

E-Interview with Mr. Philip Clausius about: "Ship Financing - Investment Opportunities and Strategies for New Market Segments"



Title of Interview: Ship Finance
Name: Philip Clausius
Functional Area: President and Chief Executive Officer
as Trustee Manager for First Ship
Lease Trust
Organisation: FSL Trust Management Pte Ltd

Short professional CV:

Philip Clausius is the President and Chief Executive Officer of FSL Trust Management Pte Ltd, the Trustee Manager for First Ship Lease Trust. Philip has 16 years of financial and operational experience in the shipping industry. He co-founded First Ship Lease Ltd. in 2003, and oversaw the constitution of First Ship Lease Trust and its successful listing on the Mainboard of SGX in March 2007.

Philip was formerly the Director of Business Development at Schoeller Holdings Ltd., Cyprus between 1997 and 2003, where he was responsible for developing the company's long-term financing and investment strategy. Prior to this, he founded Philco Security Ltd, a Greek marine insurance and ship broking firm in 1996 and was its Managing Director. Between 1992 and 1995, Philip held the position of Director of International Broking at Hubertus Clausius, a German marine insurance broker with special expertise in marine hull and liability insurance products.

Philip holds a "Diplom – Betriebswirt," the German equivalent of a graduate degree in Business Administration, from the European Business School, Germany.

Investment Opportunities and Strategies for New Market Segments

In the context of the Conference on Ship Finance at SMM 2008, Hamburg

While international financial crisis still increases in size and reach some major national economies face severe recession risks. The international ship financing community – being the pacemaker of international trade and growth – now has to deal with those issues as well.

Hence, the ship finance industry has to give some answers to how maritime markets and players are affected by the credit crisis. Do we have to invent new and innovative financing schemes? Will there even be new opportunities for ship financing arising from the crisis? How are investments in ship funds affected by the new market environment? What does this mean for the private investor in ship funds?

This virtual roundtable wants to shed some light on these issues related to ship financing. We invite experts from companies, banks and institutions to present their views on current and future market perspectives.

Dear Mr. Clausius,

Question 1:

Which of the players in the ship financing sector are affected most by the credit crisis?
Why is this so, are there substantial differences by country / on the global level?

Answer:



All the banks which rely heavily on the interbank funding market will have severe continued problems. The most prominent failure of a bank in that group was Northern Rock. The key for survival for any bank in this new environment is a diversified funding strategy and in particular a relatively inexpensive and reliable deposit base. As such, in particular the German "Landesbanken" will continue to face great difficulties as they have historically relied heavily on the interbank market.

Question 2:

Is bank money for new ships getting to expensive to obtain? Will the business model stay as attractive as in the last years, especially with the german investors playing a leading role in the sector?

Answer:



The role of the German investors will diminish. Returns on existing funds will be negatively impacted as no new profitable charters can be found, some existing charters will default whilst operating costs of ships in many cases are significantly above original calculations. For new projects capital costs will rise significantly, both as a result of capital shortage and increased perceived risk. This applies to both debt and equity funding. As a result new investment activity will slow substantially.

Question 3:

Is there a need to invent completely new and innovative financing schemes? Will there even be new opportunities for ship financing arising from the crisis?

Answer:

No. It is all about risk and return. Risk was dramatically mispriced over the last years of the liquidity boom. Now, we have swung to the extreme other side of the pendulum: Almost any level of risk is unacceptable regardless of return. It will take some time for investors to figure out their sweet spot on the risk/return curve going forward and then the shipfinance experts can structure products around those appetites. I do not expect groundbreaking new approaches to shipfinance. I do however anticipate opportunistic professional private equity capital entering the market in a substantive manner once vessel values have truly collapsed.

Question 4:

Please name – from your personal expertise – the three most significant challenges ship owners will have to face in the near future.

Answer:

The biggest challenge is clearly eroding margins in light of rapidly rising capital and operating expenses, which can't be passed on to customers in the next 1-2 years given the looming tonnage oversupply. Hence, shipowners should focus on existing tonnage and operations and contain costs to the best of their abilities whilst waiting for a market recovery.

Mr. Clausius, thank you very much for this interview!