

## Bow Wave (Issue 568, October 2010)

### 2. Lloyd's List Opinion

Your editor's recent opinion piece reviewed a new book on bunker credit reports:-

Companies stay afloat with one eye on credit risk

Credit and cash flow might keep business leaders awake at night, but the word on the street is as influential as any balance sheet

WHICH of us this autumn in 2010 can say hand on heart that the issues of credit and cash flow are of marginal concern? Those with ample reserves of cash and capital may be of heart than the rest of us, but most people one way or another saw how the flow of funds changed viscosity since the demise of Lehman Brothers and the times that have followed.

Getting paid on time all of the time is something decent business aspire to but may not necessarily achieve. Yet the maritime industry has for many decades had a small, intellectually respectable credit rating industry serving it.

Many organisations that supply goods and services to the maritime industry do not go very far before they ask a credit rating agency to take a view on the robustness of their clients and how much credit they are good for. For companies that supply equipment on lease, or port services or bunkers where the margins can be thin, one bad debt may put an awful dent on the year's or worse. It is said that in the container world, even shipping companies that are in terrible shape will treat the invoices of their leasing companies as very high priority debts indeed, such is the downside to being found wanting by the credit agencies.

A recent book\* on the subject of bunker credit risk by Adam Dupré is thus a timely newcomer to the scene. There were, so far as I can tell, no books around on the subject prior to this one and if you pick up a typical credit report on a shipping company (and one is included at the end of this short book), it will not tend to astound you with its depth and insight. The book is short and to the point. Although it is on a specialised subject, the author has a flair for brevity and summary. He has been in the industry for 25 years and is a product of the MRC academy of shipping analysis, which was originally based in Oxford and founded (partly by him) upon the insight that the shipping industry at the time was short on credit information sources.

MRC is nowadays part of the same group that brings you this daily newspaper and Adam Dupré has moved on to his own company in the bunker supply capital of the east in Singapore. In that part of the world, bunker business aside, he will have his work cut out for him. The western Pacific region is host to some of the most secretive and tight-lipped company cultures in the world. To use an abstract German noun, the informationspolitik of the East is to say as little as possible to anyone. Sharing information is often seen as a last resort.

Here is a sample from the book of daily reality:

"No we don't own any ships."

"Well your principals do."

"OK yes we do operate five."

"But aren't three of them laid up and wasn't one declared CTL after a fire last week?"

"Yes. OK we operate one ship."

The author says the basic objective of a marine credit report is to get readers to the point of knowing the subject company similar to the way they know their families, that is to they understand their drives, how they may react in different situations, what resources they really have and how they will act in adversity.

Is it anything to do with the scrutiny of analysts over the decades that the ever-growing container industry, which almost always grows bigger each year, has managed to avoid the sort of high-profile bankruptcies which attended on the greats of a different age? When US Lines went under in the late 1980s, the fallout was global and dramatic. Forty foot containers in depots around the world were seized as liens by unpaid yardsmen. Ships were stilled and container terminals owned by the line shut for a while.

At the small mutual where I worked at the time, the premium income paid by US Lines alone was something like one sixth of the total. It took many hundred new accounts to fill the void left by the demise of Maclean's speedy lines, but given the growth of containerisation at the time it was done soon enough.

Post-2008 container shipping, on the other hand, seems to have had enough agility to bring in slow steaming and container inventory management sufficient to avoid going down the cyclical gurgle. So far the worst insolvency story has been the fall of the Shantung Yantai line.

Since the bunker credit risk bears a strong comparison with maritime credit risk in general, one of the strengths of this book is to provide something of a primer on the shipping world in general. It does a good job on describing the different types of fuel, ships, markets and information sources which may be seen in our industry.

Just as importantly, the author admits that the word on the street may be as influential as last year's balance sheet. You can get a reference on someone in this industry simply by listening to the way your referee inflects his words. By the time a company or an individual starts being called "dodgy" and after you have eliminated the possibility of mere malice or competitor's Schadenfreude, there are few places for them to hide in the global shipping village.

\*An Introduction to Bunker Credit Risk by Adam Dupré (2010) published by Petrosport Limited, Oxford, ISDN 978-0-9548097-5-1, £45/€50/\$80 + p&p