

# **Capital Link Shipping Forum**

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Thank you Nicolas for you and Capital Link honouring me with this 2015 Shipping Leadership Award. Thank you also to Jeff Pribor for his very generous introduction.

When Nicolas called me in early January to offer me this Award I hesitated to accept initially, wondering what I had done to deserve it and worrying about the implications of accepting it. When I did call him back and agreed to accept this Award, I made one thing very clear; I maybe shy but I am certainly not retiring!! Two recent recipients of Capital Link Leadership Awards, Dagfinn Lunde and Lambros Varnavides have both recently retired from running large shipping portfolios at DVB and RBS, but I want to make it clear I have no intention of retiring from Citi yet, although for all I know my superiors may be planning it or my colleagues may wish for it!

The other thought that lurked at the back of my mind was that if I declined this Award Nicolas might offer it to someone like Jeff Pribor which would give him yet another chance to sell Jefferies (now known as Jeff's for short) – instead of my being able to tell you all in great detail about Citi's 202 years of association with the Shipping Industry.

Nicolas said I could talk about anything I wanted, so on the basis that I am standing here merely because I have been a Shipping banker for nearly 30 years of my 38 year career, I thought I would share some of the lessons I have learned and some of them I am still learning, though I was tempted to talk about the impact of nanotechnology and 3D printing on Shipping instead.

My first Event as a Shipping Banker was to fly to Oslo on 31<sup>st</sup> October 1985 so I thought I would look back at the news published that day to see what we were all worrying about then. I have looked at the Lloyd's List and Times (of London) papers of that day.

Some of the headlines seem distinctively familiar, for example, "Britain Rejects claim by Greek Government for return of Elgin Marbles"

"Swedish Spy Vessel and Soviet Ship Collide"

Ideas came and went as "Reagan offered to share Star Wars Technology with the rest of the World"

But some have taken time and will shortly turn to reality as  
“Options were discussed about future of the Panama Canal”.

In Aviation news many would have been disappointed that, as of the next day, November 1<sup>st</sup>, British Caledonian the then second British Airline, announced “A ban on the smoking of pipes and cigars on its flights” – interestingly it was the first European Airline to do so. Maybe direct Miami Havana flights will allow cigar smoking!

In Shipping news there were discussions about cabotage in the EEC (now the European Union); I believe cabotage is only alive and well in the U.S.A. and North Korea now; the International Maritime Bureau reported a sharp rise in armed Pirate attacks – mainly in West Africa.

In Shipping Finance the news was about large losses at Global Marine, Sanko and others. Sanko of course eventually recovered only to be dismembered in the last couple of years by the first Dry Bulk collapse of this cycle with its large chartered-in obligations. There must be something unlucky about companies that begin

with S and end in O ! Another company beginning to face serious problems was Mclean Industries with its \$1bn investment in new container ships. Malcolm Maclean's big mistake was to think that large container ships steaming slowly was a serious business proposition!

I spent about 3 years mainly on restructuring work and I am pleased to say that Citi has some good clients that came through that process; with mutual respect, friendships can be made in difficult circumstances. Those were the days when work-outs could be conducted with patience and a desire to see the patient fully recover. These days I am afraid that the accounting and regulatory pressures on banks require a more distanced approach to protect capital, and decisions rarely depend on the friendly relationship banker.

I suppose part of our confidence then in being allowed to handle our problems was that the Citicorp Board had specifically decided to remain committed to supporting the industry (unlike of course a number of banks today whose Boards have decided to exit the business.) Another factor was that the mid 80s downturn also

coincided with the first LBO crisis, which was of course a bigger problem. These days it is more difficult for Shipping to stay under the Radar, especially given the size of some of the problems and portfolios and regulatory scrutiny.

When I moved from work-outs to restarting our business in 1989 in Northern Europe two of my strongest (and now well-known) competitors were Morten Artnzen and Peter Evensen. At that time they worked for Manufacturers Hanover Trust, a survivor of the shipping crisis, but not the later merger of several banks into the JP Morgan of today. Active US Shipping banks before the 80s crisis were Citibank, Chase Manhattan, Morgan Guaranty, Manny Hanny, Chemical Bank, Bankers Trust, First National Bank of Chicago, the original Bank of America, Bank of New York, Marine Midland and possibly a couple of others I forget. Post crisis Citi, Chase and Morgan were the only serious players and the last two merged and de facto ceased being a major lender when Peter Evensen left for the calmer environment of Vancouver.

I have never been tempted to try and become a shipping CFO or CEO and Morten and Peter have had mixed fortunes. Peter has built on the success of Bjorn Moller and as CFO and now CEO

been very creative in using financial engineering to grow Teekay into an even larger successful group of companies. Tor Olav Troim paid Peter the compliment of copying him with Golar and Seadrill though Peter is now complaining there are too many fake copies coming to market. I should declare an interest and say that Teekay is a very important relationship for Citi.

Morten's presentations on the conference circuit were always creative and amusing with a good use of pictures and cartoon figures. He could always boil an issue down to 10 points; he should have had 11 even if only to say "there can be no Chapter X1" .....

In the mid 90s a number of books celebrating Shipping company anniversaries started to appear; publishing a company history is often one of a number of signs of impending disaster along with new offices, flagpoles, personalised car number plates of the owner and a fountain in the reception area of the new office. Maybe the company publishing its history is worried that there

won't be anything to write about in future, a not unrealistic thought for many shipowners at the time. What interested me or my vanity was whether I was mentioned and I would be somewhat surprised when I did not find my name in the Index. So I would turn to the chapter on the relevant period when I had devoted so much time and energy to helping keep a company alive only to find a totally different story glossed over with euphemisms, a supposedly heroic cast of individuals who were never seen in the real events and I realised that the pain could only be eased by a different version of the reality that did not undermine the skill and ambition of the owners.

Although the problems facing some sectors today are reminiscent of when I started in the mid 80s, I think they are more the death rattle of the traditional abrupt cyclical change in a market or the belated realisation of huge excess capacity. When one is participating in ongoing change one is less aware of the real impact until later. Larry Page of Google said recently in talking about the impact of Artificial Intelligence, “you always overestimate in the short term and underestimate in the long term.” I think it is now as true of Shipping. Some fundamental changes started taking place from OPA 90 and the cumulative

effect now bolstered by the consequences of banking crisis is leading to a very different industry. I have said before that a 19<sup>th</sup> century industry is finally emerging in the 21<sup>st</sup> century and once again fulfilling a recognised role in the global economy.

Even a few years ago no-one would have seriously contemplated the involvement of outsiders of the calibre and reputation of Wilbur Ross and other investors participating so actively in the industry. Look back only a few years and Maersk declined to reveal the real carrying capacity of their container ships; compare that to the transparency they now show and the very public statement of their investment grade rating. Capital markets are now a growing provider of finance not the one-night stand of 20 years ago; like all markets, investors may decline to play for a time but no-one would now say that a shipping company cannot raise public debt or equity. With the right structure, in the right market it is no different from any other company in any other industry.

When I joined Citi in 1977 managers were assessed and paid on the Hay point system where the size of your loan book or assets and the number of people who worked for you determined your

status. Returns were primitive measures and profitability was taken for granted but nothing was properly adjusted for risk. Today the reverse is true; the more you return to your shareholders with the least exposure and fewest people the greater is your contribution.

Transparency and high ethical standards are broader society objectives; whilst banks may bear the brunt of regulators and fines to punish past mistakes, those influences will continue to extend to how and with whom we can do business. Shipping is seen as high risk in financial and reputational senses so self-imposed standards by the leading owners to raise the bar will help prevent the industry being targeted, taxed and trampled on.

Environmental issues will have an increasing impact and cost and that may raise the standards of the industry but owners need to work closely together through existing or new forums to reject governments' likely attempt to penalise the shipping industry. In any event costs should be passed on to the cargo owners and ultimately the consumer.

Let me turn to Citi's involvement with Shipping.

When my late predecessor as Citi's Shipping Head Jock Newbold retired in 1997, Walter Wriston the former Chairman and CEO of Citicorp came to his farewell party in 399 Park Avenue. Talking to him, I felt a sense of responsibility to make sure that the business of which Wriston had been the real creator would not disappear on my watch. It has not been without a struggle from time to time, to make sure we did not lose money, to make sure we met the ever changing and ever tougher hurdles of return on capital and profitability. In 2012 Citi celebrated its 200th Anniversary and that enabled me to remind everyone of the Black Ball Line, the scheduled liner service from New York to Liverpool set up and owned by a number of the Directors of the National City Bank in the early 19th century. Our former CEO Vikram Pandit chose paintings of two of the Line's ships for his office. This narrative has enabled me to refer at every possible opportunity in internal meetings in Citi to this business as being "the oldest industry in Citi".....we will never be the biggest but the oldest will always be the oldest. It was Vikram's predecessor Chuck Prince, famous for dancing until the music stopped, who

announced at some black tie Corporate dinner in New York that "we no longer had a Shipping Division" .....a number of CEOs at the event emailed me to commiserate, and it was a little surprising to hear my demise announced in public. It transpired that in Chuck's genuine desire to understand the roots and history of the components of Citigroup he had discovered that before we had any recognised corporate, consumer or investment banking organisation we did have a Shipping Division.

John Reed, Wriston's successor has gone on record expressing a view that the merger he co-led of Citicorp and Sandy Weill's Travelers was a big mistake. With politicians and regulators still looking back at Glass Steagal who knows what may yet happen to the US banks but for our Shipping business this was a good thing bringing as it did the deep capital markets position of Salomon and Smith Barney. Citi itself had done the first ever High Yield bonds in Shipping for Eletson and CSAV and Salomon was not a very successful player in the market at that time. The merger brought the complimentary skills and experience of their advisory and equity business to complement the strengths of Citi's debt and other corporate banking solutions just at the time that the shipping industry was becoming a real participant in public markets.

In the 18 years I have been privileged to manage Citi's business with the industry I have been fortunate in working with some great colleagues around the world. I am not going to name them all but I would like to thank two of them who are here, Alberto Cribiore, a Vice Chairman at Citi with a distinguished career before he joined Citi and who is a wise counsel, friend and very active partner in several of Citi's important relationships. Also here is Christa Volpicelli; Peter Evensen calls her the "Deal Queen" and she leads our investment banking practice here in the US and has also had great success in advising and helping foreign owners in the industry raise capital in US markets. The third person not here but I would like to mention on the record is my Risk partner Chris Conway. An independent, supportive but objective Risk partner is key to being able to manage difficult and sometimes complex exposures through cycles, calming the ivory towers who follow the BDI but don't understand what it really means. Dealing with Regulators is now an essential but time-consuming process and knowing how to do that is a skill one needs partners to help with.

There are few other industries where bankers get the opportunity to spend so much of a career. Apart from the specialised aspects

of maritime finance, the real motivation is to remain involved with owners and managers who are happy to share their personal time and enthusiasm for their business. Some great innovators created businesses and still do in this industry; Jacob Stolt-Nielsen who sadly died very recently created several new businesses; Malcolm McLean is the real founder of containerised shipping as we know it even if his own company didn't survive. Job satisfaction for shipping bankers is high though the stresses of recent years has made that less so than in the past.

To survive, you need a supportive institution and senior management; you need to fight to preserve and build what you think is important and you need great colleagues and great clients. Regular large doses of White Burgundy help and above all a sense of humour is essential, to be able to make a joke and to take a joke.

I want to thank you again Nicolas for this generous award at this middle stage of my career and I accept it on behalf of all of those

at Citi who engage with this wonderful industry and I hope will continue to do so for years to come.

Michael Parker

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*March 2015*