

The Hope is Right in Our Hands

Gao Yanming



As the Chairman of the Board of Directors of both Hebei Ocean Shipping Company Limited (“HOSCO Group”) and North China Shipping Holdings Company Limited (“NCS”), Gao Yanming has played a major role in the development of the maritime sector in China. Today, HOSCO Group has grown into the leading private and fourth largest shipping company in China, a truly remarkable feat considering that the shipowner was on the brink of bankruptcy when Mr. Gao was appointed as its General Manager in 1998. Mr Gao was also the master architect behind the meteoric rise of NCS into one of the biggest dry bulk shipowners and operators in Hong Kong, having successfully taken advantage of territory’s pro business environment and its position as one of the world’s leading financial centres.

Highly respected for his views on the Chinese shipping industry, Mr Gao actively puts forward his suggestions to the Ministry of Transport, National Development and Reform Commission and even directly to Premier Wen Jia Bao. In this speech, delivered at World Shipping (China)

Summit 2009, Mr Gao appealed to the industry players to take concrete actions to reduce the tonnage overhang through scrapping of old vessels, laying up existing tonnage, delaying newbuilding deliveries and cancelling orders for the benefit of the industry.

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Since September 2008, the international shipping industry has been undergoing an unprecedented “catastrophe” in one century, which has incurred great loss to the shipowners in the whole world. That catastrophe is caused by the following two reasons: one is due to the global economic crisis brought by financial tsunami; the other is due to the severe surplus of tonnage supply. Under such double pressure, people are expecting the market to recover soon. But how can it be recovered?

Many people pin their hope on the resurrection of world macro-economy, but that is apparently not enough. There is no doubt that world economy will recover gradually. This “invisible hand” will help to recover the shipping market. However, if the situation of severe tonnage surplus can not be corrected, the shipping market recovery will lag so far behind the macro-economy revival that the shipowners’ suffering will be greatly prolonged. Therefore, it is necessary for shipowners to extend their “visible hands” to do further.

With this opportunity, I would like to appeal to your active action and instant adoption of the following measures to reduce the tonnage supply:

First, scrap the old vessels of over 23 years old without any hesitation;

Second, lay up the existing vessels properly;

Third, try to reduce the newbuilding orders and post-pone the newbuilding delivery if possible; (here, I would like to clarify: this measure is not meant to spoil the interest of Shipyards. Because shipping is the basis of shipbuilding, shipping industry prospers and then shipbuilding industry can prosper. In the current grim situation, this measure can ensure the recovery of shipping market as soon as possible, in line with the long-term interest of shipyards.)

Fourth, stop competing with each other to build those very-large or ultra-large vessels of whatever type.

Of all the above-mentioned measures, the most important and effective is to scrap the old vessels. In the current situation, the newbuilding delivery with incredible speed will peak in the Year 2010, which will definitely put tremendous pressure on the shipping market next year. Therefore, no delay is allowed in speeding up the demolition of old vessels. All the shipowners must bear in mind that the number of old vessels to be scrapped is in direct proportion to the extent of the recovery of shipping market. The more we scrap, the better the market will be.

For example, one Capesize needs to be fed with one million tons of cargo in a year. Therefore, with one Capesize scrapped, the market will see additional one million tons of cargo. Up till now, the number of Capesize owners is more than 170 in the world. If there could be 100 owners, each of whom scrapped one Capesize, the global market would have extra 100 million tons of cargo. I don't believe the market will not go up with these extra 100 million tons of cargo. Of course, the demolition of one old Panamax plus one old Handysize has the same effect.

All the shipowners should also note that the old vessels we scrap are in the minority, but the existing fleet under operating and the newbuildings are in the majority. There is little impact and little loss for you to scrap those old vessels with high oil consumption, low efficiency and many potential problems. But when all the shipowners unite together and scrap the old vessels voluntarily, the market can regain balance so that your existing fleet and newbuildings will be benefited largely. So everybody must understand that only healthy market can save shipowners, and shipowners who are saving the market are actually saving themselves.

At present, some shipping enterprises only mentally recognize the contestation that "scrapping" is able to "save the market", but few of them are willing to take actions. This is mainly because some shipowners are so selfish that they wish to benefit from others' scrapping. Besides, other enterprises do not want to scrap

old vessels due to their worry about their positions and ranks in the market. All these self-centered, narrow-minded thoughts and shortsights are the main obstacles that hamper the old vessels from demolition and heavily press the market from rebound.

Shipowners should by no means cherish the illusion that the market will recover in a short time but should be fully prepared for the ponderance and permanence of this recession. Large and strong companies, especially those who have made a fortune in the past several years, should be more determined to scrap old vessels and the vessels to be scrapped should also be younger. Vessels of over 23 years old could be considered as the candidates for scrapping. Moreover, don't be greedy for small gains by selling the vessels of over 20 years old as second-hand vessels, thus, the living space for old vessels can be reduced. Sales of vessels below 20 years old do not have negative impact on the market while sales of those over 20 years old, especially those over 23 years old, will hamper the old vessels from natural elimination.

Those newcomers who want to enter the shipping industry and those small-and-medium sized owners who want to expand by taking advantage of the low market should do the "shipping" as a "cause" but not a "speculation". So, do not buy old vessels of over 20 years old, especially those over 23 years old. Because these vessels have shorter lifespan and more potential problems, higher maintenance fee and more unexpected repair, longer off-hire days and more rejections by shippers

and port authorities and finally become the burden for these shipowners. It is in their interests to buy vessels younger than 20 years old, better than 18. Because younger vessels need less investment with less trouble but longer lifespan so that the objectives for good investment and sound development can be reached.

For all the shipowners in the world, if BDI could jump above 3000 in 2010, the shipping market would march into "heaven", but if BDI dived below 3000, the market would fall into "hell".

The shipowners in China, Greece and some other Asian developing countries have the most old vessels in number and they should take scrapping actions forcefully. Scrapping old vessels can not only save the shipping market, but are also significant in many ways such as promoting the efficient use of energy, reducing the emission of dangerous gases like carbon dioxide and sulfide, protecting ecological environment, facilitating shipping safety and boosting demand for steel and shipbuilding industry.

With respect to European, American and Japanese shipowners, you might think you have more younger vessels and less old vessels for scrapping. If so, then please remember that you are obligated to lay up the vessels properly in due time, try to reduce the newbuilding orders and postpone the newbuilding delivery if possible, and do not carry on any "arms race" such as construction of very-large and ultra-large vessels!

Everybody must bear in mind that it is the responsibility of all shipowners to save the market. Everybody should proceed from their own stands to carry out the market-saving measures conscientiously. Once all the shipowners start to unite in sincerity and take active actions as above mentioned, then, the hope is right in our hands!

(Mr. Gao Yanming: Chairman of HOSCO Group and North China Shipping Holdings Co., Ltd., Vice Chairman of China Shipowners Association and Standing Committee Member of the Hebei Provincial Political Consultative Conference)



翟玉英律師事務所
BRENDA CHARK & CO

Unit 12B, CNT Tower
338 Hennessy Road, Wanchai
Hong Kong
香港灣仔軒尼詩道338號
北海中心12樓B室
Tel: (852) 3973 7309
Fax: (852) 3020 4875
E-mail: info@brendachark.com

JRC Hostmost Engineering Ltd



YOKOGAWA



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Sales & Service Agent of:

JRC: Marine Telecom & Navigational Equipment

Yokogawa: Auto Pilot & GyroCompass System

Add: 12/F., Yan's Tower,

27 Wong Chuk Hang Road, HK

Email: g01host@hostmost.com.hk

Tel: (852) 2554 9207 Fax: (852) 2554 5152