

POOLS: WHO SAID THEY WOULD NOT SURVIVE?

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You have now heard presentations by two shipowners who are pool participants. In my paper, I will defend pools from the vantage point of a pool manager.

Before I begin, however, I should say that being Norwegian, living in America, and being a commercial manager of a pool of vessels that are predominantly owned by Greeks, I could not have been invited to speak at a more appropriate forum than a shipping conference jointly sponsored by the Hellenic-American and Norwegian-American Chambers of Commerce.

Pools are not new to the shipping industry. Liner companies started forming conferences and pools more than 40 years ago. Most of those pools were formed in response to a need for consolidation as customers of the liner trade demanded more frequent and flexible service. Since those days, the resulting pooling and conferences in the liner industry have led to few but large liner companies through mergers. Today, Maersk Sealand, as an example, controls in excess of 250 container vessels after a string of alliances, pools and subsequent mergers.

Will we see similar consolidation in the tanker and bulk carrier segments of shipping? You bet. It may take many years but we have, over the last two years, seen a compelling beginning. Considering I have been a tanker man all my life, I am speaking as such. However; I do not think the tanker industry is much different in its need for consolidation than the dry bulk industry.

The critics say pools cannot survive. They claim that owners will not give up commercial control and if they do, they will only do so for a short period of time when the market is poor and pools may help the market to recover sooner. When the markets have recovered, they will pull out and trade their vessels on their own. So much for the critics. They don't know any better, forgive them Lord.

I will try to convince you why the few pools out there will not only survive but, will continue to draw tonnage and more importantly, new successful pools will be created. I should add that not all pools, or types of pools, will survive and prosper and I will touch upon the difference a little later in my paper. The market that we are in has and will continue to change dramatically. The only reason why pools have not survived in the past, and more pools have not been created sooner, is due to the nature of the companies involved in the bulk industry. They are predominantly family-owned with little or no desire to give up commercial control. However, we

have seen significant consolidation among our customers over the last two years and this has forced shipowners to rethink how they operate their vessels in the market.

Let me remind you of the following mergers among oil companies: Exxon/Mobil, BP/Amoco/Arco, Total/Fina/Elf, Repsol/YPF and now Chevron taking over Texaco. Twelve of the largest oil companies in the world have been reduced to five.

To further illustrate, yesterday Phillips and Tosco announced their merger.

These mergers have resulted in vast increases in shipping requirements of each company and the way they look at their suppliers of products and services. This is not unlike the change that took place in transportation of goods and containers among the customers of the liner companies from the 1960's onwards, which resulted in pools, conferences and alliances. With two distinguished speakers here today, representing two very successful liner companies, it would be interesting to hear, later this morning, how their industry has changed.

THERE ARE SEVERAL METHODS OF POOLING OR QUASI-POOLING IN EXISTENCE TODAY:

The "dominant owner" pools like Stolt-Nielsen and Odfjell in the chemical trade, Torm and Maersk in the product trade and Klaveness-Bulkhandling/Gearbulk in dry bulk. These pools are attractive to charterers, but less attractive to independent owners, because the owners have no say in management and tend to lose their identity.

The "partnership" pools like Tankers International -- the worlds first -- a very large VLCC pool and International Product Carriers -- a product tanker pool. The partners created and own these pools and have seconded personnel to run them. The longevity of these pools is dependent upon the continued participation of the founding partners.

"Independent" pool management companies like Star Tankers and the recently established Dorado Tankers for panamaxes and product tankers, respectively. Although I am obviously biased toward this type of pool, where the manager owns the pool company. Transparency, trust and the ability to add value to the participants, over and above what they can generate themselves, are what make these kinds of pools prosper and survive. Combine this with the ability for each owner to actively participate in the general policy decisions of the pool; these pools are attractive for small and large owners. Such pools are generally easier to enter and leave as they have many participants and a loss of one or two have little or no effect.

WHAT IS THE KEY FACTORS IN RUNNING A SUCCESSFUL POOL?

The 3 most important factors are: **Transparency, transparency and transparency.** Without transparency, the pool will never succeed long term. Transparency includes extensive reporting on a very frequent basis to the pool participants. In Star Tankers, as well as Tankers International, reporting occurs daily. In addition, at Star Tankers, we have an interactive website on the Internet, which is an extension of our internal database.

Pool participants have access to this database and can review the performance of the pool and individual voyages, 24 hours a day and 7 days a week.

Bottom Line - Consistently returning, against a clearly defined market benchmark, better earnings. This is achievable, on the revenue side, by combining spot cargoes with regular movements of cargoes under contracts of affreightment. This improves the ratio between loaded and ballast legs. On the expense side, a large pool has economy of scale in purchasing services, including bunkers, tugs and port agency services. With world-wide marketing abilities through our own representations, broker involvement is reduced to no more than one broker per cargo, often a saving of a commission but more importantly, it puts the pool closer to the customer.

Performance Review - The pool participants work together through regular technical and management performance reviews of all pool activities.

Partner Participation - Successful pools have partners that participate, promote and care about the pool through regular pool meetings, where views are expressed and ideas are shared openly.

If a pool meets the above criteria, it will survive and more importantly, succeed and grow.

I cannot leave you without giving you an update of the Star Tankers Pool. We currently have ten shipping companies participating with 39 tankers, including 5 newbuildings that were delivered last year. We expect this year, the pool will grow to 12-13 members and 45-50 tankers. The Star Tankers Pool was established 3 years ago and since then we have faced the worst and the best markets in 30 years. During this period, the pool has continued to grow and prosper.

Thank you.