
Lessons learned from the shipping crisis in the 1970s?

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Overview

- What characterises the shipping market today...?
- Parallels from history
 - the great shipping crisis of the 1970s and 1980s
 - what happened then?
 - what happens now?
- 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
 - 'creative destruction'

- Crises as cleansing processes

The previous shipping crisis - the 1970s and 1980s

- OPEC's oil price increase
 - the starting point
 - direct and indirect effects
- From a tanker crisis to a general shipping crisis
- Long-term problems
 - more than fifteen years of a subdued market
- 'The Blame Game'
 - shipowners, financial institutions, shipyards and authorities

The prelude then and now

- Then - oil:
 - more and more important
 - less and less expensive
 - the closure of the Suez Canal
 - three close booms; 1967, 1970 & 1973

- Now - China:
 - strong growth of international trade
 - limited growth in the supply of tonnage
 - the China factor
 - 2001-2008: 'the dry bulk supercycle'

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

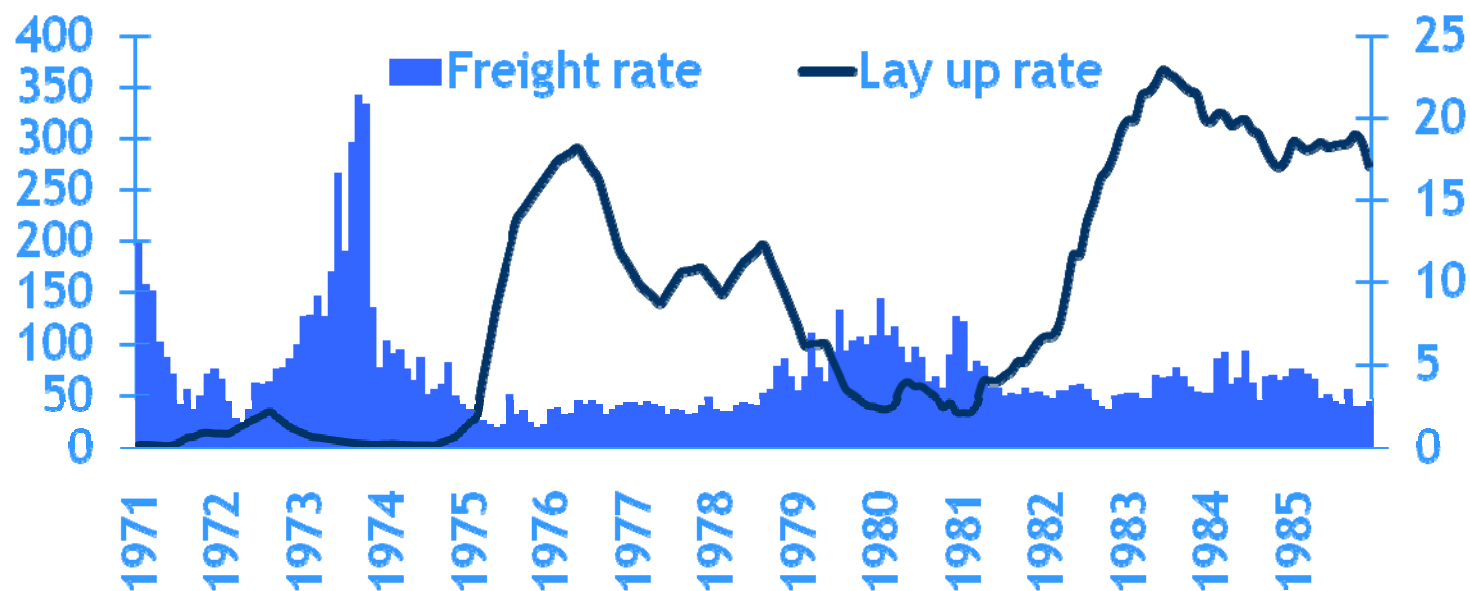
Room to manoeuvre today

More diversified
fleet & operations

'A broader crisis'

The tanker crisis

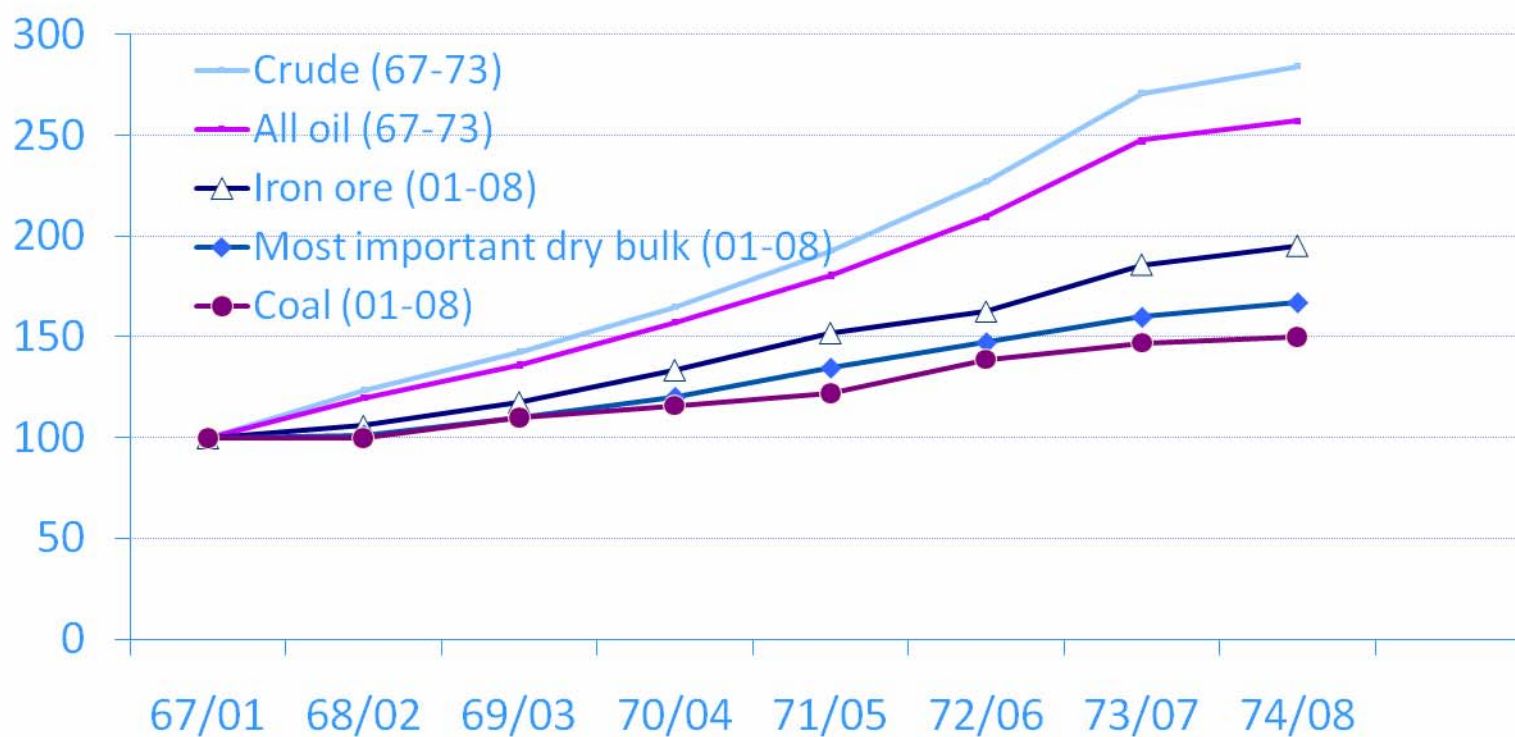
Freight rates (Worldscale - left axis)
& lay up rates (per cent - right axis)



Source: Clarkson's *Oil tanker databook*

Substantial pre-crisis demand growth

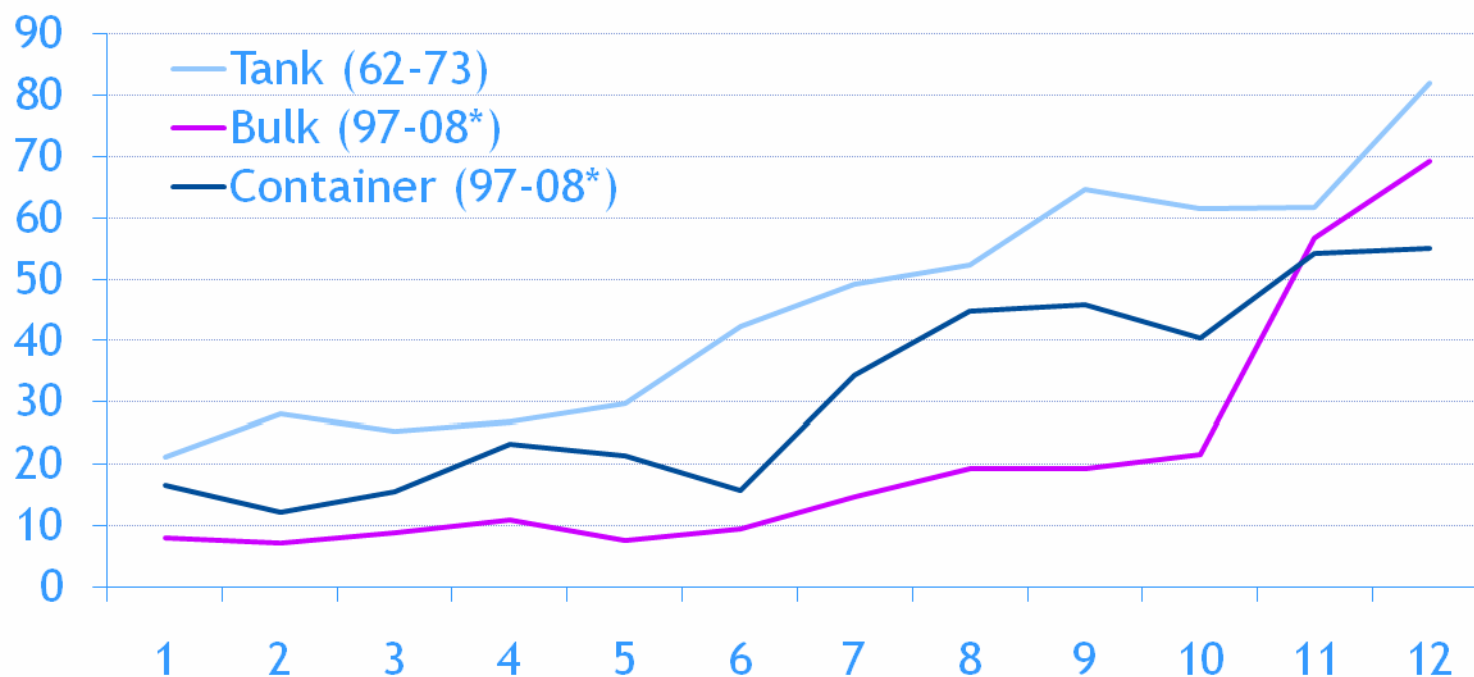
Seaborne trade, 1967-73 & 2001-08
(based on ton-miles: 1967 og 2001 = 100)



Sources: Fearnley & Eger/ UNCTAD

Enormous orderbook growth

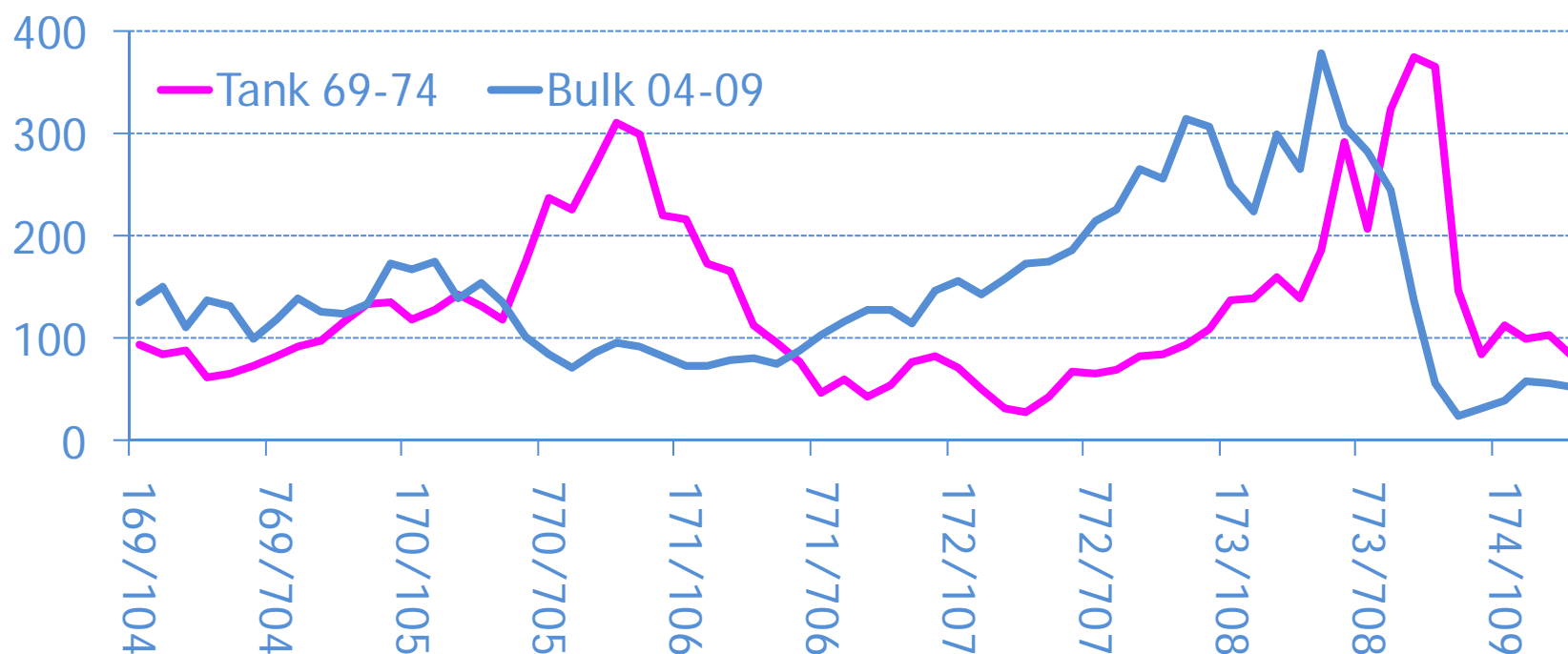
World orderbook, 1962-73 og 1997-2008
(per cent of existing fleet)



Sources: Fearnley & Eger/ UNCTAD

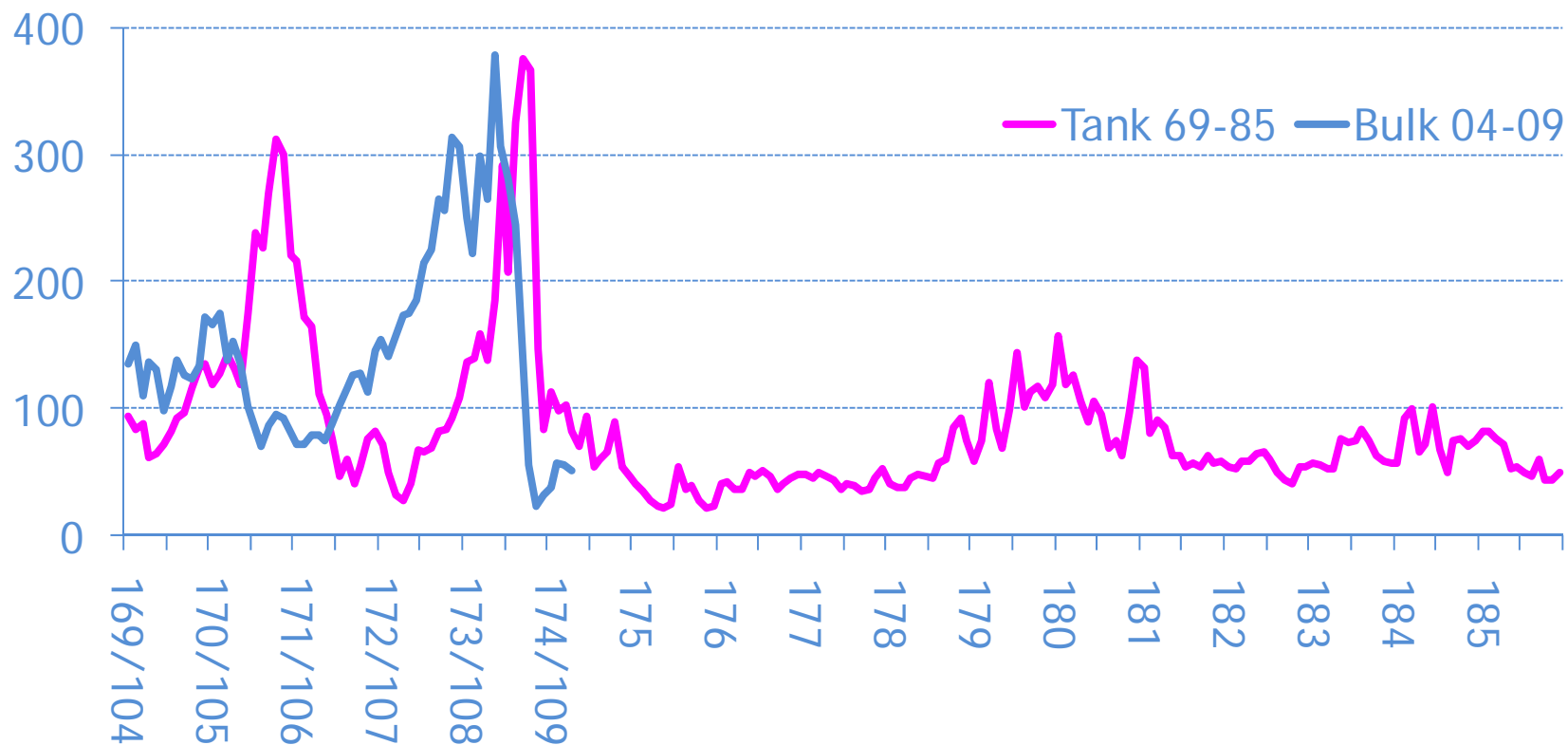
The starting point is not fundamentally different...

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



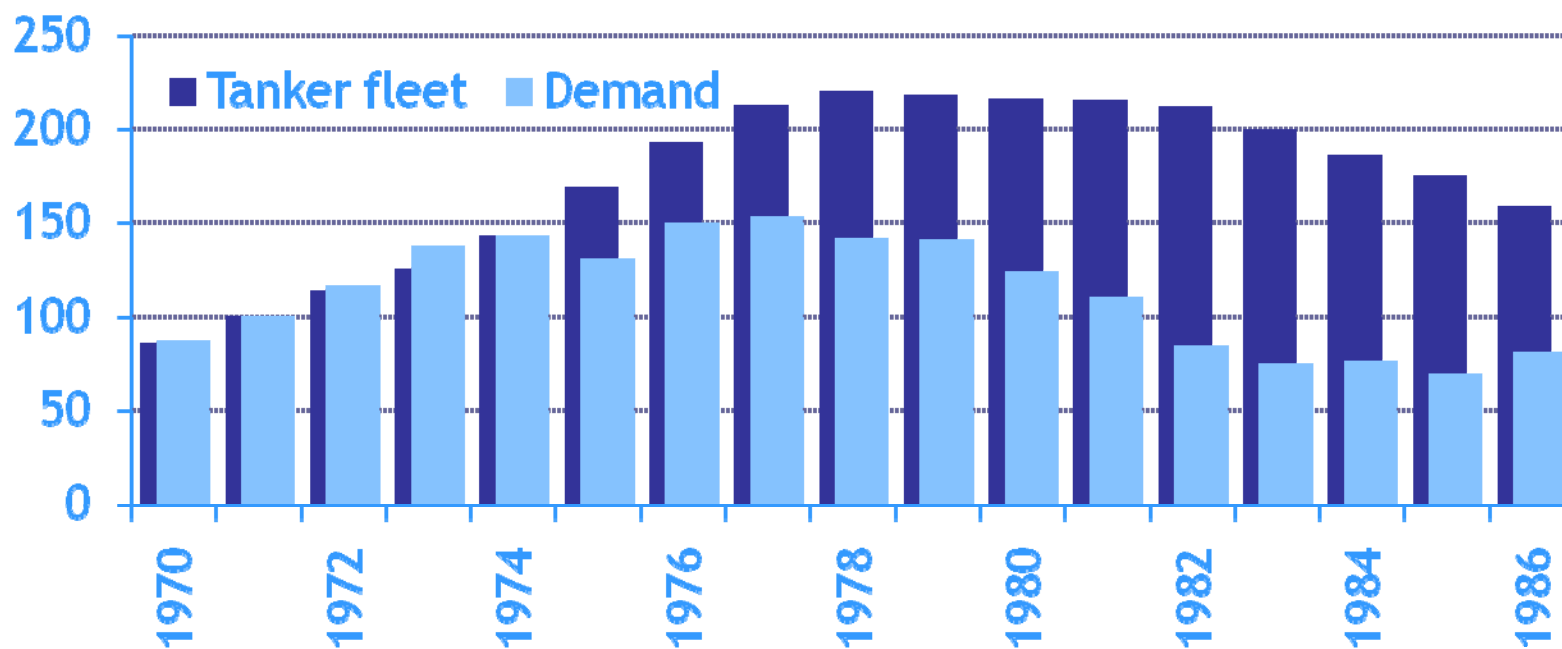
...but how can this be avoided

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)



Calculated on the basis of Fearnley & Eggers *Review*

Strategic mistakes

Shipping companies

Pre-crisis optimism
- massive ordering

Lack of understanding
- from cyclical to structural crisis

Limited cancellations

Very similar strategies

Identical

Who *really* knows..?

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

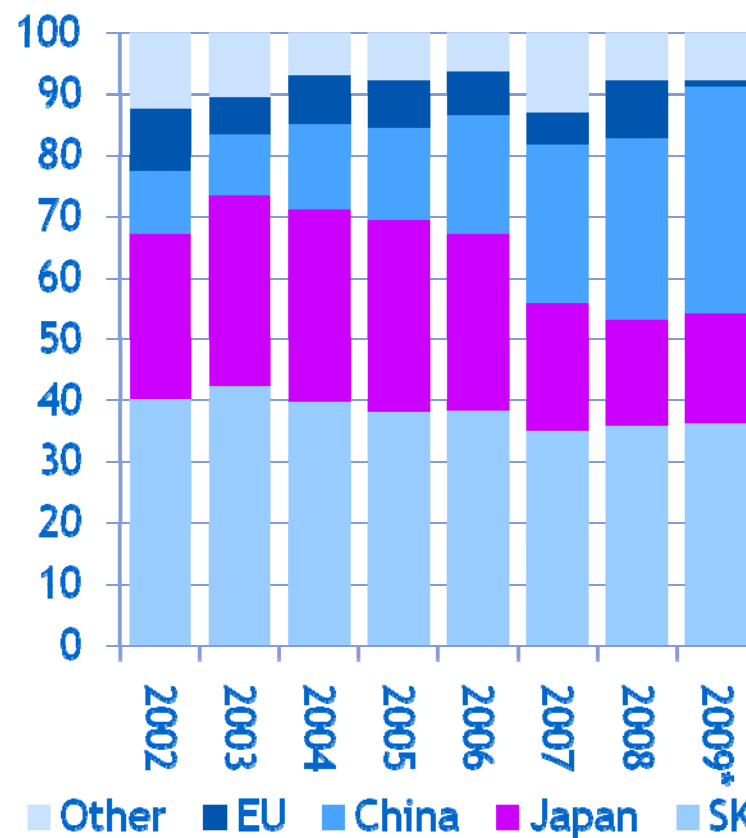
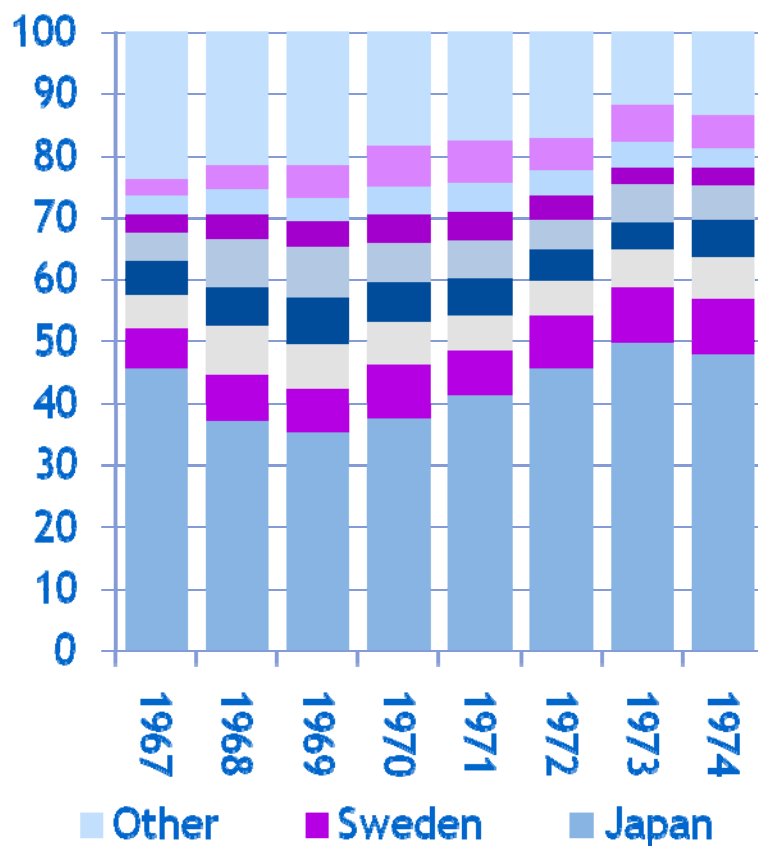
Established industry in several
leading industrial (OECD) countries

Today

Higher degree of concentration
in the shipbuilding industry

The shipbuilding industry transformation

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



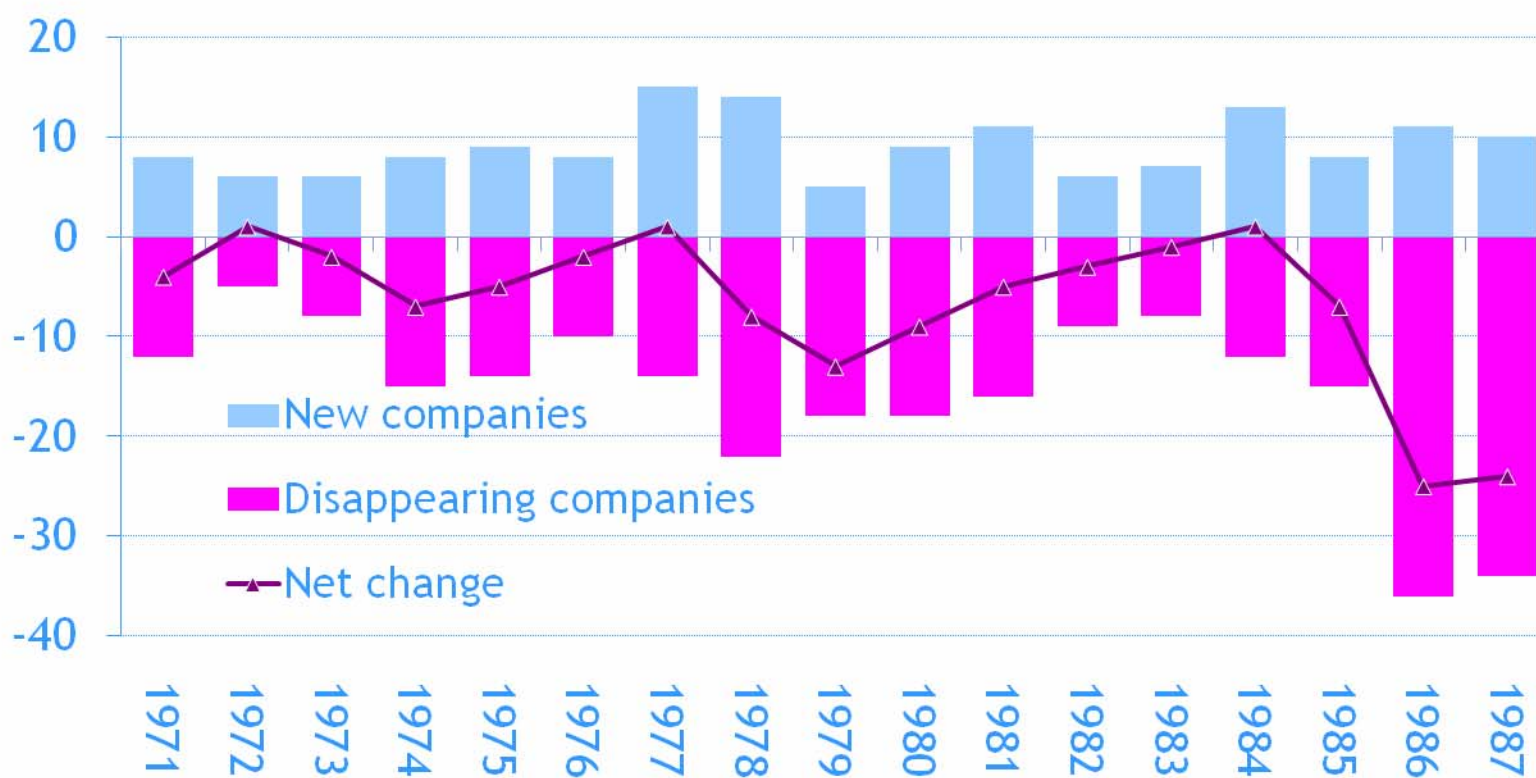
Important differences

1970s & 1980s	Today
Established industry in OECD-countries	Much higher degree of concentration
Absurd willingness to subsidise	Greenfield yards and financial constraints
Structural change in the international economy	Underlying trends might be positive in the long term..?

Macro focus

- Scary similarities
 - positive contribution from knowledge and experience?
- The first lesson
 - the crisis starts as a result of strategic mistakes, but may be prolonged as a result of political mistakes
- Crises and shipping company development
 - the population of companies
 - the categories of companies
 - crises and growth?

Changes in the Norwegian population of shipping companies



Source: Tenold (2001)

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

Four types of shipping companies



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

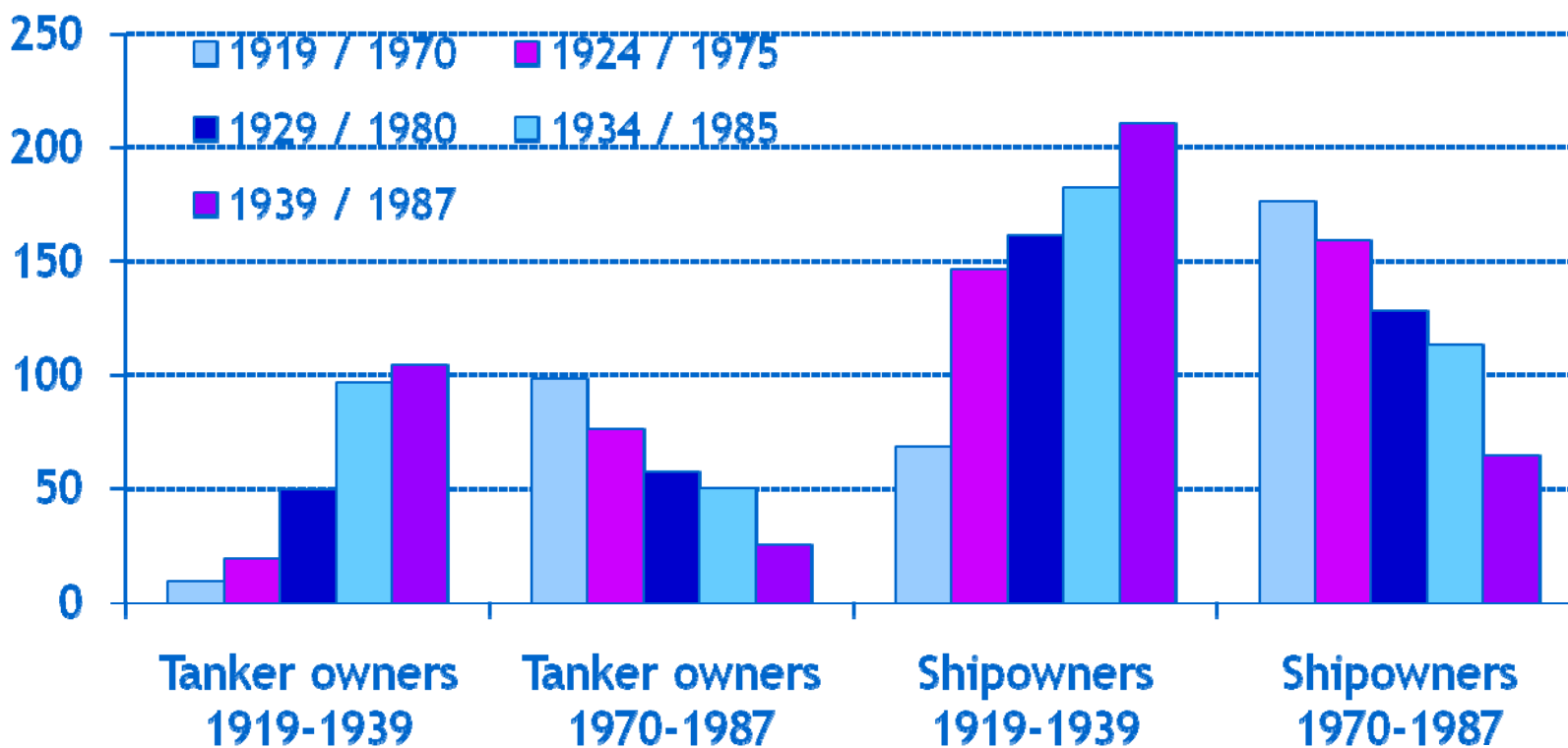
JO Tankers

The interwar period

The second lesson

- Crises are not necessarily bad for all companies in the sector
 - but the distribution of companies in categories 1-4 has important implications for the maritime industry of a nation
- Companies that are adapted to - or able to adapt to - the new regime, might indeed benefit
 - the Norwegian interwar experience clearly shows this

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

The most important lesson:
crises imply 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