

# **A History of the Future**

## **Risk taking and optimism**

### **in Danish shipping, 1950-2009**

René Taudal Poulsen  
University of Southern Denmark

# Everybody asks

- What will the future bring?
- How exposed are Danish shipping companies to falling freight markets?
- How should Danish shipping companies cope in declining shipping markets?
- Which strategies are viable?
- Will more collapses follow soon?

**I don't know!**

# Conclusions

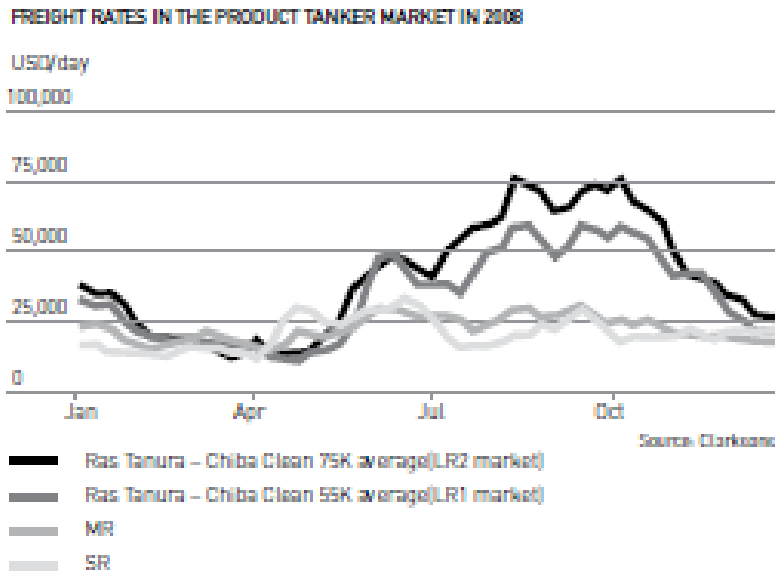
1. Highly difficult situation for DK shipping
2. Problems are self-inflicted
3. The root of the problem: **A new risk regime has emerged** – Optimism and risk taking have recently changed fundamentally

# Outline

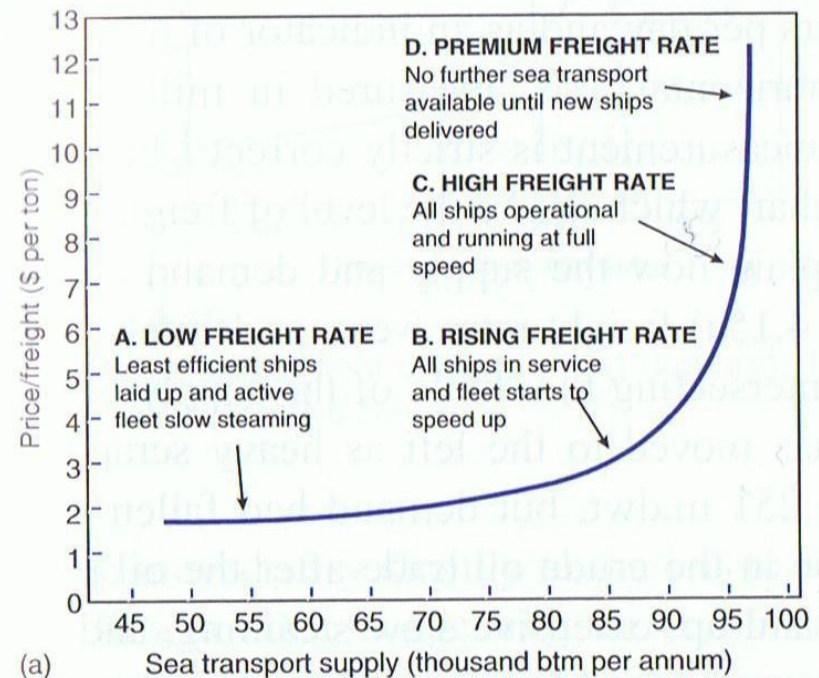
1. Introduction
2. Nature of shipping markets
3. How to study risks historically
4. Risk analysis
5. Conclusion

# Why do freight rates fluctuate?

## PRODUCT TANKER MARKET 2008



## INELASTIC SUPPLY OF SHIPPING



# The Casino of Shipping



Jack pot opportunities:

1. Volatile freight rates in the spot market
2. Asset play (sale-and-purchase market)

Means of risk reduction:

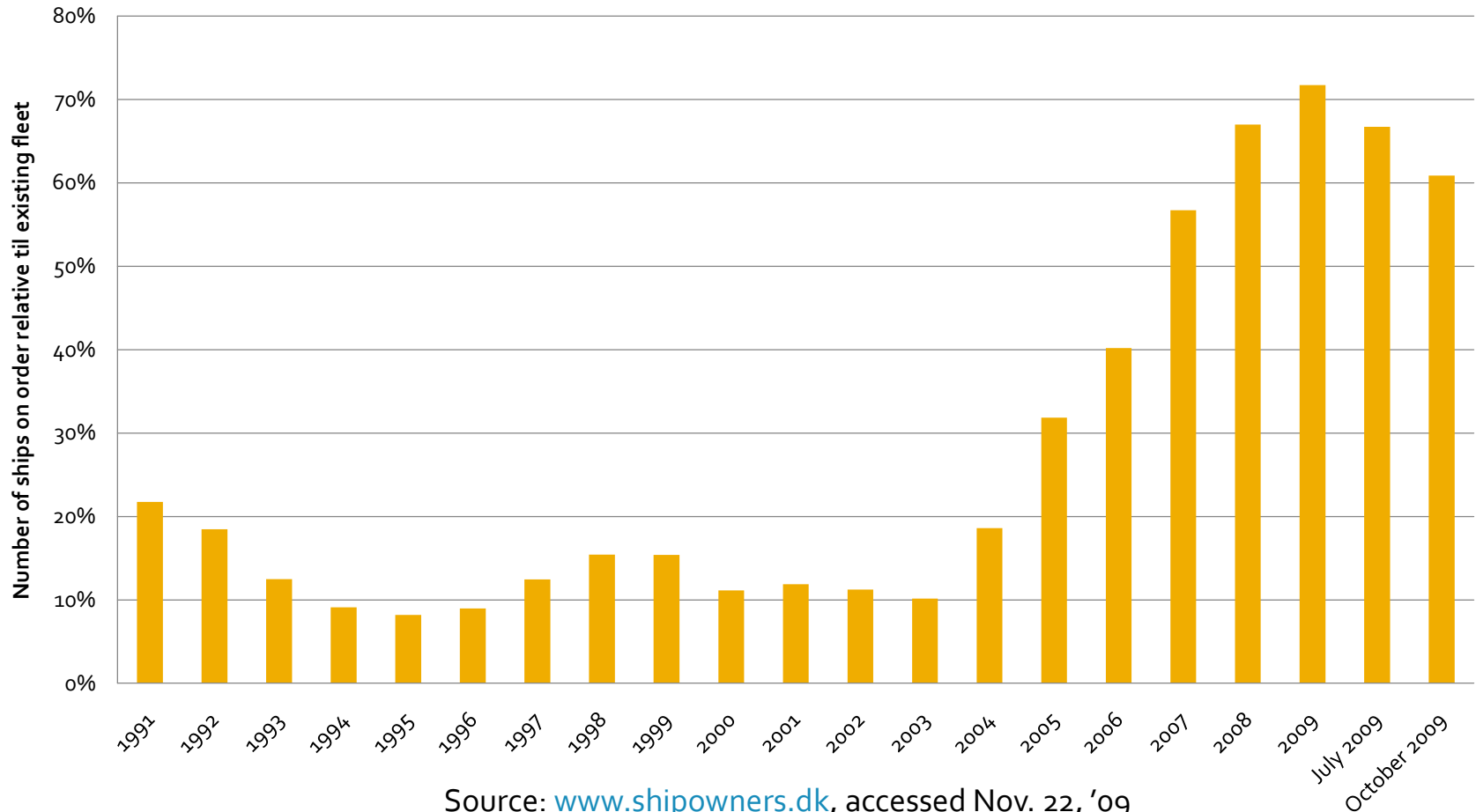
1. Long-term contracts
2. Commercial management for other owners

# Method: Order books tell the story

- Order books reflect shipowners':
  1. Optimism (belief in future freight markets)
  2. Risk taking (willingness to take risks)
- Order books relative to existing fleet



# Orders relative to existing fleet



# Is 70 percent a lot internationally?

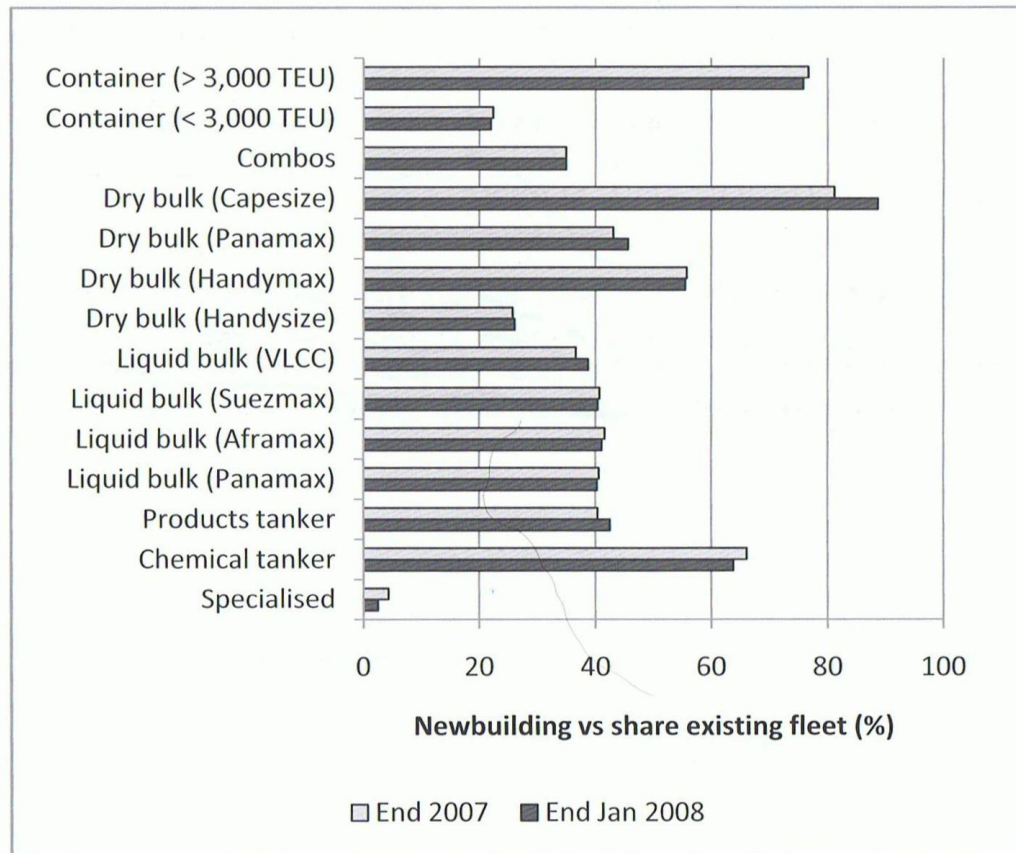
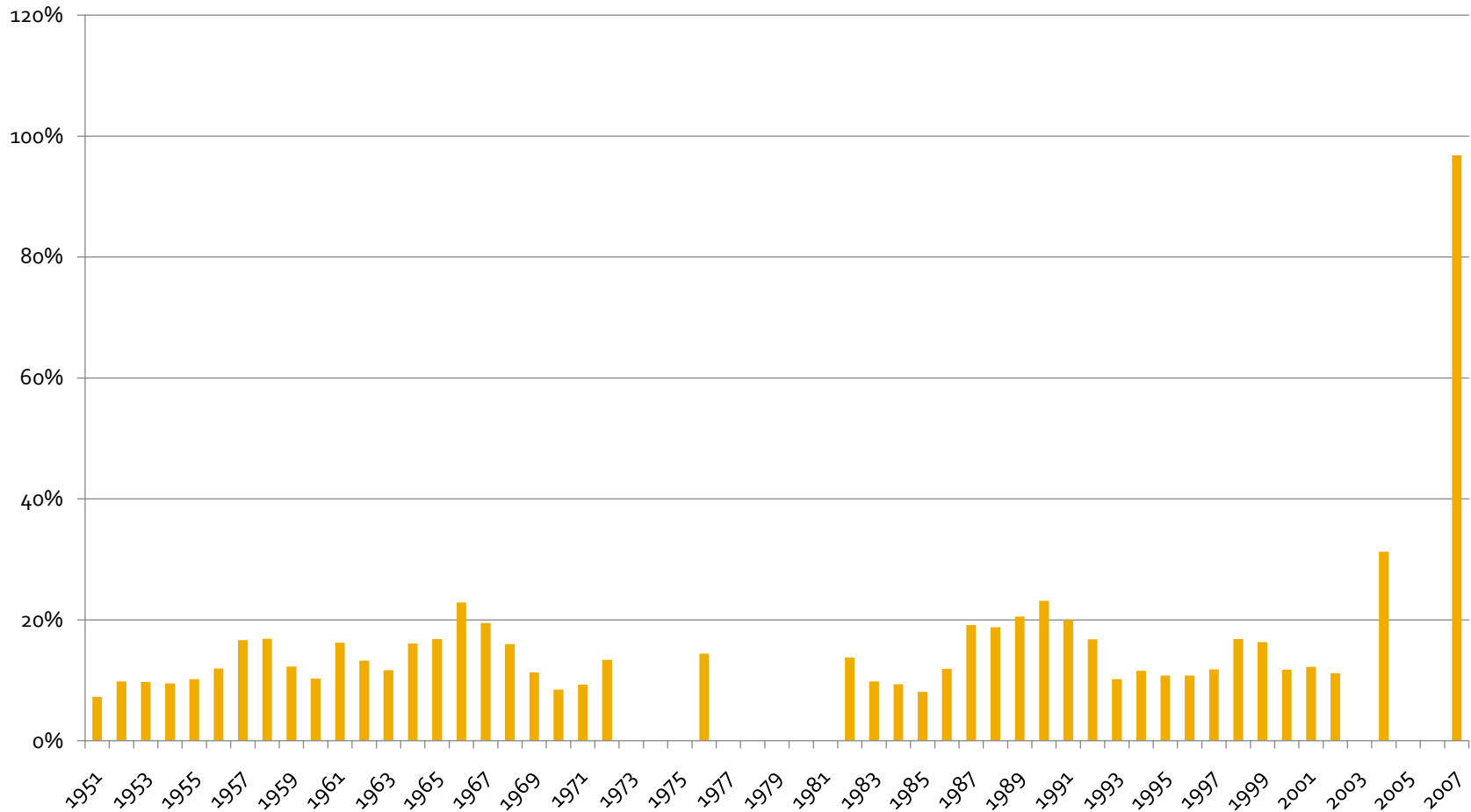


Figure 72: Order book as percentage of existing fleet

Source: Wijnolst & Wergeland, Shipping Innovation

# Is 70 percent a lot historically?

Danish orders relative to existing fleet, 1951-2007



Source: Søfart 1951-2007

Introduction

Nature of markets

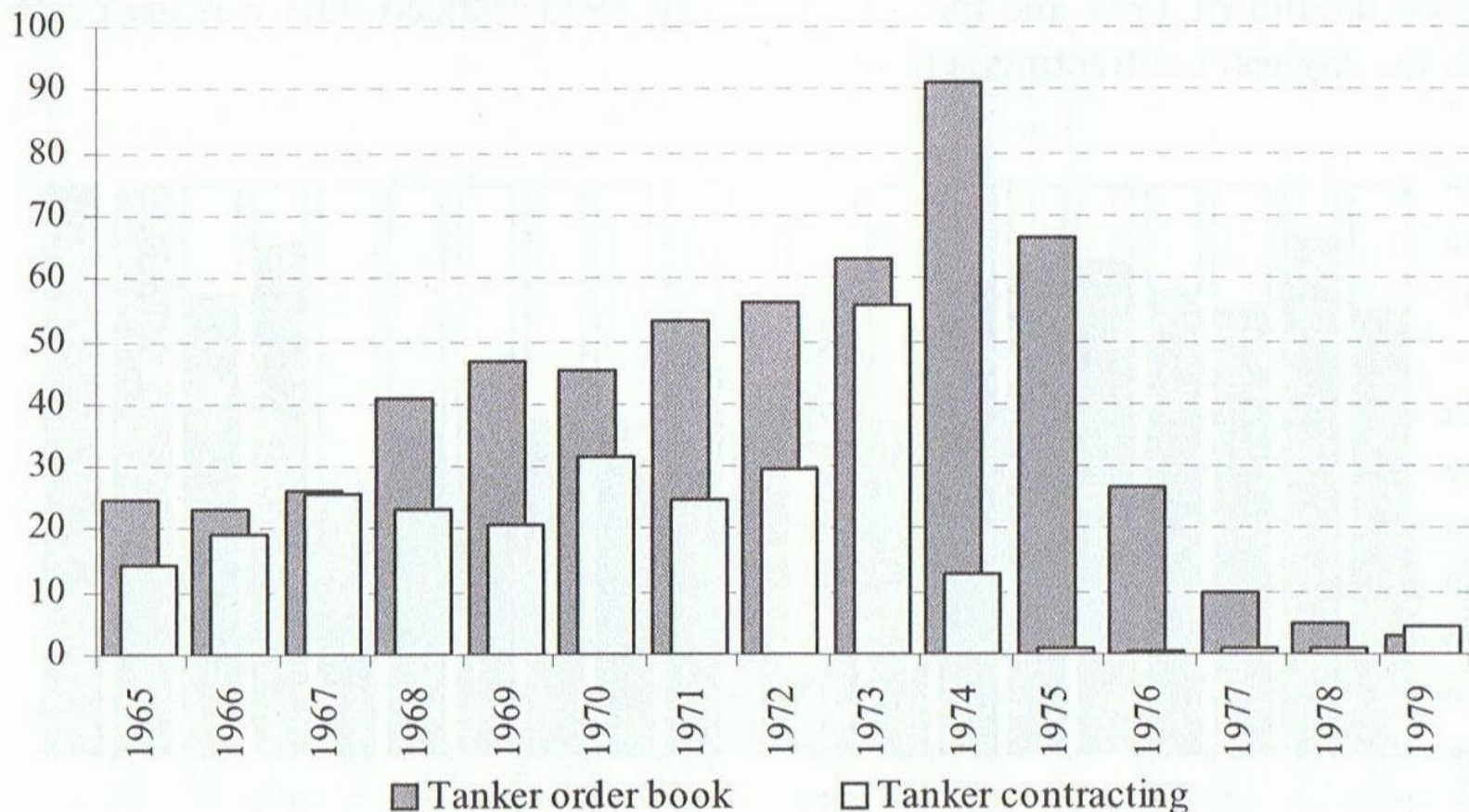
How to study

Risk analysis

Conclusion

# Is 70 percent a lot historically?

Global tanker orders relative to existing tanker fleet, 1965-79



Source: Tenold, Tankers in Trouble

# Contract coverage

- Spot market vs. long-term contracts
  - Information from annual company reports
- An example: Torm, 2005
  - “The Company’s income is principally generated from individual voyages, fixed at rates reflecting market conditions prevailing at the time and with an average duration of 20-40 days. To a lesser extent, income is also generated from time charter agreements typically of 6 to 12 months’ duration. As such, TORM is exposed to the considerable volatility inherent in the freight markets. By participating in well-established pool arrangements risk is reduced to a degree, primarily via a greater geographical spread and fewer waiting days which are the direct results of the greater market presence offered by pooling.”

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# A new risk regime emerged

- Not in 2008-09, but during the boom in 2003-08
  - Massive orders relative to existing fleet
  - Focus on volatile spot market
- The old image of shipping: Conservatism & restraint
  - Does not fit with reality
  - A casino is a better analogy
  - Shipping is a high risk industry, and herd mentality prevails
- Future problems for high risk strategy:
  - Little room for asset play in depressed market
  - Little cancelling since 2008
  - Reduction of risk exposure due to a reduction of commercially managed fleet

# Conclusions

1. Highly difficult situation for DK shipping
2. Problems are self-inflicted
3. The root of the problem: **A new risk regime has emerged**

What can we learn from history?

- Don't learn too much from history (don't copy yesterday's strategy, look further back in time)
- Don't learn too much from your colleagues (collective suicide)

# Thank you!

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