

## Istanbul's Emerging Market for Ship Finance

"If one had but a single glance to give the world, one should gaze on Istanbul."

Or so said French poet, writer and statesman Alphonse de Lamartine. While we are glad not to have to make this choice, arriving in Istanbul it is very easy to see why he would say this. Despite centuries of wars and earthquakes, the skyline is graced by the Hagia Sophia and various mosques, new and old, and ancient Roman walls continue to buttress the hillsides. The cause of the Bosphorus delays is instantly apparent, with commercial vessels lined up as far as the eye can see, awaiting their turn to pass.

But it's not just the city that is interesting; it is the developments in the shipping and financial markets.

So it's not surprising that we had a full house at our 3rd annual Istanbul Ship Finance Forum, opened with a cordial welcome to guests by **Mia Jensen** and **Kevin Oates** of **Marine Money Greece**. This was followed with a welcome by **Metin Kalkavan**, who told participants that this is a day they had been trying to put together for many years, referring to the meeting and discussions of the community of Turkish owners, local and international banks. **Dr. Matthias Umlauf** of **HSH Nordbank** then filled participants in on the state of the global economy, in a presentation revealingly titled "World Economic Outlook 2006-2007 – End of Good Times Ahead?" He expressed his belief that the world economic expansion has been fueled by easy monetary policy, but that US federal funds rate would most likely tighten around 4.5%-5.0% and that the Bank of Japan would end its zero interest rate policy. He expects the US dollar to continue to weaken and is concerned about a hard

landing in the US housing market, oil prices to ultimately tighten household pockets around the world, and a trend towards rising protectionism that ultimately threatens to hurt world trade – and therefore shipping.

**Dr. Philip Rogers** of **Galbraith's** opened his presentation on the dry bulk market with a look back at the controversially bearish predictions he had made one year earlier and the ensuing fulfillment of many of them. The good news is that while not exactly bullish on the dry bulk trade for the next couple years, Dr. Rogers also does not expect the bottom to fall out of the market but rather expects that in general it can continue to be profitable for those who bought vessels at reasonable prices and operate them well. The handsized fleet stands out as a sector with more positive prospects due to the very mature age profile of the global fleet and the corollary of high levels of expected scrapping.

This was followed by a panel moderated by **Kevin Oates** comprised of German bankers representing **HSH Nordbank**, **HVB** and **Deutsche Bank** who discussed, among other things, the strong presence of Hamburg bankers in Turkish ship finance, the strides made by Turkish owners in terms of transparency and – above all – the importance of the relationship between the bankers and particular owners in creating a viable financing package.

**Sualp Urkmez** of **Furtrans** then discussed the development of 40 new shipyards at Yalova in Turkey that if developed as planned would make Turkey the fourth largest shipbuilding nation in the world by 2010. The yards would specialize in the same under 30,000 dwt vessels currently preferred by Turkish yards, who don't believe they are sufficiently cost competitive with the larger sizes.



*Mr. Mehmet Kalkavan, Board Member, Turkon Holding, Mr. Erol Yucel, President of the Assembly, Tyrkish Chamber of Shipping, Mr. Kevin Oates, Marine Money Greece  
Mr. Metin Kalkavan, Chairman of the Executive Committee, Tyrkish Chamber of Shipping and General Manager of TURKON Holding A.S*



*Mr. Robert Yuksel Yildirim, General Manager & Managing Partner, Yilmar Shipping  
Mr. Servet Yardimci, Vice Chairman, Yardimci Group,  
Ms. Nora Huvane, Managing Editor, Marine Money Intl,  
Mr. Koray Deniz, President Deniz AY, Mr. Vasilis Carellis*



*Mr. Sualp Urkmez, Managing Director, Furtrans Denizcilik Ticaret ve Sanayi A.S.  
Mr. Tamer Kiran, Shipowner/Vice President, Kiran Holding AS  
Mr. Engin Bayraktutan, Assistant Managing Director, Furtrans Shipping & Trading Co.*



*Mia Jensen, Marine Money Greece with Mr. Mehmet Matt and  
Mr. Tugrul Tokgoz of Geden Line / Genel Denizcilik Nak. A.S.*

After lunch overlooking the Bosphorus, the forum reconvened to visit the subject of capital markets. **Simon Cox** of **Norton Rose** explained the allure of the London AIM (Alternative Investment Market) to shipping companies, noting its reputation as the “light touch, low cost approach” and lack of specific objective suitability criteria. **Jay Parkinson** of **Jefferies & Company** then compared the pros and cons of a listing on a New York, Oslo, Singapore or Dubai stock exchange. While he noted that valuations were the highest in the US and that it is a very liquid market, he also acknowledged that it has the most onerous listing requirements. By contrast, the Dubai exchange, though it has barely been used to date, has a lot of potential, due to the tax free and apolitical nature of the city, as well as the huge amount of cash in the area seeking investment. While achieving liquidity in this environment could still be different, he noted that a second listing of American Depository Receipts could then be used to obtain some of the benefits of an American listing without all the headaches.

**Hakan Ates** of **Denizbank**, **Recep Bastug** of **Garanti Bank** and **Ahmet Ilerigelan** of **Yapi Kredi Bank** each presented on their respective firms, and all cited ambitious growth targets of shipping in the coming year, with a combined target exposure to shipping of over \$3 billion by the end of this year. The banks are also expanding and improving their range of credit products. At present Turkish owners, many of whom construct their own vessels, often look to these Turkish banks for the pre-delivery bridge financing in which they specialize. This currently creates an opportunity for foreign banks as once the vessel is constructed, it must then be either sold or refinanced. It appears as though Turkish banks too are keen to take more advantage of this type of opportunity – and they freely admit that they are “still learning” in some areas.

**Peter Siemianowski** of **HSH Nordbank** then discussed software solutions for managing liquidity, before a thoughtful panel discussion moderated by **Clay Maitland** and comprised of **Harald Kuznik** of HSH Nordbank, **Tugrul Tokgoz** of **Geden Denizcilik**, **Metin Kalkavan** of the **Turkish Chamber of Shipping** and **Asaf Homossany** of **Nasdaq International** rounded out the day. The panel considered such important issues as shipping IPOs and the looming shortage of qualified ships officers – an issue close to not only the owners, but more impressively to bankers like Mr. Kuznik. Mr. Kuznik also stressed how impressed he was by the quality of the people and organizations he has dealt with in Turkey, while Mr. Maitland noted how much the country has done to improve its port-state control as well as the lack of publicity this has received, pointing out, among other things, that Turkey has a better port-state control record in the US than France does. Referring the Turkish flag’s perhaps undeserved black-list status, Mr. Kalkavan stated succinctly “The Turkish flag is not black. It is red and white,” which elicited a hearty round of applause from the audience.

After all was said and done, participants had the pleasure of a surprise speech by **Michael Drayton** of **Galbraith’s** and the **Baltic Exchange**, who summed up the day with a review of the issues raised by each of the presentations. He first congratulated Turkish owners on rising to a level of quality he could never have imagined possible just five years earlier. He then encouraged them to accept their new identity and no longer accept a place as a low-cost – and implicitly low quality – center. He expressed concerns about the Yalova project, worrying that China could well be a fierce competitor even in the sectors where Turkish yards specializes, by the time the yard is built. He also warned owners considering IPOs to be prepared for a nightmare of documentation. He also noted that ship-

ping does not have a good record in London and advised owners to regard Wall Street with a healthy dose of cynicism, emphasizing that Wall Street bankers can do a good deal for them, but it is up to the principals to decide whether and when a deal should be done. However, he also acknowledged that the capital is definitely available, an in our discussions with Turkish owners we found that the

interest in the international capital markets is also there. Finally, Mr. Drayton asked the Turkish shipping industry to "Please carry on."

On that note, participants moved from conference room to cocktails, where the energy and excitement that was emitted by the presentations could be felt in lively conversations throughout the room.



**Conference Welcome Reception**, co-hosted by Marine Money Greece and **Hypo Vereinsbank AG**, was held on Wednesday, 3 May 2006 at the La Come d'Or Restaurant, Swissotel - overlooking the Bosphorus.



The evening's co-host, Hypo Vereinsbank AG, was strongly represented by Ingmar Loges, Peter-Alexander Wunner and Cathleen Behrends-Redlich



Brian Huvane of MJLF & Associates, Inc. with Antonio Litman and Clay Maitland of International Registries, Inc.



Niklas Koresaar of Tufton Oceanic, Philip Rogers of Galbraith's Ltd., Andrew Hampson of Tufton Oceanic and Johnny Johnson of Davies Johnson & Co.



Sandra Morawetz of HSH Nordbank, Sadan Kaptanoglu of H. Ismail Kaptanoglu Shipping & Trading Co. Ltd., Metin Kalkavan of Turkon Holding, Sualp Urkmez of Furtrans Group and Asil Senol Topcu of Finansbank A.S.