INVESTING IN SHIPPING **By Barry Parker, BDP1 Consulting Ltd.**

A recent conference in New York left many attendees with the impression that shipping remains a good investment, in spite of its enormous climb out of the doldrums over the past four years. The industry has attracted the attention of investors in listed shares, as well as private equity players and hedge funds who are looking at unique situations. Leading shipping economist Dr. Martin Stopford, who came over from Clarksons Research in London for the early February event organized in New York by the Greek and Norwegian Chambers of Commerce, was a buzz with “Commodity Super-Cycles”. The many decades graphed on his Powerpoint slides suggested that shipping markets now have changed radically from those of the 1950's. One element of the change has been the rise of the public company; with more transparency has come more share listings as pools of money are attracted to the now thriving business. Dr. Stopford suggested that the “globalization” of recent years has propelled trade growth, as measured in relation to overall economic growth, to levels way above its long term averages. But, business cycles are not uni-directional. Some commodity economists (such as Morgan Stanley's Wiktor Bielski and others) would place us at the beginning of a lengthy series of rising waves, but Stopford suggests that we could be moving through the cycle, reminiscent of the early 1970s and the late 1940's before that. He suggested that large orderbooks for vessels are symptomatic of these cyclical peaks-“shipbuilding is amplified on the bigger cycles”.However, the world's trade patterns and infrastructure have changed since these previous run-ups, as was explained when a team from Navios, consisting of CEO Angeliki Frangou and CFO Michael McClure, took turns at the podium. Navios, which has recently moved to the New York Stock Exchange, is poised to grow as it integrates shipowner and freight operator Kleimar, a recent acquisition. McClure emphasized the impact of port congestion, and its role in diluting the impacts of the increased vessel supply. An important point for investors to consider is how “stretched” the supply is; one viewpoint is that shipyards (including many in China) may turn out more ships, which may only get stuck in queues at ports. Two economists, Morgan Stanley's Dr. Richard Berner and the Pete Peterson Institute's Dr. Nicholas Lardy, both talked about China's place in the longer term cycles, suggesting that the overall positive direction would be punctuated by zigs and zags- deviations from the long term trend line.Dr. Stopford did acknowledge the importance of China, which reflects an important regional growth spurt not unlike Japan in the 1970s, but suggested that economists should look beyond China into other parts of Asia. Stopford's most telling comment was made while moderating one of the morning sessions, when he cautioned that “The market's cyclical rise came very unexpectedly in 2003; it could quite possibly end just as unexpectedly.” Admittedly, the poor quality of information emanating from China has confounded many shipping economists; for example, nobody saw the huge drybulk run-up that began in 2Q 2006 and is still continuing. At one of the working sessions of the February conference, Poten & Partners' General Counsel, Ms. Stefanie Kasselakis, based in New York, offered her viewpoint on the tanker markets, concentrating on the impact of politics over traditional logistics. Telling the group, “We all come to this business from different vantage points,” she suggested that cyclicality was alive and well, but that the seasonal aspects may have changed, and pointed to the impact of new players and different business practices on the tanker trades. She pointed out that with these new players, and an emphasis on political considerations, security of supply and diversification of supply, oil or products were no longer moved simply according to logistical efficiencies, ie tankers may not always take the shortest voyage. Her view on the increased orderbook was that it had risen dramatically because vessel supply would need to expand to meet the greatly increased ton-mile demand. She said that with the new trades that have arisen (using West African crude moving to the Far East as one of several examples on a map criss-crossed with trade routes), demand for tonnage (measured in those tonmiles displayed on her map) have grown dramatically, and “VLCCs are passing each other in the night”. “Arbitrage pricing opportunities are driving the market- this may bring about a disconnect with traditional origins and destinations, but it supports a bigger fleet.” She concluded by saying that the market is still cyclical, but that everyone will be surprised how this cyclicality plays out. But, in the meantime, the market is strong in historical terms. As in all markets, not everybody agreed. At a time that many Wall Street analysts have “Buy” recommendations on listed drybulk and tanker players, the overall optimism seen at the Conference was tempered by Citibank shares analyst John Kartsonis. Mr. Kartsonis, working from New York, presented a cautious view on whether investors should continue to pump money into shares of companies that are depleting their cash reserves through hefty dividend payments. Kartsonis provided a numerical example based on a hypothetical VLCC owner buying at the present price, and worked out the numbers to support his thesis that the returns available may not be in line with the price paid. In discussing the dividend paying rage among tanker stocks, he suggested that companies paying out overly rich dividends, and driving stock prices above company net asset value, may not be maintaining sufficient money for fleet renewal of VLCCs. Many of the day's speakers disagreed with this point of view; Mr. Dean Criares, from private equity powerhouse Blackstone Group, a recent entrant to shipping, talked about the perceived supply / demand imbalance in the US flag sector, with considerable OPA 90 induced retirements not long off, that was behind his firm's decision to invest in U.S. Shipping Partners. USS, with plans to build product tankers at the NASSCO shipyard in San Diego, is actually a Master Limited Partnership, with LP units trading on the Big Board. Niels Lyng-Olsen, at DNB Nor Markets in New York, talked about the excellent trading environment for shares now, exactly because of the divergent points of view about the markets. Lyng-Olsen also voiced support for the offshore sector, where a huge business backlog and contracts at high rates are drawing “excess shipping capital” into the sector.

Barry Parker, is Principal of bdp1 Consulting Ltd, on the web at www.conconnect.com, which specializes in maritime industry financial structuring and analytics. He can be contacted at bdp1@conconnect.com.