

Marine Money: shipping continues to develop in Dubai and the Gulf region

Event Report: 5th Annual Marine Money Gulf Ship Finance Forum, Dubai - 4th March 2009

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In a week when stock markets steeply declined and then recovered, when Sri Lankan cricketers were attacked in Pakistan and the world continued its crazy momentum, Marine Money with Anchor Sponsor **Tufton Oceanic (Middle East) Limited** hosted its **5th Annual Marine Money Gulf Ship Finance Conference** in the luxury of the Grand Hyatt, Dubai.

Forewarned that things were pretty bad in Dubai and that it would be a struggle to get people to attend, we proudly welcomed 152 speakers and delegates. And it is also significant that half of today's participants attended our Marine Money conference in Dubai for the first time. That is a lot of new networking opportunity and it demonstrates that shipping continues to develop in Dubai and the Gulf region.

The keynote address was given by **Rtd Major General Sharafuddin Sharaf**, Vice Chairman of the Sharaf Group and President of the UAE Ship Owners association. He reminded us that although the GCC region is not isolated from the global crisis, Middle East shipping companies should come out better than most because many are flush with cash, because the region is expected to come out of this crisis sooner than the US and Europe and because trading within the region continues to grow.

Our first panel consisted of **Capt Jitendra Misra** of Emarat Maritime, **Marcus Machin** of Tufton Oceanic (Middle East) Ltd, **Richard Coxall** of Eships and **Anil Sharma** of Global Marketing Systems with **Richard Briggs** of Hadeff & Partners as moderator. The general consensus was that the focus should be on risk management, of one's own business and of their counterparties. Transparency is more than ever necessary. Mr Sharma interestingly commented that during the boom years only 3 to 4 dry bulk carriers were scrapped per annum. Global Marketing Systems alone has delivered about 100 vessels for scrap in the past three months and it is projected that 1000 vessels will be scrapped during 2009. Finance remains hard to come by and global trade can only assume normality when the financial crisis is solved.

Marios Maratheftis, Head of Research at Standard Chartered Bank, suggested that as an economist the current crisis was inevitable and is shocked that people are so shocked that it is happening. Why did it happen – because China and other wealthy emerging economies were lending to the US and Europe during the years of 2004 to 2008. What were the borrowers



doing with the money – buying Chinese products. And the Chinese lent the money again. This was unsustainable. Mr Maratheftis reckons there is no quick fix in the US and Europe and that any recovery in 2010 will be so modest it will be hardly recognizable. Not so in the Gulf region where the structure of the economy should enable a more robust recovery from 2010. Of note Qatar is expected to grow by 8% in 2009, the fastest in the world, boosted by LNG exports.

Urs Dur of Lazard Capital Markets is convinced he will be retired before we see the BDI anywhere near 12,000 again. He does project 3,000 by the end of 2009. Not so for the container trades which will remain sluggish for some time to come.

Erik Helberg of Pareto Securities stated that in the tanker trades the normal seasonal strong period is currently being replaced by a cyclical downturn caused by less demand for oil, OPEC cuts and supply overhang. There is a large tanker orderbook and the bad news is, vis-à-vis dry bulk, that most of these vessels will be delivered. Tanker demand may improve in 2010 but not enough to absorb increased supply. A 2 – 3 year downturn is expected.

Our banking panel, consisting of five banks active in lending to shipping in the Middle East, made it quite clear that what little lending capacity there is will be focused on existing clients and only then to the strongest credits. Every bit of extra security available will be taken including guarantees from export agencies. Interesting comments were made about increased pricing suggesting that this is not so much a reflection of increased risk but rather an incentive to internal decision makers (the credit committee) to allocate scarce equity to shipping rather than some other business from another industry also seeking debt. Relationship banking was repeated as the slogan of the panel. If you are a new client seeking finance, fear the worst.

Geir Sjurseth of DvB Bank said that the offshore support sector had a favourable long term outlook but before that we will see some defaults and consolidation. A projection of the oil price at \$60 to \$70 by end of 2009 should bode well for offshore support down the line.

We hear a lot about Islamic Finance but don't see a great deal of applicability to shipping. **Jonathan Hill** of Tufton Oceanic, **Michael Alexiou** of Alexiou & Co and **Tony Rice** of Denton Wilde Sapte confirmed that the financial crisis has also hit the Islamic banks, though less so than western banks. Not least the price of oil has reduced state revenues such that for the first time in many years the GCC may face a budget deficit. Islamic Finance is and will be available for shipping projects which make the grade.

With commercial bank finance virtually unobtainable in the present market our next panel discussed alternative



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sources of finance. Although it was questioned whether private equity can still attain 25% ROE the point was made that given a 5 – 7 year investment period and assuming that assets are acquired at low levels, then although the running return may well be lower, the absolute return can still achieve over 20% p.a. All depends on leverage of course and that remains a question mark currently. Shipping funds are being established for opportunistic shipping acquisitions and / or distressed shipping assets, two such funds indeed being represented on the panel.

Dubai has become a major financial centre in the Middle East and our next two speakers, **Dean Noble** from NASDAQ Dubai and **Chirag Shah** of DIFC Authority, gave us some insight into why Dubai is a place to raise equity and why shipping companies should consider a public exchange here. Dubai presents an ideal time zone, is within a four hour flight of 42 countries with a population of 2.2 billion people and a GDP (2007) of US\$ 2.7 trillion. In the City of London's 2008 report on Global Financial Centres Dubai came in as 5th leading financial centre in the world and 1st in terms of becoming more significant in the next 2 – 3 years.

Our final panel of the day covered shipping in 2009 and how to survive and prosper. A common theme was to know your banks and be nice to them because most ship owners will certainly want their banks to be nice to them. Trimming costs will be key to a lean operation, but not at the expense of vessel quality. **Nicholas Pitts-Tucker** of SMBC closed in positive mode by saying that the green shorts of private equity and Islamic Finance, which he had heard discussed during the day, were indeed food for future thought.

The next 12 months will indeed be a tough year for shipping and the world in general but our delegates left the conference with a feeling that this region at least may be better placed to weather the storm and to more rapidly start the upward climb of growth and prosperity.

The event was closed by **Andrew Hampson** of Tufton Oceanic, our Anchor Sponsor.

See you in Dubai again in March 2010.

Text by Kevin Oates, first published in "Freshly Minted" weekly on 5th of March 2009, available at www.marinemoney.com

List of Participants > <http://www.marinemoney.eu/2009/dubai/pdf/ListOfParticipants.pdf>

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

International Press Coverage

Price war exacerbating shipping crunch

http://arabiansupplychain.com/article-1804-price_war_exacerbating_shipping_crunch/

The collapse in freight rates for containerised shipping has been catastrophic for most owners, but cash-rich Middle Eastern operators may emerge from the current cycle in a much stronger position, say shipping analysts and financiers gathered in Dubai today.



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"In 2008 few people would have predicted the demand side of the equation to fall off a cliff," said Jonathon Hill, managing director of shipping funds, Tufton Oceanic Middle East. "The drop in containerised traffic was precipitated by a global financial crisis, which it appears will not be remedied quickly. In shipping circles distress seems to be the theme for 2009," he added.

Speaking at the Marine Money Gulf Ship Finance Forum, being held today in Dubai, keynote speaker Major General Sharafuddin Sharaf, vice chairman Sharaf Group, and president of the UAE Ship Owners Association flew against the wind and said the Middle East was in an enviable position to benefit from the current cycle.

"Are we insulated in the Middle East from what is happening globally? Sadly no. But I believe the regional shipping industry will emerge in a stronger position in the medium to long term," he said.

Container rates on Asia - Europe routes have plummeted 35% since last summer, and new vessel construction deals signed at the height of the peak are being cancelled the world over, with owners forfeiting their 10% deposits to exit the deals.

"Ships that earned between US\$50,000 and \$100,000 day rates in the first half of 2008 are now commanding less than \$20,000 a day - and some substantially lower still. Added to this drop in revenues, there is a price war going on with the major carriers, and we may see freight rates fall even further yet," he warned.

Captain Jitendra Misra, managing director of Emarat Maritime added that in the current climate investment in new building is off the agenda. "For the time being I don't think we'll see any owners making investments. If they are managing to source finance they're doing it to survive."

However, in spite of the gloomy broader picture, there were green shoots of sorts discussed by the panel.

"Ultimately, the Middle East and its ship owners is in an enviable position as most have cash available and are liquid, and the positioning of Dubai as a major regional logistical hub will help keep fleets active," added Sharaf.

Ninjas blamed for global downturn

Fairplay Magazine, Daily News 04 Mar 2009

LENDING to Ninjas ruined the global economy, Standard Chartered Bank's Middle East research head Marios Maratheftis warned today.

Ninjas in this case means 'no income no job or assets' and are consumers to whom banks lent before the global financial crisis, he told delegates to the Marine Money conference in Dubai.

Maratheftis presented his forecast for a post-Ninja economy: "We think the outlook for the West is bleak. The US and the Brits have been spending more than they earn. Anyone who spends like that will have to pay the bill."

While 2008 was the year of the crisis, 2009 is the year of recession and 2010 will likely be the year of stagnation, he predicted.

"It will not feel like a recovery at all," he asserted. "We foresee low-trend growth for the next 4-5 years in the West. We believe, and fear, that this is an L-shaped recession."

That's when the economy goes down – and stays down. But Maratheftis added that Asia, the Middle East and Africa will fare better than the West because of higher savings rates. He expressed the view that those areas would be first to recover in 2010.

"Whatever we do, we cannot avoid a deep depression. But we can ease it with counter-cyclical strategies.

Governments need to spend, monetary policy needs much more liquidity," he said.

Easy debt and low interest rates ruined the economy, he pointed out but "paradoxically, what created this mess will help us get out". LENDING to Ninjas ruined the global economy, Standard Chartered Bank's Middle East research head Marios Maratheftis warned today.

Shipping industry to grow 5% this year

05 March 2009, www.zawya.com

The Middle East shipping industry would grow by five per cent this year, a drastic drop from last year's double-digit growth, the president of UAE Ship Owners said.

"If you can have five per cent growth that would be good," Sharfuddin Sharaf told Emirates Business. "It is lower than last year but the growth here in the Middle East will be faster than other parts of the world as countries near the GCC like Iraq, Iran, India would still need infrastructures."

Sharaf, who is also the Vice-Chairman of Sharaf Group, said although shipping trade in the Middle East would grow, people should be "cautious" at various projections by different analysts.

"Growth rates of 30-35 per cent have been quoted however in my opinion it is more likely to be less than last year's 25 per cent," he said.

Sharaf said the region is more likely to fare better than its peers because most of the shipping companies here are still cash-rich.

"Companies here are more diversified. Most of the ship owners here have their own businesses, surely they are not dependent on their maritime business only," he said on the sidelines of the Marine and Money Conference. "And the banks in this region are still lending although that comes with stricter policies. In some areas they are not lending at all. Now however they look at what you own besides shipping before they lend you."

He said the high demand for oil worldwide, the increasing demand for commodities within the Middle East and the positioning of the region as a major logistics hub are helping the regional shipping industry to continue to grow.

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"The ([Opec](#)) cuts in the long term may affect the oil transport business but the demand for oil will not vanish," he said, adding that the region is also home to the emergence of new markets and is poised to gain from the growing demand for Brazil, Russia, China and India.

The shipping industry is one of the most affected by the liquidity squeeze.

"This system has greased the wheels of trade for over 400 years," Sharaf said. "The credit collapse is the first and foremost of the concerns that the shipping industry is facing today."

According to United Nations Conference on Trade and Development, the world's merchant fleet had expanded to a record 1.12bn deadweight tonnes, with the orderbook for new vessels reaching a peak of 10,053 ships. But from the middle of last year, companies were cancelling new ships on order, even when they were losing their 10 per cent deposit.

"In real terms, this translates to millions of dollars in real term," he said.

By Karen Remo-Listana

**Marine Money will be back in Dubai in March 2010 with the
6th Annual Marine Money Gulf Ship Finance & Investment Forum**