Bankers won't invest in aged shipping fleet

by Anthony K. Wikrent

The results of years of net disinvestment in maritime shipping are making themselves felt, as the selling price of used ships soars, and the Western nations face crippling shortages of skilled mariners. However, marine financiers are signaling an increasing reluctance to underwrite the construction of new ships, as warnings increase that the world's fleet is dangerously old.

Bowing to the pressure of the bankers, in late August three major maritime registering services, Lloyd's Register of Britain, Det Norske Veritas of Norway, and Nippon Kaiji Kyokai of Japan created a new classification standard that allows ships over 15 years old to remain in service without penalty. The classifications are widely used by insurance syndicates and regulatory agencies to assess the risk of owning and operating a particular ship, and to determine premiums charged by insurers and fines levied by government regulators.

$25 billion needed each year

The shipping industry will need $25 billion each year in the 1990s, to replace its aged crude carrier fleet alone, Paul Slater, chairman of an investment bank that specializes in ship finance, told shipping executives attending the Bulk Transpo '89 conference, in September. Slater pointed out that 285 of the world's 400 very large crude carriers (200-400,000 deadweight tons) are over 13 years old, the original design life for a VLCC built in the mid-1970s. He estimated that more than 50 VLCCs will have to be built each year, beginning in 1992, with a unit cost of well over $100 million.

"The most immediate problem we face," Slater told the shippers, "is an elderly fleet of poorly maintained and relatively inefficient ships carrying an ever-increasing range of environmentally hazardous cargoes. They need to be replaced, and quickly, tankers in particular. . . . There have been some horrendous unexplained marine casualties just recently. We had one ship that just disappeared off the face of the earth. We had a chemical tanker that simply blew up. Here we are going into the 21st century and these kinds of things are still happening. The fleet is not only over age, but it's technically obsolete."

Pointing to the *Exxon Valdez* disaster, Slater said marine insurers and the ship finance community will pay dearly for the failure to invest, especially in new technology. "The *Exxon Valdez* is a fine piece of equipment, compared to the rest of the world's tanker fleet. But how does it stand up against the sophistication of safety features we see in the airline industry? Not well. And the reason is the shipping industry has been building basically the same equipment for the last 20 years. That is shameful."

Many seafarers are increasingly reluctant to serve on older ships, viewing them as increasingly hazardous to operate. The United States and other Western maritime nations have simply failed to produce a steady stream of well-trained, qualified mariners. Moreover, they have failed to offer more secure careers and better pay in order to retain older, more highly skilled mariners.

This presents a classic case study of how economic breakdown in a society that loses its commitment to scientific and technological progress spawns a process of cultural pessimism and decay, which decimates skill levels, further accelerating the rate of breakdown.

Shipowners are now hoping that Eastern European countries might be able to supply them with skilled seafarers. At least one U.S. shipowner is looking to the Soviet Union for skilled officers and sailors, and has been in discussions with Soviet officials, the *Journal of Commerce* revealed Nov. 9. The article reported that Western shipowners are "desperate" to find qualified people to man their vessels. West German and Norwegian owners are reportedly suffering shortages of qualified electricians.

View of the vultures

Despite the chorus of warnings, the financial vultures who have feasted off the remains of a collapsed world economy, are signaling that they have no intention of financing the construction of new ships. At an "Investing in Shipping's Revival" conference held by *Lloyd's of London Press* in New York in late October, not one banker or financier could be found willing to even indicate an interest in new ship construction. Adrian Doherty, a vice president of the blueblood J.P. Morgan Bank, told the conference, "The ship market is exposed to general economic conditions" that disfavor new investment. "The economic pressures on transportation will continue to limit the returns [on investment] available in the shipping industry."

Just what level of "return" are the bankers looking for? A vice president of Citicorp's London branch, Citibank N.A., announced that they were no longer investing in speculative purchases of used oil tankers because the 30-35% profit they expected could no longer be achieved in the current market.

John Newbold, a senior vice president of Citibank in New York, offered a chilling picture of how the bankers view affairs, when he told a conference in October that another disaster like *Exxon Valdez* may have a salutory effect: "To the extent that any accident is going to cause Congress to clamp down [on safety regulations], that would only force freight rates up."