Freighter Oversupply Weighs on Shipowners and Banks

Qilai Shen/Bloomberg News

A ship is under construction at the Longxue Shipyard in Guangzhou, China, for the China State Shipbuilding Corporation.

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SINGAPORE — The skyscrapers and immaculate beaches of this seaport look out on one of the world's largest parking lots: mile after mile of empty cargo ships, as far as the eye can see.

Enlarge This Image

Danielle Downing for The New York Times

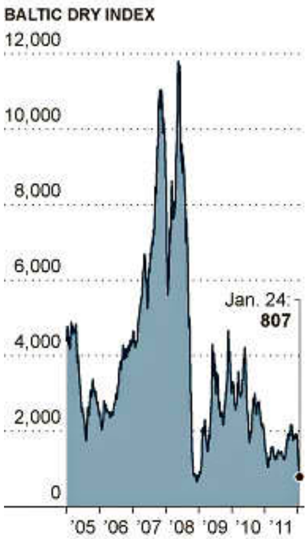
It is one of the worst markets ever for the shipping industry. Empty freighters off Singapore, above, wait for cargo as charter prices plummet.

Similar fleets bob at anchor, with empty cargo holds, off the coasts of southeast Malaysia and Hong Kong. And dozens of newly built ships float empty near the giant shipyards of South Korea and China, their owners from all over the world reluctant to accept delivery during one of the worst markets ever for the global shipping industry.

As recently as six weeks ago large freighters that can carry bulk commodities like iron ore or grain were fetching charter rates of $15,000 a day. Now, brokers and owners say, the going rate is $6,000 a day. If any customers can

Ship Fees Fall

The Baltic Dry Index, a measure of the daily cost of using a cargo ship, has fallen back to near the 2008 lows.



Source: Bloomberg

even be found.

Although the fault lies partly with doldrums in the global economy, the bigger factor is a glut of new freighters. The oversupply is putting financial pressure on the shipowners that bought them and the already struggling European banks that financed many of the purchases.

Shipping industry leaders hold little hope of a quick recovery.

"If the tunnel is 2012, I can't see any light at the end of it," said Tim Huxley, the chief executive of Wah Kwong Maritime Transport Holdings, a Hong Kong-based shipping line with 29 bulk freighters and tankers.

Back during the global commodity boom, which continued through the spring of 2008, the world's shipowners could hardly place orders for freighters fast enough. But because of the long lead times in shipbuilding, those vessels only now are being delivered by the hundreds — into a very different, much less robust international economy than when they were ordered.

For the shipping industry, the glut means not only lower charter fares, but also steep declines in the value of their vessels. The bigger losers, though, could eventually be some big European banks, many of which are already struggling with big losses on their holdings of government bonds from Greece, Italy and other heavily indebted European nations.

Basil Karatzas, the chief executive of Karatzas Marine Advisors, a ship brokerage and finance advisory firm in Manhattan, estimated that European banks hold about $500 billion in shipping loans on their books and face nearly $100 billion in losses to restructure them.

Just as American banks have grappled with huge loan losses for houses that are worth less than their mortgages, European banks face tens of billions of dollars in potential losses on shipping loans.

The banks' "biggest concern is what is the write-off, and how do you treat it from an accounting point of view," Mr. Karatzas said. "They do not know how to deal with these losses."

Banks in Europe have long been the world leaders in ship financing because many of the biggest fleet owners are based there. But many have abruptly stopped lending money to shipowners. Some, as they scramble to muster capital to meet tougher reserve requirements demanded by European banking regulators, have even tried to raise money by asking some shipowners to prepay loans in exchange for a discount.

There is a scant secondary market for ship loans right now, except at deep discounts that banks are loath to agree to, according to shipping finance experts. Even for loans on which the vessel is still worth more than the mortgage, these experts say, the discount demanded is about 20 percent.

Commerzbank in Germany and the Lloyds Banking Group in Britain are among European institutions that have publicly said they were reducing their exposure to shipping loans.

Société Générale in France also has been looking for ways to reduce its holdings of shipping loans and instead focus on providing financial advice to shipping companies, according to two people with knowledge of the bank's moves.

The bank declined to provide a comment on its shipping exposure ahead of the release of its annual financial report next month.

Shipowners, meantime, are nervously monitoring an industry benchmark, the Baltic Dry Index of bulk freighter charter rates, which has lost more than half its value since the start of the year. The index is now at its lowest level since January 2009, during the depths of the economic downturn after the bankruptcy of Lehman Brothers.

And as charter rates plummet, so do prices of the vessels themselves. A large tanker that sold for $137 million in early 2008, the Samho Dream, was repossessed by bankers late last year and sold last week in Hong Kong for just $28.3 million.

The world's tonnage of large freighters is climbing by more than 10 percent a year, with 1,650 large freighters for bulk commodities expected to emerge from shipyards this year alone.

As long as the shipped tonnage of world trade is creeping up at an annual rate of only 2 to 3 percent a year, the oversupply can only grow more burdensome for the seaborne freight industry.

Making the glut especially acute right now is the fact that shipyards have delivered a large number of vessels to owners since the beginning of the year. Just as some car buyers wait to buy a car at the start of a model year — because it will hold its resale value longer — shipowners have traditionally taken delivery of as many vessels as possible in January, so as to have a full calendar year's use before a vessel celebrates its first birthday, said Natasha Boyden, an analyst at Cantor Fitzgerald in New York.

Buyers who might be tempted to refuse delivery of vessels can lose their deposits, which are typically up to 40 percent of the contract price of the ship. But it is getting harder to borrow money from struggling banks to pay for the remaining 60 percent — particularly with resale values now much lower than the prices at which contracts were signed four or five years ago.

Freight rates are now close to operating costs for many bulk freighters, leaving almost nothing to pay the mortgage, so more old vessels may be scrapped in the coming years, which would eventually reduce oversupply.

Worldwide lending for ships totaled about $100 billion last year, down only slightly from previous years, according to industry estimates. But as much as three-quarters of last year's loans were to refinance or restructure previous loans that the borrowers were struggling to repay, shipping finance executives said.

One big question is whether the plunge in freight rates might also signal further trouble in the global economy. World oil demand has been fairly flat lately because of weak economic growth, so there has been limited need for more tankers to haul oil.

The biggest market for bulk carriers lies in carrying iron ore to China's voracious steel mills. But with a real estate slowdown in China undermining demand for steel, the annual growth rate of Chinese iron ore imports has abruptly slowed since October.

Harley Seyedin, the president of the American Chamber of Commerce in South China, said that many construction projects had slowed to a crawl, with barely enough work being done for developers to persuade their bankers to continue financing projects already under way.

Yet the growing glut of vessels, combined with seasonal factors, could skew the reliability of shipping as a global economic indicator. Bad weather lately off Australia and Brazil, the two countries where bulk freighters are most likely to take on iron ore and other cargo, has made companies leery of chartering vessels and risk waiting for days for ports to reopen after storms.

Further confusing the picture is that the cost to ship a container from China to the United States or Europe actually jumped in the first two weeks of this year, as factories rushed to fill orders before shutting down for up to a month for the Chinese New Year, which began Monday. But that could be a misleading metric, because container rates temporarily surge every year for the last sailings before the Chinese New Year.

Even if world trade does not slow in the coming months, the shipping industry still has a long way to go before cargo demand can possibly catch up to capacity. Meantime, bulk freighters, container ships, tankers and refrigerator ships by the hundreds may continue to bob idly in the waves here, their hulls showing wide bands of paint that would be submerged if the vessels were fully laden.

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