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Greek owners in aggressive bid to lower vessel prices

New tactics being used as it becomes cheaper to cancel deals and re-order elsewhere

Michelle Wiese Bockmann

INCREASING numbers of Greek shipowners have used aggressive new tactics to successfully force cash-starved Asian shipyards to keep lowering newbuilding contract prices, as plummeting values make it economical to cancel an older contract outright at one yard and re-order at another.

The Greek orderbook stands at 624 vessels — about 10% of all orders — and includes 360 bulk carriers of 35m dwt and 240 tankers of 20m dwt, according to Piraeus-based shipbroking group George Moundreas.

With newbuilding prices falling by an average 40% from record highs of 18 months ago, owners have not only re-negotiated or substituted existing contracts, but have found it cheaper to cancel an older contract and forfeit the first instalment payment of 20%, then re-order elsewhere.

The highest-profile Greek owner to cancel and re-order, Goldenport Holdings, said the strategy had resulted in "a better ship at a much lower price". Goldenport Holdings saved around $5m by cancelling an order for two supramax bulk carriers at China's CSC Group Qingshan shipyard, and ordering another at South Korea.

However, the yard switch strategy was difficult to replicate on a widespread basis, said commercial director John Dragnis, and was unlikely to emerge on a major scale. "It is not so easy because in China you have the so-called payment guarantees, so the average owner including us, would have the case of guaranteeing to the yard the minimum 40%-50% of the contract value," Mr Dragnis said. "The yards would not allow this to happen on a major scale; it is not in their interest."

He suggested CSC agreed not to insist Goldenport Holdings met all payment guarantee obligations because of "good co-operation, longstanding co-operation" between the two companies.

However, George Moundreas, which released its first newbuilding report in nearly 18 months last week, highlighted how some cash-rich owners had confidentially negotiated ships at levels last seen in 2004, aware that a further cancellation crisis could be two months away.

An unknown number of Greek buyers had missed second instalment payments but not disclosed financial troubles for fear of losing their 20% deposit, the shipbroker said. "We fear the time of truth will arrive soon and we can imagine a new wave of cancellations, this time under very unpleasant atmosphere will occur," its report said.

"All those things are in the dark," George Moundreas newbuilding consultant George Banos said. "Nobody is willing to disclose what he has paid or what he has agreed. From our point of view we are in a very difficult position when we try to analyse the current market."

The shipping market's collapse in September 2008, combined with a bank lending freeze, created a newbuilding order drought for the shipbuilding industry, leading to a cashflow crisis for many yards, especially in China and South Korea. After some allowed delivery delays but refused to cut prices for the first nine months of 2009, yards' capitulation later in the year sparked an ordering resurgence.

George Moundreas said that it was among the first "to smell any change of feelings among shipping players" and had seen clients gradually resume inquiries over the last two and three months.

A capesize bulker under construction in Shanghai: the market collapse and freeze on bank lending has hit cashflow at Chinese and South Korean yards. Bloomberg

Diana ready to make a splash in the boxship sector

Nigel Lowry
Athens

GREEK bulk carrier owner Diana Shipping is diversifying into container vessels with a minority stake in a new company being formed to acquire boxships.

The move will see the company invest $50m in the new entity, which is expected to invest in containerships over the next 12-18 months.

The balance of equity capital will be raised through a private offering to institutional and accredited investors, Diana said. Participation in the project was subject to completion of the fund raising on "acceptable terms".

Details of the scheme are sparse, with few clues as to the capacity range of ships the company may target (if this has been defined) or of founding partners or sponsors.

But Diana, which is currently held to have one of the strongest balance sheets in the dry bulk sector, has never denied a potential interest in the container sector.

Last year company executives said that it was looking at "all kinds of bulkers", with the main focus remaining on panamaxes and capesizes. But they specifically refused to rule out investment in container vessels for the "asset play", particularly as values in the sector had suffered.

Diana chairman and chief executive Simeon Palios told an earnings call: "If we do something in the containers market that would be for a very short period and most probably there will be a spin-off into a different company, because we don't feel that shareholders like the idea of a diversified kind of a fleet in a company."

At the end of last year Diana purchased the panamax *Teresa Hebei* for $35.1m, kicking off a widely anticipated spending spree in the bulker division that could be spread over the next two years.

Mr Palios has backed the idea of a protracted buying campaign, picking up vessels in ones and twos over the low part of the market cycle, rather than trying to pick the absolute bottom for prices. The projection of a 12-18 month investment campaign on the container side may mirror this strategy.

Brokers have said the company keeps a routine watch on most sectors, but there have so far been no reports of the company in actual negotiations for a boxship.

With a cash balance of more than $250m and total liquidity of at least $500m, it may be concluded that New York-listed Diana is initially planning to divert no more than 10%-15% of its overall fire power from bulkers to container vessels.

Diana's management subsidiary will provide administrative and vessel management for the new project, and certain Diana executives will hold executive positions in the container venture, the company said.

The Diana group has operated container vessels as a private owner, before Diana Shipping's 2005 initial public offering.

If the new company is launched, agreements will include that Diana Shipping will refrain from other investments in container ships, while the new company will not invest in bulkers.

Clarksons launches container derivatives trading

Janet Porter

HISTORY was made in London on Friday afternoon when the first container freight rate derivatives product was traded.

Clarkson Securities, the derivatives broking arm of London shipbroker Clarksons, completed a Container Freight Swap Agreement trade between investment bank Morgan Stanley and Delphis, the European container transport group led by Alexander Saverys.

Container Freight Swap Agreements will be settled against the Shanghai Containerised Freight Index that was developed by the Shanghai Shipping Exchange in collaboration with Clarksons for this specific purpose.

The index, formally launched late last year, is compiled from freight rates on 15 routes, and will initially enable trades to be made based on four major container shipping routes, all out of Shanghai, to Europe, the Mediterranean, US west coast and US east coast.

Clarksons decided against producing derivatives products based on containership time charter rates and instead concentrated on an instrument for the freight markets.

"We wanted to develop an index that would focus on the cost of moving a single 20 ft container rather than the cost of chartering a containership," said Clarksons Securities chief executive Alex Gray. "This heralds a new era for marine risk management."

The new instruments will be quoted in dollars per teu, and will be traded in clip sizes of five teu initially, although the aim is to increase this to units of 10 teu as trading develops, Mr Gray told Lloyd's List.

A 30-strong panel, consisting of 15 carriers and 15 others, such as non-vessel operating carriers and logistics companies, has been established to ensure that the index is a fair and accurate market measure.

Trading will be done on an over-the-counter basis at first, but through a clearing house once sufficient historical data has been compiled.

Clarksons said it would welcome the participation of other brokers in order to build up liquidity.

Greatest interest is expected to come initially from financial institutions such as banks and hedge funds, which are more familiar with derivatives trading, but Clarksons hopes that liner operators, boxship owners and shippers will all eventually make use of a tool that can provide them with a hedge against future market movements.

Brokers have spent years trying to create some form of hedging tool for the container shipping industry, but were split on whether this could or should be based on charter or freight rates. Each was a problem, because of the fragmented nature of both sectors of the market, and an apparent lack of interest from major players, including both the containership operators and owners.

Some felt that the physical market provided the best means of hedging, through time charter contracts of varying duration.

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