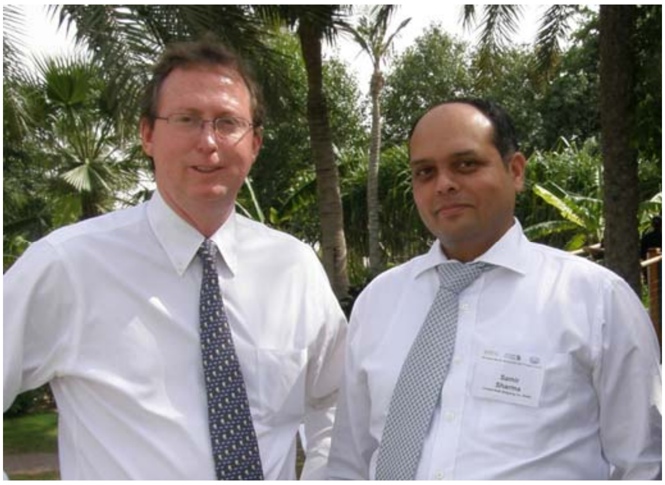
6th Annual Marine Money Gulf Ship Finance Forum
Dubai - 8th March 2010
EVENT REPORT

Banks and owners alike have a lot at stake, but have clearly plenty to benefit from if co-operation is sincere and the market helps out.

Pleasant weather and smiling faces highlighted the Marine Money event in Dubai on 8th March 2010. Not that shipping's problems are a thing of the past. Far from it, there are critical issues still to be surpassed. But the banks and the owners are still here, still in business and still determined to get to the light which appears to be getting just that bit brighter at the end of the tunnel.

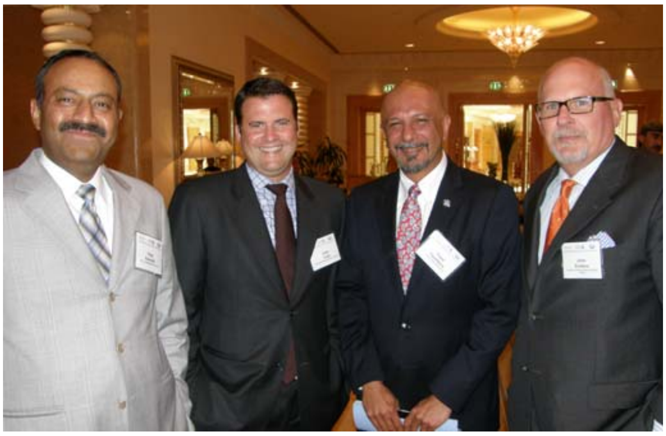
Over 170 delegates and speakers attended with about a fifth coming from overseas.



The day started with a keynote address from **Mr Scott Jones, 1st Vice President** of the **UAE Shipowners Association**. Scott highlighted how the Association has decided to broaden it's scope, to be not only an association for shipowners, but also for all shipping service providers – finance, technical, insurance, broking and legal – and bring the whole industry within a cluster, for which Dubai of course is well known.

Our first presentation of the day was a fascinating look at the region and the world at large from **Standard Chartered** economist **Shady Shaher**. Some of Shady's statistics are remarkable. Starting with Saudi Arabia, the world's largest exporter of oil, the 2010 infrastructure budget involves plans for 6,400 km of new roads, 2 new universities, 1,200 new schools and 95 new hospitals. This in a country where 50% of the population is below age 24 and where the budget is based on a barrel of oil at $42. Abu Dhabi will spend some $300 billion on infrastructure in the next 5 years. Qatar will export 75 million tones of LNG in 2010. This will earn the country about $60 billion. The message is that all the Gulf countries want to diversify away from oil and gas, but to do so they have to develop infrastructure. And this is happening apace. The Dubai debt situation should be seen within the perspective of the huge oil and gas reserves in the region.

Andre Urstad of Marsoft International presented on the dry and wet shipping markets and concluded that in the dry sector about 3% of the current fleet needs to be scrapped in 2010 to maintain the current market (assuming 13% growth in demand and slippage in the order book). In 2011 3% dry scrapping is also needed. Achievable numbers perhaps. In the tanker market about 5% scrapping is needed in 2010, which Andre believes can be done because of the single hull phase out, but a whopping 8% scrapping is required in 2011, a much bigger challenge.



The next panel continued the theme and considered the order book in more detail and whether it might cripple the industry for years to come.

Per Wistoft, CEO of Gulf Navigation Holding PJSC, pre-ambled the discussion with a presentation about the order book. The conclusion – it is not the order book which is the problem; it is the global shipyard capacity. Both Per and **Capt Misra of Emarat Maritime** believe that there is real cancellation going on, and combined with delay and slippage, the order book will sort itself out. **Nigel Bell of Bell Shipping Limited** stated that during the boom years the industry failed to remember a healthy ratio between existing fleet and newbuild order fleet and the situation got out of hand. **Scott Jones, CEO of Eships** disagreed to a degree with previous speakers and believes that most cancelled orders will in fact be delivered, but to other owners, either foreign or Chinese. He reckons that the Chinese in particular will not risk social unrest by closing shipyards and that these ships will continue to flow from the yards. Without doubt the most concerning chart of the day was from **Per Wistoft** showing that shipyard capacity in South Korea has doubled between 2005 and 2010 whereas it has tripled in China, with Europe and Japan being stable. In %age terms it is even more dramatic with shipyard capacity having increased 2400% in China since 1991, and in South Korea by 1100%. Heaven help us if these yards continue to build vessels at anything near capacity.

Our finance discussion was introduced by **Marcus Machin of Tufton Oceanic (Middle East) Limited.** The general theme, as we have heard before, is that focus still is on managing existing portfolios, although select deals can get done for preferred clients and with well structured transactions. The exception on the panel, at least in terms of damage control, was **Nigel Anton of Standard Chartered Bank** who, having started to build the shipping portfolio in late 2007, avoided costly financings of expensive assets, and has a healthy and growing portfolio. Geographic focus, Mideast to Far East. Where the action is, according to Nigel.

We then moved to the OSV market. According to **Bill Paul of ODS-Petrodata Ltd** this sector of the industry too is suffering from over ordering and day rates are depressed. **Geir Sjurseth of DvB Bank** seconded this but added that established companies with good assets and business connections can benefit from today's weakness and pick up assets and indeed accelerate M&A. The panel discussion, led by **Russell Beardmore of Standard Chartered**, and including **Fazel Fazelbhoy, CEO of Topaz Energy and Marine Limited, Mustapha Boussaid of Waha Maritime** (a Private Equity investor in offshore) and **Mark Bell of DNV, Dubai**, agreed that OSV is a vital segment of business in the region and there is scope for growth of strong companies and consolidation within the industry. The general message is easy oil is gone. Future oil development will be offshore, in deep water, and involving sophisticated and expensive vessels. A close eye on quality is required for these new assets.

Ola Strand Andersen of Imarex Asia Pte Limited gave his view on whether derivatives in shipping are a safety net or over indulgence and this was followed by a panel about UAE insolvency laws and recent changes to UAE shipping practice.

The final panel continued a common theme of the day. Just where is the capital needed in shipping going to come from? **Nigel Anton of Standard Chartered** and **Jonathan Hill of Tufton Oceanic (Middle East) Limited** co-moderated and well known panelists **John Sinders of Clarkson Investment Services (DIFC) Ltd and Tobias Koenig of Koenig & Cie** joined **Demos Petropoulos of Global Shipping Investments Management Ltd, Amir Maghami of Simatech Shipping LLC** and **Per Wistoft of Gulf Navigation**.

More Islamic Shipping Funds are on the scene. As well as the Tufton Oceanic Funds, mentioned were Koenig & Cie who have initiated one with Levant Capital of Dubai, Fortis Bank (Nederland) who have formed a joint venture with QInvest of Qatar and SFS (Demos Petropoulos) who have teamed up with Kuwait Finance House in Malaysia. Not that Islamic finance will fill the much discussed “Black Hole” but it could fill a niche in certain transactions.

When asked what are the key elements of an IPO today, **John Sinders** responded “Non-existent.” He expanded that there is so little transparency in future values of vessels and market trends that public funds are reluctant to go into shipping unless the price is deemed a bargain. He raised the issue why pay full dollar for a new IPO today when you can buy into established companies at 85 cents in the dollar.

Per Wistoft reckons there is inconsistency in the behavior of shipping banks these days. In a syndicated loan a minor bank causes major headaches for the senior banks and the shipowner with unreasonable demands for loan amendments. Additionally the same bank may be inconsistent in the treatment of different owners. The stronger owners are being squeezed for every last penny of liquidity “because they have some” whereas weaker clients are being given waivers. Are you better off being a weaker player?

A key message from the panel was that banks can keep you alive with waivers and by playing the waiting game. But they cannot give any fresh funds so the owner must keep the cash flow flowing.

To reiterate this was not a conference full of gloom. The speakers and delegates were refreshingly frank, realistic and determined to make good in a challenging market. Banks and owners alike have a lot at stake, but have clearly plenty to benefit from if co-operation is sincere and the market helps out.

See you in Dubai again next year on Wednesday, 9 March 2011

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