shipping was set to grow through a backward integration from terminal and infrastructure investment. **Mustapha Boussaid** of Waha Capital, formerly Oasis Leasing, discussed products his company offers shipping, including bareboat charters with purchase options or obligations, which can be structured to be Shariah-compliant. Waha Capital's portfolio of leased assets currently stands at \$1.2 billion. **Philip Clausius** of First Ship Lease Trust gave an overview of the business trust in Singapore as a solution for capital-intensive industries and noted leasing's importance in helping owners diversify their funding sources.

John Ewing then presented on the vision for Dubai Maritime City and the importance of clusters. He emphasized DMC's goals of providing world-class

Conference numbers: 208 participants (from 22 countries), the most so far in our short four years history in Dubai. Among these were shipping executives representing 35 shipowning companies and bankers and financiers from 37 financial institutions – that is about one bank per shipowner – so there should be enough for everyone. (Interestingly we had 14 more financial institutions than last year).

Final List of Participants is available at: <http://www.marine-money.eu/2008/dubai/pdf/ListOfParticipants.pdf>

For full list of Marine Money Ship Finance Forums worldwide, please visit:
www.marinemoney.com

**See you in Dubai again next year at our
5th Annual Marine Money Gulf Ship Finance Forum**

infrastructure, services and regulation as well as competent access to capital.

Randee Day of Seabury Group moderated the day's final panel, which examined the challenges ahead for shipping and how owners can prepare to meet them. Ms. Day began by putting up a list of factors that are and aren't under the control of ship owners and asking panel participants what they are doing to address matters that are be under their control. **Tom Kjeldsberg** of Double Hull Tankers cited the suitability of conservative financial gearing. Ms. Day agreed, nothing that these days companies are looking at maximum leverage around 65% and that tougher markets would lead to survival of the fittest and reward more conservative companies with strong corporate governance. **Antonis Bertzos** of BhatiarisMaritime, a joint venture between Aries Energy and leading Indian coal processor and distributor Bhatia International, discussed the effect of cost pressures, which will push down profitability as he doesn't see these costs being passed on through higher rates. **Sang-Jin Kim** of Korea Export Insurance Corporation discussed yard risk, dividing shipbuilders into those that are large and established, and those that are either small or newcomers. He noted that despite deteriorating market circumstances contract terms are still favorable to shipbuilders and expressed concerns that some of the smaller or newcomer yards are likely to change their payment requirements. A question from Kevin Oates about what the market will be like in three years elicited some tentative responses before **John Ramage** of International Registries stepped up and stated his expectations for lower freight rates, higher scrapping rates, lower global fleet age and a reduction in the number of ships on order. A member of the audience commented that the biggest change will inevitably be something not predicted, because that simply is the nature of shipping. With that, **Erik Lind** of Tufton Oceanic closed out the day, summing up its upbeat attitude and the ultimate conclusion that capital is available to shipping, but at a price.

Delegates then moved to a cocktail party co-hosted by International Registries before disappearing into the Dubai evening as they contemplated the potential future of Middle Eastern ship finance.

Text by Nora Huvane for "Freshly Minted" weekly online on November 1, 2007, available at www.marinemoney.com

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