Vancouver shipping

A missed opportunity?

By Haijun Yu and Bernie Jones, Vancouver ShipInvest and Management Ltd.

The government and various individuals have, for a number of years, tried to establish the Vancouver Shipping Community on the international stage. However, the global shipping world has not really recognized Vancouver until the last two years through the efforts of Vancouver International Maritime Centre (VIMC). Why is it so hard to promote Vancouver as an International Maritime Centre? Apart from various reasons, here, we would like to emphasize two important factors — the cargo owner's role and shipping finance availability — to make our point.

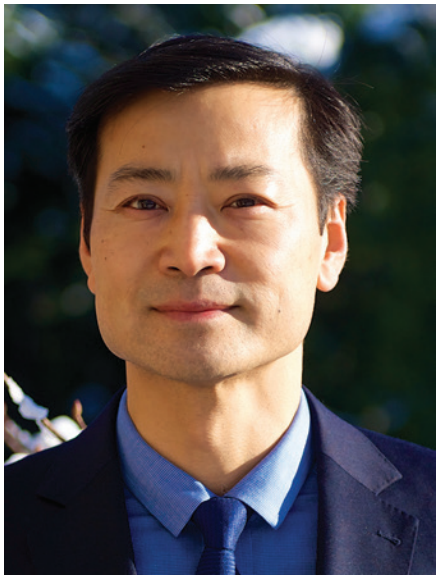
In 1991, the first version of the VIMC successfully took advantage of the influx of Hong Kong ship owners. A number of owners moved their offices here, but it soon became apparent that there was no local business to support such a move. Owners who stayed, relegated their office to branch office status; others closed their office entirely.

We are now coming to the end of a term of the second version of the VIMC. The protagonists of the VIMC have done a great job in raising the profile of Vancouver on the world shipping stage, as well as encouraging a number of owners to open or consider opening offices here. However, we still have a long way to go to establish Vancouver as an international shipping hub.

So why is it so difficult to get Vancouver to be a shipping success story?

One of the major reasons is the way local cargo is moved.

Vancouver exports over 90 million tons of cargo exported every year; but the fact is that, apart from a couple of exceptions, nearly all that cargo is shipped on an FOB basis. Thus, the control of the cargo movement has been given away to third parties. If we retained control of even part of the cargo movement together with Vancouver-based shipping companies such as joint venture or COA, then the cargo owners could not only protect their interests through stable freight rates but also strengthen their trading position to become more competitive when dealing with cargo buyers.



Principals of Vancouver ShipInvest and Management Ltd., Haijun Yu and Bernie Jones.

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By doing so, cargo owners indeed are able to generate a lot of activity locally in chartering and ancillary activities. This would go a long way in attracting the shipping activity we so sorely need here. As a benefit, they finally would enjoy a favorable rate through co-operation with shipping companies.

There are a few other potential advantages that could help as well.

If major cargo owners and charterers were willing to participate in freight, they could have their own shipping arms through ship acquisitions or joint ventures. There would be the ability to hedge their freight and participate in some asset play by using the freight they pay to amortize the acquisition of vessels, either by themselves or by third-party local owners. The main point is that we need the major cargo owners and charterers here to change the way they think and there will be some good benefits for all.

In the mid-1970s, Canada had a substantial international shipping presence through CP Ships which owned Capesizes, Panamaxes, open-hatch bulk carriers as well as tankers and container ships. Then, in one of those corporate decisions, it was decided to get out of vessel ownership. That spelled the last significant presence of international ship ownership in Canada with the notable exception of the active Lakes operators that we still have. Those ships traded in the international market but they also carried domestic cargoes to world markets and acted as a useful hedge against freight variations, allowing owners to have their finger on the pulse of the world market.

Historically, the cost of owning and running ships has been cheaper than that of just chartering. If you factor in the ability to hedge freight long term and also potentially make asset appreciation, then the arguments are pretty pressing to follow this course.

The second major aspect that we are missing is ship finance.

Ship ownership is a capital-intensive business, so shipping finance plays a fundamental role for any shipping acquisition. The West Coast of Canada lacks any

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SHIP FINANCE

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international shipping presence in banking and financial institutions. Any presence that we have, which is very small, is based in head offices in Toronto.

In order to stimulate investment, we need a strong and knowledgeable banking sector. The banking sector here lacks shipping knowledge and it is our job as a shipping community to help educate them and to provide them with the necessary information to make decisions.

There is a lot of capital based on the West Coast of Canada and in recent years a lot of high net-worth potential investors coming to live in Vancouver. Along with the charterers, there can be a large investor presence in the shipping market in Vancouver. In order to give the investors confidence, we need to show them that we have a strong banking community willing to finance shipping deals.

Our job as a shipping community is to educate investors or investment institutions of the possibilities and to bring the different sides of the equation together to come up with a workable formula.

The VIMC has done sterling work to promote and elevate the status of Vancouver as an international shipping hub, so what we as a community need to do is to carry on that work to provide tangible results.

We have created a company, Vancouver ShipInvest and Management Ltd (VSIM), to gather funds from investors, manage the assets, arrange employment and disburse dividends from profits. Our target is to create a Vancouver Shipping Fund to invest in both international shipping and local shipping assets.

Over the past decades, we have been tracking shipping asset values. We looked at various types of ships and decided to focus on Supramax (50,000dwt) up to Kamsarmax (82,000dwt) bulkers around 10 years old. These are the most generally used types of vessels and therefore the ability to always have them chartered was high. We started to educate our investors at the end of 2015 and through 2016 when ship prices were low since we predicted the dry market would improve in coming years.

For example, in March 2017 we inspected several Supramax and Panamax vessels and identified a 2006 Japanese-built Supramax bulker as being a good candidate. Unfortunately, we could not get our investors in line with the short bidding time. The ship was sold at $9.6 million — today that same ship is worth around 30-35 per cent more. This demonstrates that we were right by judging the investment timing through our years of experience and market knowledge however, we need to have our funds ready in time.

There still exist opportunities in the bulker market, but there are new regulations coming into force such as Ballast Water Treatment (BWT) and low sulphur fuel which could add significant costs to a second-hand ship. Thus, we have to be fully aware of all these factors when we propose any investment opportunity to our investors.

In addition to these investments, we believe that there are other opportunities within Vancouver. Tugs, barges and other locally traded tonnage are needed to answer increased requirements from local terminals and increased production in other industries. Even shore-based equipment could be a possibility. We would like to work with the local shipping community to create investment opportunities.

We will source projects from our extensive network of contacts, thoroughly analyze the financials and show them to prospective investors. This involves looking at the current and potential asset values and positive cash flow. One major incentive is obviously capital appreciation.

Our idea is to obtain medium to long-term charter employment, which would depend on the type of vessel. If the vessels are specialized, then we will need to see a long-term charter party to secure the investment return. If it is a conventional type of ship, then we would look at shorter-term commitments to take advantage of any upswing in charter rates or values.

In our estimations, we are looking at a rate of return of around 8% to 10% p.a. and an initial capital outlay of US$9-10 million. We would take this opportunity to raise funds from all sources including banks, financial institutions and individual investors. Meanwhile, our professional team is open to any type of shipping project locally and internationally.

If you are interested in discussing investments, please visit our website at www.vancouvershipinvest.com.