

# **Gulf tanker market remains strong despite falling rates**

03 December 2008

The shipping industry is a major component of global trade but over the past few months it has seen a sudden decline in freight rates on the back of slowing demand.

Ahmed Essa Hareb Al Falahi, Chief Executive Officer of UAE-based Gulf Energy Maritime (GEM) talked to Emirates Business about the negative and positive aspects of the financial crisis on the shipping industry.

## **The global shipping industry has been in decline since the second quarter of this year, is it something that players had predicted?**

Yes, there were predictions that something could go wrong due to self-inflicted factors, but no one anticipated that external factors would affect the industry. In terms of fundamentals, there were clear signs that we were headed for a correction with excess tonnage on order and banks giving huge facilities with minimum equity requirements. Shipping ceased to be a specialised industry and it was up for grabs by anyone looking to make some quick money.

Before the Beijing Olympics everything seemed perfect with no signs of weakening. But after that, the impact of the global financial crisis began to be felt. We have seen many yards and shipowners coming up and vanishing in no time. More owners are on the brink of winding up.

## **The dry bulk and container sectors have been the main casualties of the crisis, do we see the tanker sector following suit?**

The tanker sector continues to be the only healthy one in the shipping industry today. But it would be sheer luck for the sector to remain unaffected if the financial crisis does not rebound to the positive territory. No one could have anticipated that the tanker market will remain healthy when everything else is falling apart.

## **But tanker rates have been declining in the past few months. What impact will that have on the sector?**

We have seen corrections in tanker rates, but not at such alarming levels that will make the owners panic. We feel that the tanker market is currently the most robust in the industry because demand for petroleum products or chemicals does not simply vanish in a space of weeks. Refineries will continue to produce and countries will continue to consume. The consumption might be lesser than what has been forecast, but the sector is generally healthy.

While Very Large Crude Carriers [VLCCs] have seen almost a 50 per cent decline in rates in the past two months, rates have been steady since the beginning of the year for the clean product tanker market.

## **Some players have welcomed this crisis as a blessing for the tanker industry. Do you agree with that?**

Yes, there are some positive aspects of the financial crisis, especially in relation to minimising tonnage in the market. At the beginning of this year there were fears that the tanker market was headed for a big collapse due to excess tonnage that was due to enter the market. Imagine having 500 vessels and another 500 the next year with demand remaining constant, rates would have collapsed to unprecedented levels. So, this crisis has been a saviour for the market due to the tightening of credit facilities. Owners are not finding enough liquidity and this has resulted in cancellation of orders that would have otherwise destabilised the market. This situation was very much needed and I think now the market will remain healthy for a long time.

## **Have your growth projections for this year been affected by the crisis?**

From the beginning, we at GEM have had long-term ambitions and that is why all our vessels are on time charter with reputable and financially strong charterers, who possess great knowledge of the industry's dynamics. Our operations have not been affected and our net profit for the year has increased 35 per cent on operational level. Overall net profit has increased by 250 per cent due to the sale of two vessels that were almost 10 years old. We did it to maintain a low-age average for vessels and the proceeds are helping us to put together a strategy for the company's future growth. The two vessels were sold for \$106 million [Dh389m], at which net gain was more than 100 per cent. This was needed to strengthen the financials of the company for the future.

## **Is this the best time for companies to make acquisitions?**

I don't think it is safe now to make any moves towards acquisition since no one knows exactly where the asset market is. There have been negligible transactions taking place, so there is no way of determining accurate prices in the market. Many brokers have suspended their evaluation services because there is no buyer and no seller. The seller is looking to sell at pre-financial crisis prices and the buyer is not willing to buy at the same rate, so there is no formula for buying.

This is the time to wait and see how things unfold. There is a lot of uncertainty in the global market and therefore it is suicidal and more or less a gamble for one to assume that this is the bottom and hence the best time to make a move. Previous distress situations were for short periods and for particular industries. But with what is being experienced now, no one can predict when it will be over. Owners with enough liquidity will make good moves

once opportunities arise.

**Do you see tanker operators winding up their operations due to the crisis?**

The world continues to be in a recession, factories are closing down, purchasing habits have changed and consumption has declined. There will be lesser tonnage to be moved due to less demand and this will definitely affect the tanker market. But I don't see many companies exiting the market if conditions remain the way they are. However, tanker operators who are also involved with dry bulk and containers might have their financials affected.

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