
Been there, seen that -
lessons learned from the last crisis in shipping?

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Overview

- What characterises the shipping market today...?
 - uncertainty, uncertainty, uncertainty
- Parallels from history
 - the great shipping crisis of the 1970s and 1980s
- Experience from previous crises
 - what are the deciding factors?
 - four categories of shipping companies



What characterises the market today?

■ Uncertainty

- about demand side developments
- about supply side developments
- about the financial situation

■ The crisis

- *krisis*: turning point, division or decision
- the transformation to one paradigm to another
- business cycle or structural crisis?
- 'creative destruction'



A parallel from history

The situation today relative to 'The Great Shipping Crisis'

Similarities

From boom to bust

The size of the orderbook

Amplifying elements then

Strategic mistakes

Political mistakes

Differences

Market segments

The underlying structure

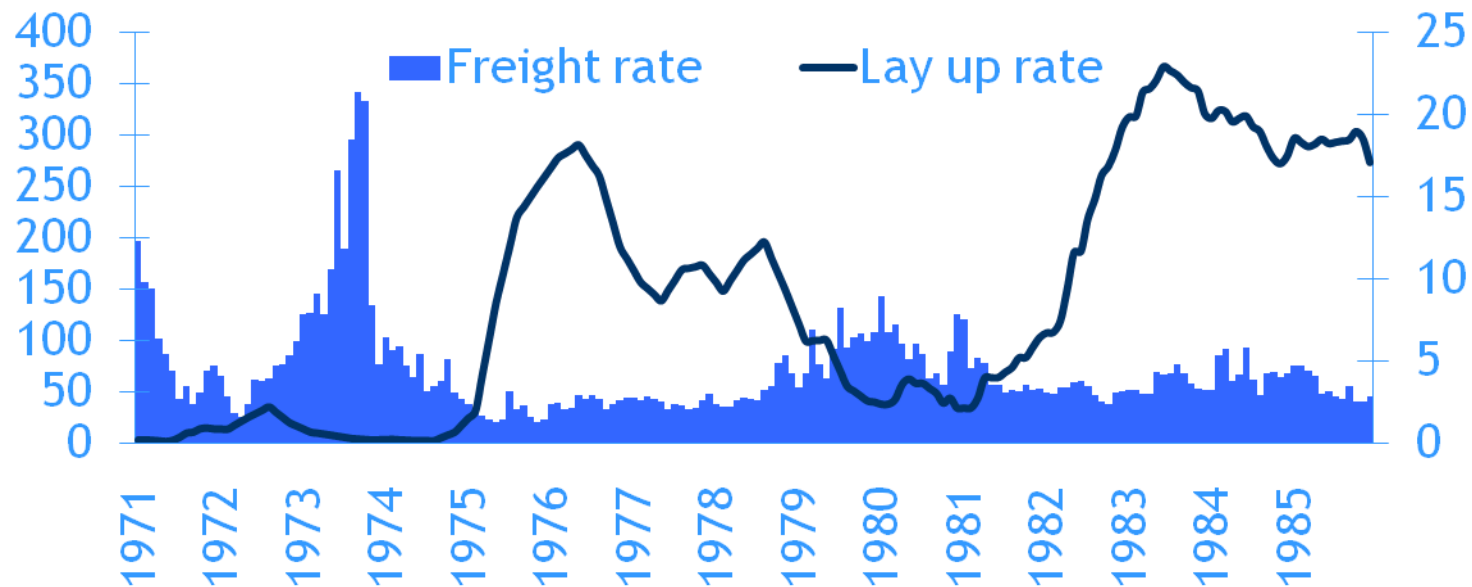
Room to manoeuvre today

More diversified
fleet & operations

'A broader crisis'

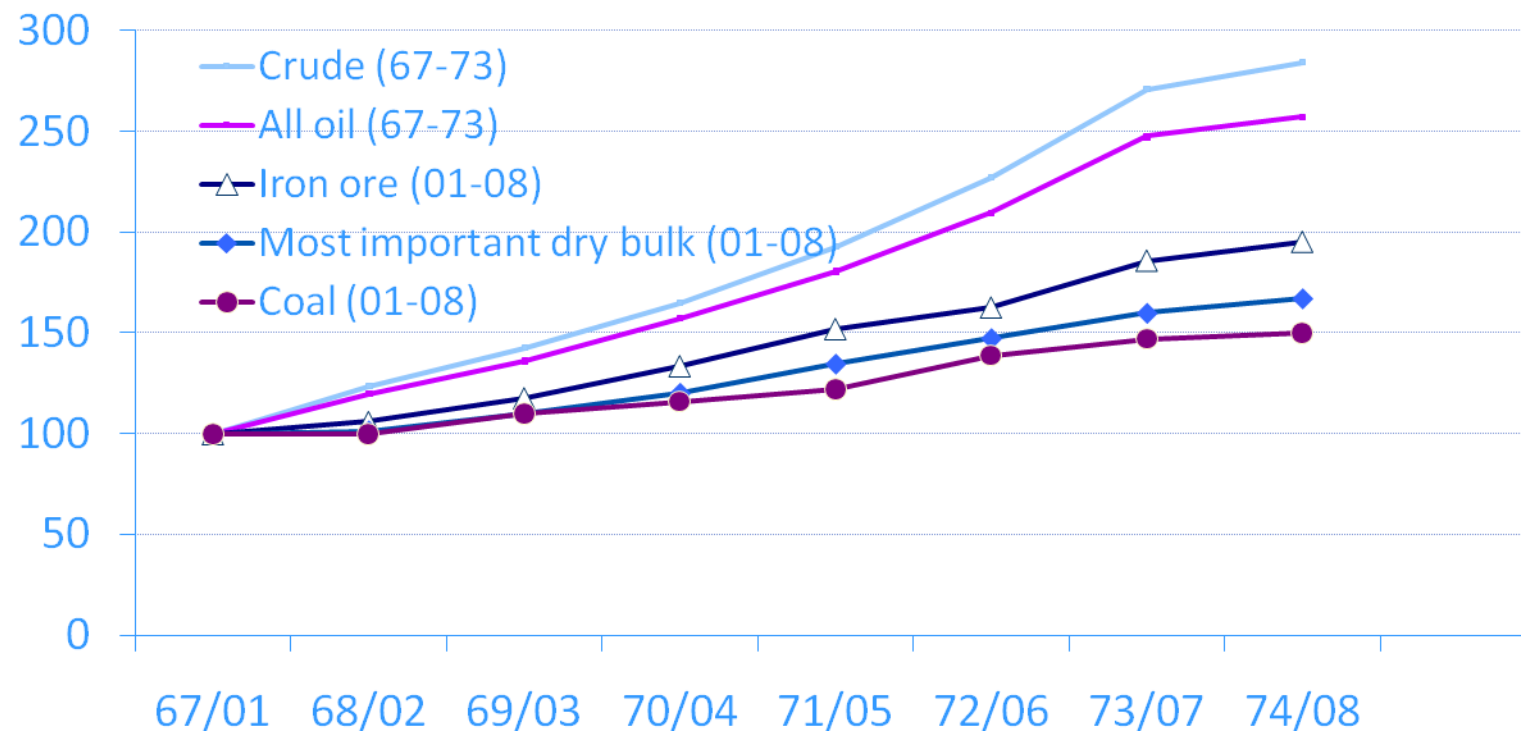
The tanker crisis

Freight rates (Worldscale - left axis)
& lay up rates (per cent - right axis)



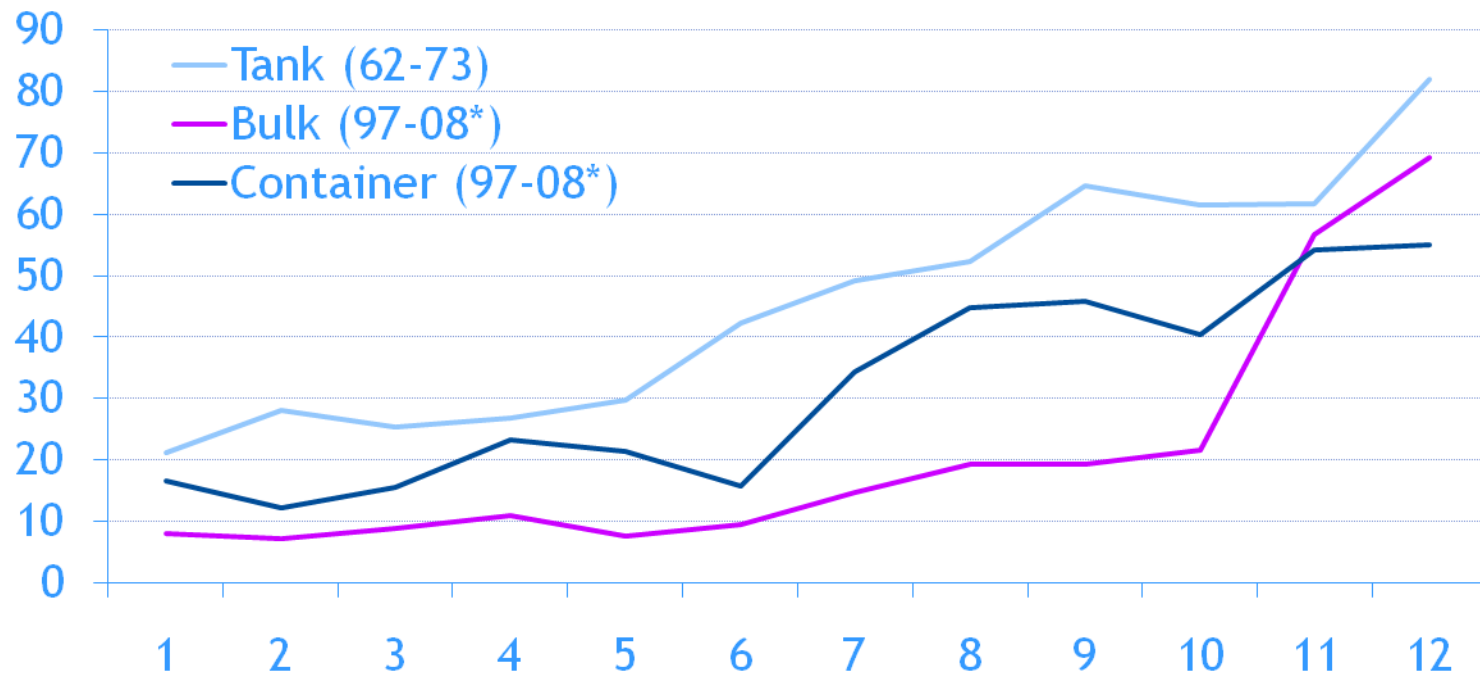
Substantial pre-crisis demand growth

Seaborne trade, 1967-73 & 2001-08
(based on ton-miles: 1967 og 2001 = 100)



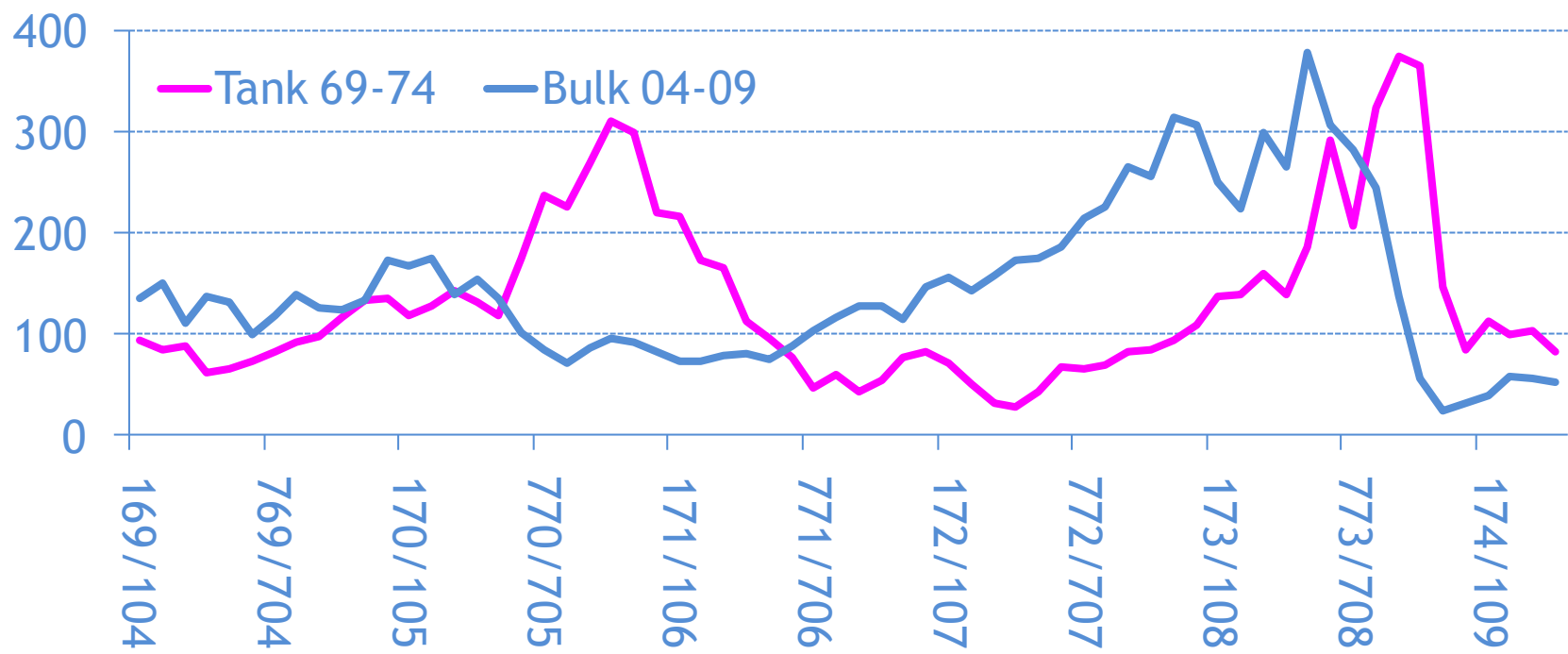
Enormous orderbook growth

World orderbook, 1962-73 og 1997-2008
(per cent of existing fleet)



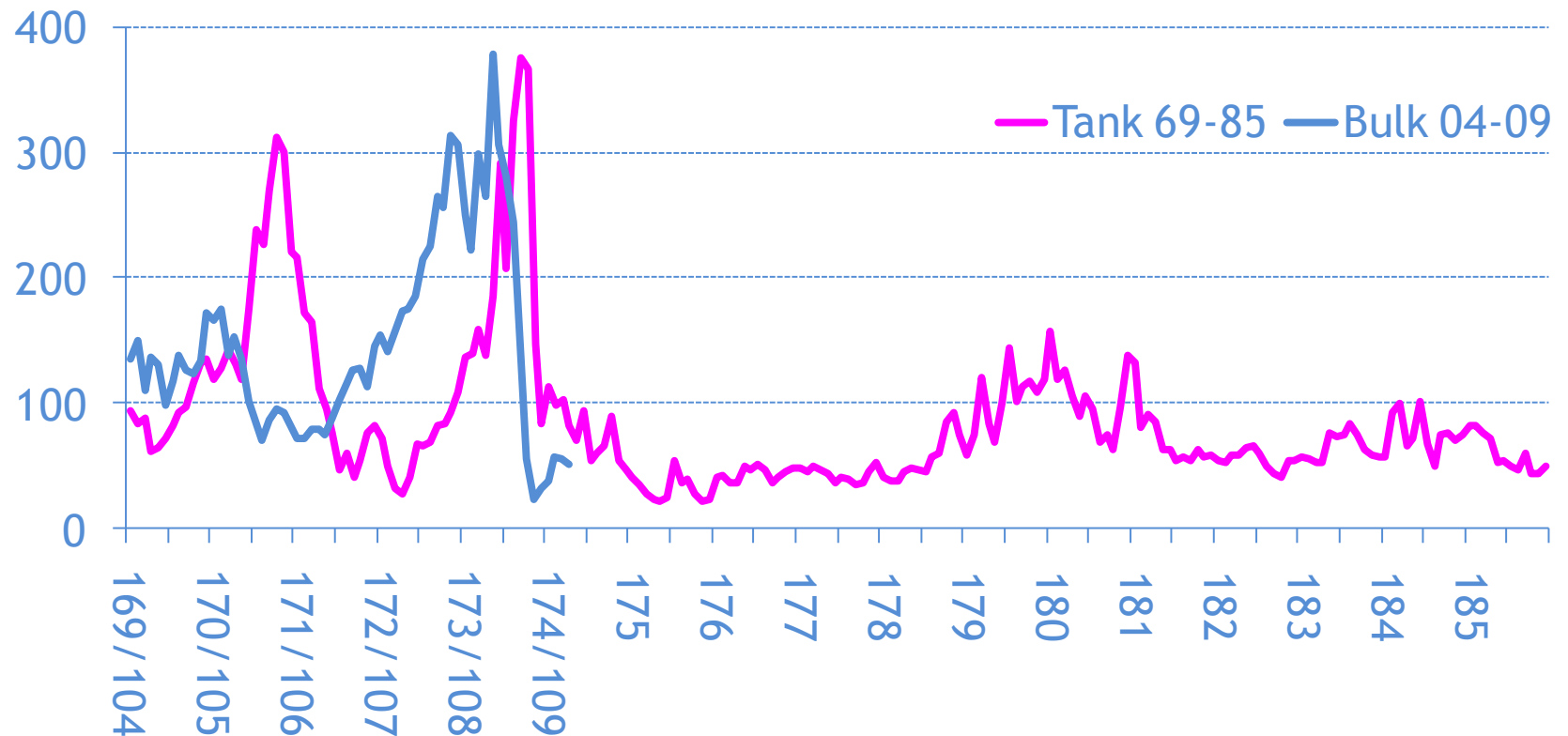
The starting point is not fundamentally different...

Freight rates in the tanker market 1969-74 & bulk 2004-09
(Index - 1971 og 2006=100)



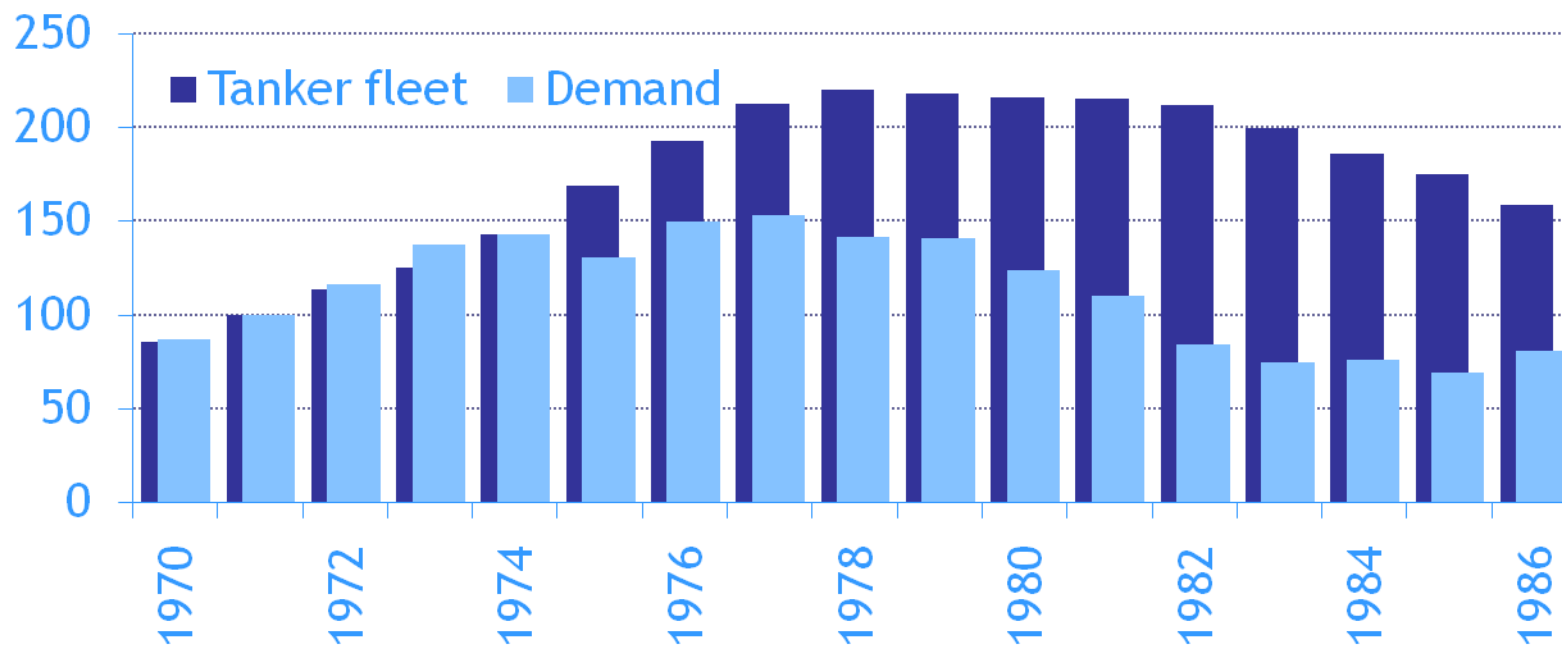
...but how can this be avoided

Freight rates in the tanker market 1969-74 & bulk 2004-09
(Index - 1971 og 2006=100)



The basis: long-term demand surplus

Tanker fleet (dwt) & demand (ton-miles)
(1971=100)





Strategic mistakes

Shipping companies

Pre-crisis optimism
- massive ordering

Lack of understanding
- from cyclical to structural crisis

Limited cancellations

Very similar strategies

Identical

Famous last words....

Willingness to cancel..?

More diversification in shipping



Political mistakes

In shipping nations

Tax systems
- procyclical effects

Support to 'the industry'
- hampered transformation

Inconsistent shipping policies

In shipbuilding nations

Pre-crisis capacity growth

Shipbuilding support
- prolonged & aggravated the crisis

Shipbuilding support
- spread the crisis to new segments



Important differences in the shipbuilding industry

1970s & 1980s

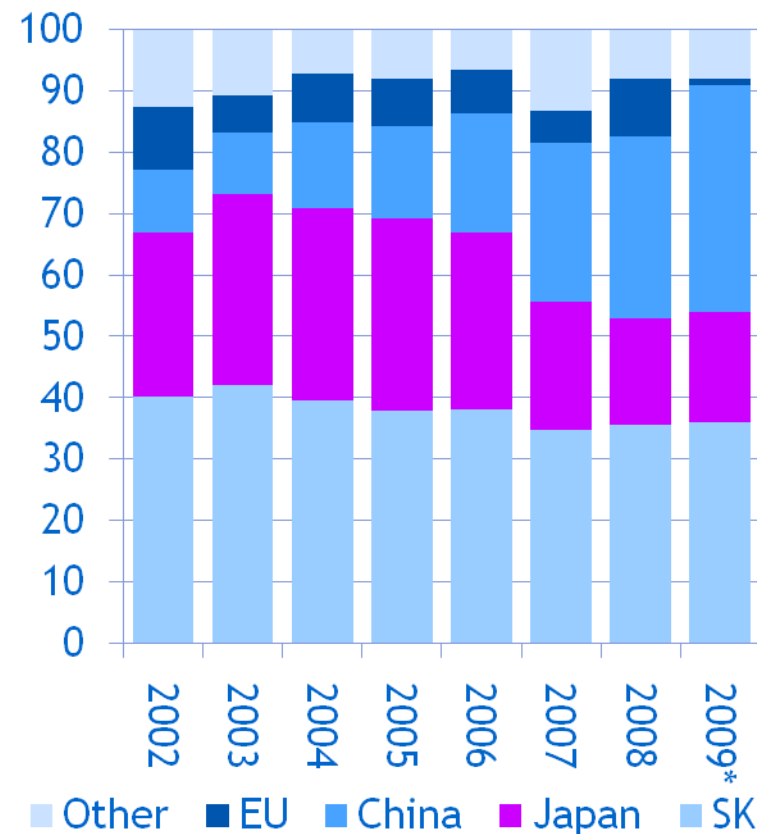
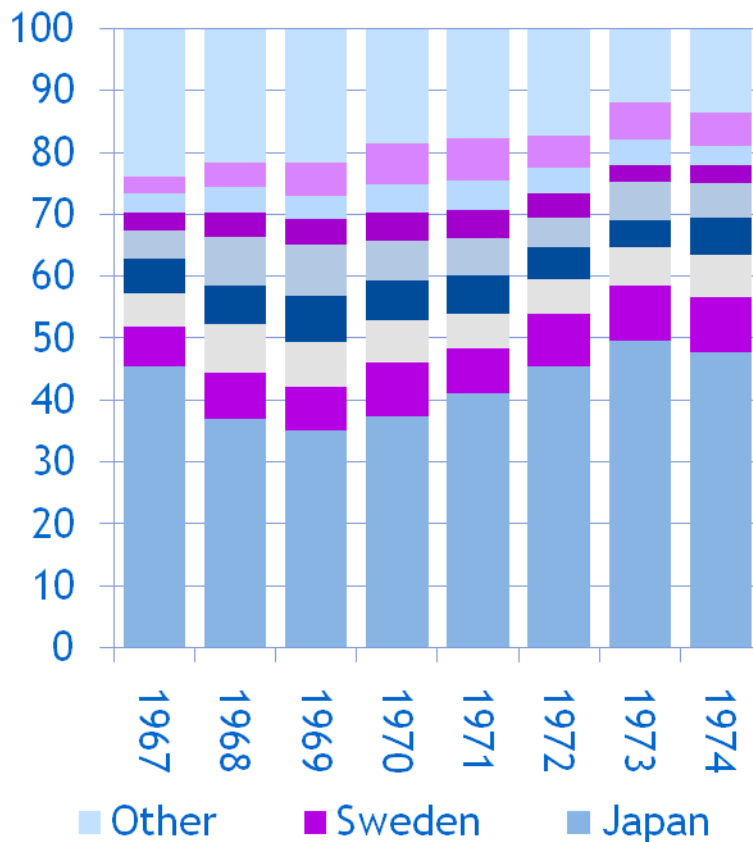
Established industry in several
leading industrial (OECD) countries

Today

Higher degree of concentration
in the shipbuilding industry

The shipbuilding industry transformation

Orderbook by country, per cent
1967-74 & 2002-2009



Important differences

1970s & 1980s

Established industry
in OECD-countries

Absurd willingness to subsidise

Structural change in
the international economy

Today

Much higher degree
of concentration

Greenfield yards and
financial constraints

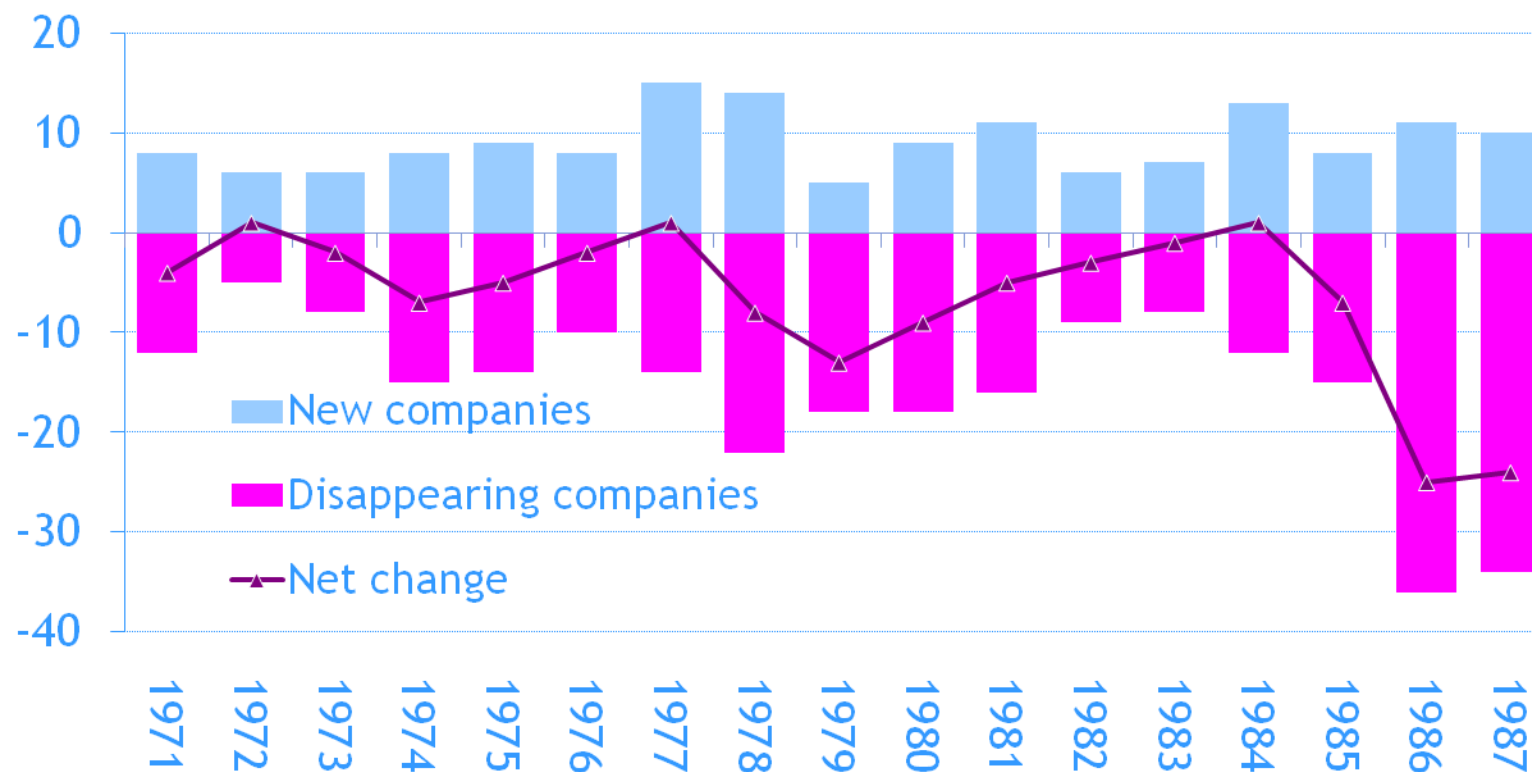
Underlying trends are
positive in the long term



Macro focus

- Scary similarities
- Positive contribution from knowledge and experience?
- Crises and shipping company development
 - the population of companies
 - the categories of companies
 - crises and growth?

Changes in the Norwegian population of shipping companies

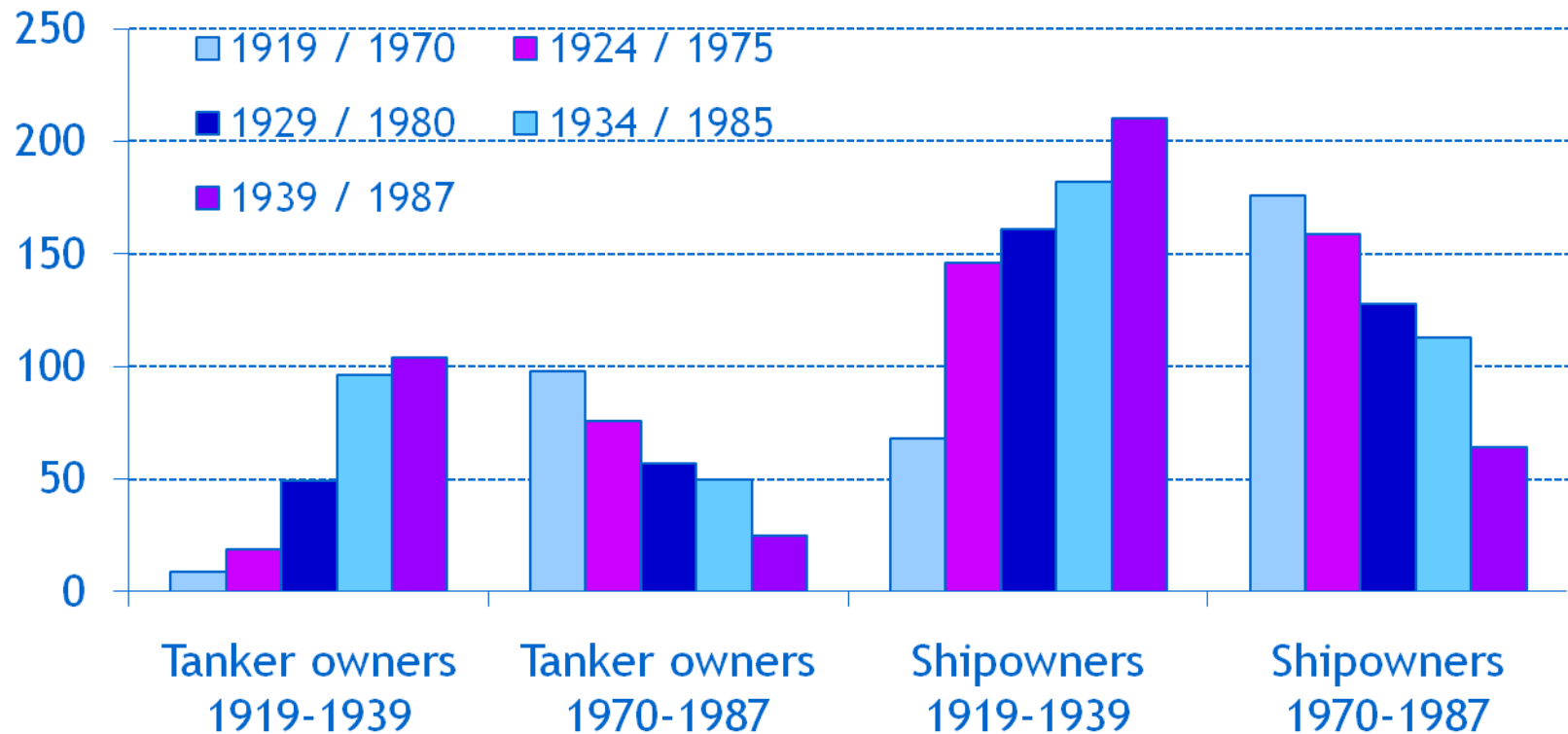




Four types of shipping companies

1. Companies that could not possibly adapt
2. Companies that had problems as the crisis dragged on
3. Expanding companies
4. New companies

The number of Norwegian tanker and shipping companies in two crises



Threats and opportunities in times of crisis

- The two deciding factors
 - the demand side development
 - the supply side development

The demand side

The type and extent of the crisis

...relatively well-functioning areas

The supply side

Desire and willingness to cancel...

... or to invest



Crises as transformation

“The shipping crisis *per se* might have had a positive influence on the Norwegian shipping companies’ ability to adapt [...]

As a result of the crisis, the weakest companies will be wound up, and the stronger the crisis is, the more adaptable will the surviving companies be.”

NOU (1983:7) *Skipsfartens konkurransevne*



Summary

- The state of the shipping market today is by no means historically unique
 - but lessons from previous crises should only be used to put the current situation in perspective
- Crises are an (important) part of the nature of the market
 - 'creative destruction' - survival of the fittest
- There are severe threats.....
 -and good opportunities

Four types of shipping companies

1. Companies that could not possibly adapt

The business model

Market segment

Company competence

Pre-crisis commitments

Financial difficulties

High or uncertain debt

Equity limitations

Reksten



Four types of shipping companies

2. Companies that had problems as the crisis dragged on

Reduced revenues

Time charters that expired

Lower ship prices (minimum value clause)

Increasing obligations

Unfortunate alternative investments

Salén



Four types of shipping companies

3. Expanding companies

The success factors

Clever strategic moves

Business competence

Financial strength important (but not decisive)

'Nothing succeeds like success'

Odfjell

Four types of shipping companies

4. New companies - a particularly heterogeneous group

Entrepreneurs - beneficial competence

'Shipowners by accident' (banks/ financial)

Nightclub-shipowners

'Inheritance' and new establishment

JO Tankers

The interwar period