

UK P&I feels the strain

by
MIRIAM FAHEY, STAFF REPORTER

THE UK P&I Club has lost three members and reduced its membership by 3M tonnes at renewals last week. Its mutual owned tonnage now stands at 104M gt, a 3% drop from 107.2M last year. The trio joined North of England Club which has picked up Teekay Shipping, Grimaldi, Bernhard Schulte, Penn Maritime and STX Pan Ocean. North of England is forecasting breakeven underwriting for the year.

There are now 450 fleets insured with the UK P&I Club from over 50 different countries. Admitting that times were "difficult", UK Club spokesman Nick Whitear expressed thanks to Greek and Asian members who've shown loyalty – renewals in the Greek and Asia-Pacific shipping communities ran at 98-99%.

Following last week's renewals, UK Club chair Hugo Wynn-Williams handed control of underwriting to Christopher Brown, previously the UK Club's claims director in London, but Whitear said the results and reshuffle are unconnected. Whitear also commented on recent remarks from IUMI president Deirdre Littlefield that insurers have come to rely on investment returns to patch over technical losses. "Until very recently most, if not all P&I clubs, expected to run their business on the traditional 'not for profit' mutual formula. A combined ratio target of 105%-107% would not have been unusual."

Whitear pointed out that a combination of regulation, ratings agencies, changes in the investment climate, increased claims and member expectation has meant the clubs have now had to come more in line with the commercial market practice. "That said, combined ratios significantly below 100% are unlikely to be tolerated by [club members], who still expect to benefit from the mutual principle," he said. **F**



Photo: CMA

Paul Slater believes troubled shipping companies must embrace restructuring – with court protection if necessary

Restructuring urged as owners teeter

by
GREG MILLER, AMERICAS EDITOR

TEMPORARY forgiveness of loan covenants is now standard protocol, but some insiders deem this a mere half-measure before an inevitable and profound restructuring of shipping's balance sheets.

Investment banks and advisors have already broached the painful subject of restructuring with embattled shipping firms. Yet the hurdles remain high – there's an entrenched aversion to America's Chapter 11 code, due to its negative 'bankruptcy' connotations, while hope springs eternal that markets will rebound.

Fairplay spoke to one of the players offering restructuring advisory services, First International's Paul Slater. His firm is part of a yet-to-be-formalised alliance whose discussion partners include a top maritime law firm, other consultants, and a major player in derivatives and ship and commodity trading. "Shipping companies are saying 'we're waiting for the market to turn and credit markets to loosen up' – but they may not live that long," warned Slater.

He believes 2009 will be awash with shipping bankruptcies, whether filed in the US or elsewhere. If he's right, the crucial question is how owners should proceed – and how quickly – in delicate talks with banks and major creditors.

"The banks are giving covenant waivers, but so far, they aren't offering to take 'haircuts'. They're not saying 'we'll convert \$200M of your \$500M debt into equity'. Yet if they took over the [fleet] assets, they'd have to dump them and lose 75% of their money, as opposed to writing down 25% and stretching out the loan." Slater urged troubled owners to develop a detailed restructuring plan – including creditor 'haircuts' – that's ready to be filed under protection regimes such as America's Chapter 11.

The fear is that this tactic could spur creditors to immediately arrest the ships. "Everybody's worried that the moment you have this conversation, somebody holding debt, particularly banks, will take your ships. But

they really don't want the ships," Slater maintained. He advised crisis-ridden owners to first attempt to negotiate an out-of-court restructuring, but be prepared to file for protection immediately. The US Chapter 11 code is designed to allow companies to re-emerge after a period of creditor grace.

"If you're going through [US] restructuring, you're actually a far better company to deal with than those who haven't 'washed themselves'," argued Slater. "You've recognised the diminished value of your assets and you're running a leaner, meaner operation."

Asked whether a company in Chapter 11 would face tighter terms from partners, which would hike costs, Slater responded: "That's why you get debtor-in-possession finance." DIP financing has dried up, yet he insisted that "it can be found".

Fairplay also asked whether a wave of Chapter 11 filings in 2009 might prompt banks to commandeer vessel assets *en masse* to preempt court protection.

"I don't see that happening," countered Slater. "Particularly now, banks must explain themselves internally. If they say 'we'll arrest these ships', the question will be 'what are you going to do with these ships? If they say, 'We'll trade them in the market', the question is 'what market?'" **F**