

Tim Huxley

The Hong Kong branch of the Institute of Chartered Shipbrokers (“ICS”) is celebrating its 50th anniversary. During this year, the branch is organizing various events including talks by prominent personalities and experts. The inaugural event on 31st January 2013 was carefully planned where one of the most respected commercial shipping professionals and an ex-chairman of the Hong Kong branch, Mr. Tim Huxley, agreed to be our first speaker.

The Hong Kong branch members were also delighted to have Mr. Robert Woods CBE, ICS President amongst them on the occasion of commencement of the Golden Jubilee celebrations of the branch. Though 1963, birth year of the branch seems like “a year gone long ago”, in fact in a different century, time flies leaving behind memories to cherish. Members of the Hong Kong branch want to make 2013, the year of the water Snake, a special one.

In today’s highly uncertain and volatile market influenced by derivatives, non-shipping financial players taking positions, excessive tonnage on water, shipbuilding capacity and other fundamental and non-fundamental factors, who could be a better person to tell us how to survive a shipping recession than Mr. Huxley! Tim minced no words when he said “We celebrate our fiftieth year with the dry cargo market having just endured its worst year for a quarter of a century, and judging by what people are saying, this year is unlikely to be much better”. It is said that when going gets tough, the tough get going. It is at times such as these, opportunities arise for those who are prepared for them. It is also a time when the strong survive and market consolidation takes place. Keeping the clients and the bankers happy in an environment where the charter rates barely covering the operating costs would be the key for survival and for being around when the tide turns.

For the readers of Seaview, we are reproducing Mr. Tim Huxley’s very interesting speech, delivered on the 31st January.

Surviving A Recession

President of the ICS, Ladies and Gentlemen, I am honoured to be here tonight to speak at this 50th anniversary gathering of the Hong Kong Branch of the Institute of Chartered Shipbrokers.

Fifty years ago, Hong Kong’s shipping industry was still in its infancy. World Wide Shipping, who have proved to be masters at surviving recessions, was just eight years old, whilst Wah Kwong had just celebrated their tenth anniversary. The shikumisen deals which saw Hong Kong shipowners order ships in Japan against long term charters to Japanese charterers were only just starting and Britain was still a dominant shipowning nation.

Many of the companies you work for today didn't exist when the ICS Hong Kong branch was founded, but what has remained a constant throughout the life of our branch has been the extreme volatility of our industry.

We celebrate our fiftieth year with the dry cargo market having just endured its worst year for a quarter of a century, and judging by what people are saying, this year is unlikely to be much better.

I am not here to show you graphs of plummeting Baltic Dry Indices or try to make some sense of the still daunting number of new ships which are coming out of shipyards, although mercifully, we seem to be through the period of 'peak' deliveries in most sectors. What I want to briefly talk about is how both companies and individuals go about surviving a downturn of this magnitude.

This slump is all the more painful because it came after such an incredible high. Plenty of shipping companies and indeed individuals, over-extended themselves when rates were high, credit was plentiful and all the talk was of the 'paradigm shift' in the way shipping worked- normally a guaranteed prelude to a recession.

From a shipowner's point of view, the big issues for surviving this year are going to revolve around ensuring that your existing charterers are still going to be able to stand by their obligations, what are your bankers going to do about assets that may well now be in breach of loan to value covenants and thirdly, ideally, positioning yourself to take advantage of opportunities which may arise.

If you didn't build up a decent war chest in the good times, or you are still taking delivery of expensive newbuildings, then the chance to pick up distressed assets is going to be pretty difficult as cut backs in traditional finance sources means that unless you can pay cash, you are going to find it challenging.

The private equity vultures have identified shipping as a distressed sector which is worth a look, but many of our normally private and secretive shipowning companies, whilst no doubt welcoming other people's money, may not want to give up control to someone who is very much an investor but not necessarily a shipping man.

So for many, this year will be about survival. We are sufficiently far into this recession that we have already had the inevitable casualties - early on, the operators who probably shouldn't have been in the business disappeared amidst a heady cocktail of one way derivatives bets, expensive chartered in fleets, often topped off with top-of-the market newbuilding orders. We then lost some big names, who finally ran out of cash as their punt that the spot market would always be able to beat the rates they were paying on long term timechartered ships turned sour. Sadly, we are still to lose some of the companies who have soldiered on, often being the victims of charterers who have returned ships their owners thought were on secure charters, but who have now simply got to the stage of running out of cash.

Keeping your charterers happy is no easy task. Almost without exception, they are paying you more than they are earning or what they could charter in a similar ship for. No matter how careful your risk management was in minimizing your counter-party risk, you cannot now risk not delivering what you have promised your customers. This is where the technical operations of a shipowner have to be in harmony and working closely with the commercial departments. With the raft of approvals and vettings which are now part of bulk shipping, particularly in the tanker markets, detentions or withdrawals of approvals could in many cases be all a charterer needs to redeliver a ship.

Keeping your bankers happy is just as important. As Dagfinn Lunde, the Head of Shipping at the German bank DVB said ‘Everyone can give loans, but the real expertise is to get that money back.’ The fact that we have a banking crisis on a grander scale than the shipping market downturn may in a weird way help shipping recover. The lack of finance available means that even with newbuilding prices at half what they were just a few years ago, it is very difficult for an owner who may be tempted to order a ship to do so. Unless of course, he had accumulated a war chest of cash during the boom.

What is possibly more of a problem for many shipowners is servicing their existing loans. With charter rates barely covering operating costs, there is little or no money left to pay the mortgage. Restructuring existing loans has taken over from trying to place new business for many bankers, in some cases a period of interest only payments until the market recovers is the only option.

All conventional shipping loans have Loan to Value Covenants which require that the value of the ship be anywhere between 100 to 120 per cent of the outstanding debt. Fortunately, banks now tend to get their own valuations from a recognized panel of brokers, but in the past, many shipbrokers were put under intense and unfair pressure to give their clients inflated values in order to satisfy banks. This caused all sorts of issues and in extreme cases resulted in brokers being sued.

Most banks have got loans on their books which are technically in default on Loan to Value Covenants, but the banks are very reluctant to call on owners to stump up cash which they don’t have. If they were to call in the loan, arrest the ship and sell at a distressed level, it is going to mean that they would have to write down the rest of their portfolio when the new low value is established. With some of the most well established lenders now declaring their intention to get out of ship finance, the outlook for the future is bleak based on the traditional ship financing model.

Bankers increasingly base their lending decisions as much on the relationship with the borrower as with the asset they are lending against. You would be surprised how much time senior management in shipping companies spends with their bankers, even when they have no new business to talk about. And that is the key – communication. Always keep your partners aware of what is going on, if you can see a potential problem on the horizon, you have got a much better chance of getting it sorted than if you delay addressing it until it becomes a full blown crisis. And always, always be honest. Markets

rise and fall, fortunes are won and lost, but the only thing in life which always stays the same is the truth.

Before we look at how you as an individual can best come out of a slump, it's perhaps worth reflecting on the words of the third generation of one of Hong Kong Shipping's great dynasties, Andreas Sohmen-Pao of World Wide who said 'Don't get too excited or carried away when markets are strong, and don't get too depressed when markets are weak.'

Now most of us here are humble employees, many are in the early stages of their shipping career and you find yourself trying to carve out a living in a recession wracked business where every cent counts.

For Shipbrokers, this is going to be the defining year. The forward book of newbuilding contracts and long term charters is running low in many cases and so there is not much fat to live on anymore. Rates are so dire that if you are earning your living on fixing timecharter trips on handys or panamaxes, you are going to be struggling to cover your costs – there just simply aren't enough hours in the day to earn the money that seemed so easy just five years ago. Of course, shipbrokers are probably the only beneficiaries of the high bunker prices which are killing some owners and charterers. Commissions on voyage charters reflect high bunker prices so no surprise that this is the preferred route of fixing for most brokers now. As one executive at a leading charterer said to me last week, 'I have never come across a business which is so skewed in favour of the brokers as shipping.'

So if you can't get into fixing voyage business, what's the best way to ensure your survival? There have been some horror stories – thankfully not verified – of companies who have fired all the trainees unless they were related to a partner. I am speaking here on the basis that most of you got your jobs on talent and potential alone.

This is a recession, which means it is an opportunity. An opportunity not just for shipowners who have got access to cash to buy cheap assets, but for the next generation to make an impression. There are a lot of people in our business who stuck around for one last roll of the dice through the boom times and now can't really be bothered to spend their last few years working through a recession when flying to Tokyo for a round of golf has become rather frowned on.

It's an opportunity to really make a difference and build a relationship with a client. No matter what area of business you are in, shipbroking, insurance broking, weather routing or ship management, if you can intelligently help a current or potential customer to do slightly better than the meager returns he is currently getting, you will be appreciated and that customer will probably stick with you when times get better. Fixing a twenty day trip from the Philippines to China with nickel ore is certainly not as lucrative as two years timecharter at 40,000 a day, and whilst it won't see Porsche buying bonuses, just keeping a ship moving in the current market is going to be really appreciated by an owner – and they will probably remember it in the future when markets are brighter.

It's a great time to show your own commitment and enthusiasm for the business and be seen to be playing a long ball game. Obviously it's a given that anyone who is here knows the value of passing their Institute of Chartered Shipbrokers exams and getting a meaningful qualification. If you are still studying for your ICS exams, never has it been so important to have that qualification.

There might not be a huge volume of business going on, but this is a great time to tap into the experience of your peers – always pick the right time to ask, but you would be amazed at how willing people are to talk about their experiences – especially of previous downturns. In Hong Kong we are blessed to have organisations like the Young Professionals in Shipping Network, which not only give you the chance to meet others but also to share your own fears and frustrations.

It goes without saying that now is the time to make an impression in an organization. Offer to help in areas that may be outside your scope, but which may be overlooked. An update or bright idea about the company website was something I had overlooked but which was executed brilliantly by a young colleague recently.

Above all, don't get disheartened. At least unlike the recession of the 80's, there aren't people earning fortunes in banking or stock broking. All your contemporaries in other businesses are in the same boat. It's worth remembering that shipping is always going to be needed, unlike some of the complex derivatives products which have in part been the downfall of the banks.

I would like to end with a couple of quotes from two shipping veterans who together have been amongst the most successful deal makers of the last two decades – Tor Olav Troim, right hand man of John Fredriksen, who said 'Leading a company through a downturn is a skill that can only be learned the hard way', and from John Fredriksen himself, widely regarded as one of the most influential men in shipping and who went from being the telex boy in a shipbroking office to the undisputed tanker king of Europe 'The shipping business is very simple. You just have to work hard, look at all the information and do deals quickly when there is good value. We are never just sitting back waiting for the phone to ring.'

Thank you, and good luck.

(Speech by: Mr. Tim Huxley on 31st January 2013; Introduction by: Mr Jagmeet Makkar, both of them are the Past Chairmen, ICS, Hong Kong Branch).