

The secret of success? Pooling  
Date: May 01, 2001  
(Lloyd's Shipping Economist)

Heidenreich Marine has carved out a niche in the panamax products tanker market in its near 17-year history. Its ships regularly enjoy better than market average earnings thanks to the success of the Star Tankers panamax pool.

Heidenreich Marine has grown into the world's largest operator of panamax tanker tonnage with a fleet of 39 vessels and remains a privately-owned company having been formed in October 1984.

Last December the company relocated its offices. It is still based in Connecticut ' now the firmly-established maritime center of the US east coast, in terms of vessel ownership and infrastructure in the form of ship broking services and finance. Per Heidenreich, the president and founder, is Norwegian by birth, but has been a long-time Greenwich, CT resident, which is where he based his company. But, by the end of 2000, the expansion of the company meant that it had outgrown its space. So, instead, it has moved to a 12,000 sq. ft. office in Darien, just north of Stamford, putting it within an hour's train ride of New York City.

### **Traditional strength**

Despite its main concentration in the panamax sector, the company still maintains a strong interest in its products market where it started out. In addition to its 39-strong fleet of panamax vessels, the company also controls 11 products tankers of sizes varying from 33,000 dwt, up to 50,600 dwt. It also has one Aframax tanker of 88,359 dwt.

Last year, Heidmar vessels lifted nearly 700 cargoes and generated in excess of \$300m of freight revenues. This significant achievement was helped by the exceptionally strong freight market conditions, which prevailed through most of 2000, although last year's freight market did not take off until the second quarter.

Heidmar has placed strong faith in the pooling system, which was recently taken up by the large tanker sector and is now a significant force in the VLCC market. Interestingly, the pooling system has gained strength in a strong freight market. Traditionally owners have favored pooling systems as a means of protection against low freight rates. Pools have become the tramp equivalent of the container lines' consortia, but have attracted virtually no attention from the various competition authorities in the developed world' one of the crucial keys to their success.

### **Pooling's advantages**

This point was not lost on Per Heidenreich, president of Heidmar. In a speech to the seventh annual joint shipping conference of the Hellenic-American and Norwegian-American Chambers of Commerce in New York in February, he pointed to the 40-year-old example of the container consortia, telling his audience that these pools had been formed because of a need for consolidation as 'customers of the liner trade demanded a more frequent and flexible service'. From an owner's viewpoint, the argument is, perhaps, compelling a license to print money. John Fredriksen has successfully proven the worth of pools with VLCCs, while pooling and

consolidation of vessel control is now becoming widespread in the dry bulk sector, especially in the capsize market.

Unlike the liner trades, the tramp trades are harder to police, which is why they have avoided the same kind of scrutiny and fines from either the EU or the US. Before liners run to set trades and schedules, in much the same manner as international owners, they are easier to regulate. Because the tramp market is effectively a glorified taxi service, where a ship goes where the charterer demands, it becomes too complicated to police. The result, it seems, is a sure way of making money, maximizing the benefits of a strong freight market, and minimizing the impact of a downturn. Not that the panamax products market needs to worry about that at the moment.

### **'Fantastic money'**

With Worldscale rates at around the W245 level at the middle of April, equating to about \$30,000/day for Caribbean-upcoast markets ? their principal trade, these vessels are earning fantastic money for their owners. This amounts to about two to three times operating costs, depending on the vessel's age and the port disbursements that it encounters. Taking financing costs into consideration, the market still yields a healthy return by any standards, let alone the dismal returns normally associated with deep sea shipping.

All of the company's panamax tankers operate in the Star Tankers pool, which comprises 10 partner owners from the US, Europe and the Far East. Following the success of the pool and the International Products Carrier pool, Heidmar has put all of its eligible products tankers into the new Dorado pool, with effect from January 1. This new pool intends to take a lot of the ground from the IPC pool and is being headed by David Palmer, who took up his new job at the beginning of this year. He also took on the role of vice-president of Heidmar. Until recently, he had been chief executive officer of the International Product Carriers pool and was a former senior executive in Stolt-Nielsen.

Heidmar's own literature uses language akin to the liner trades, describing itself as a logistics company, rather than just a pure shipowner. The concept of providing a kind of door-to-door service, so common in the container markets, is now being applied to tanker transport, especially in the products sector. It is the concept of customer service, rather than treating charterers like a captive audience. Heidmar and the pools it operates in are successful in obtaining contracts of affreightment, rather than just relying on the spot market.

The company's faith in the pooling system has paid off. In the first quarter of last year, before the freight market took off, average pool earnings per day, net of all expenses, were \$14,057/day compared with a market average of \$13,773/day. Within the pool, a newbuilding earned just short of \$17,000 daily; a 1992-built tanker earned about \$15,800/day, while a 1982-built vessel achieved about \$14,100/day.

Compared with how the freight market performed in the rest of 1992, the first quarter was undoubtedly a poor quarter. The market had not yet recovered from the slump brought about by the Asian crisis. It was only the rapid recovery by Asian economies, the ongoing boom in the US and buoyant markets in Europe, combined with a fleet that was only just able to meet demand, that resulted in the ballooning freight rates seen in the second, third and final quarters of the year.

Nevertheless, even the first quarter of 2000 showed a dramatic improvement compared with the performance of the previous year. In 1999, average pool earnings were \$10,957/day compared with a market average of \$7,805/day.

Many observers believed that a pool would never hold together in a good market. If one takes the example of dry bulk, there may be some truth in that. However, over the last year, tanker pools have done nothing but go from strength to strength. Nevertheless, some observers expressed some surprises when Heidmar decided to launch the Dorado clean products tanker pool in a firm freight market.

### **Restored faith**

The pool started life with eight ships. Arcadia, which has a ship out on time charter to Heidmar, wants to put the vessel in the pool, such is its faith in partnership pools.

The success of partnership pools begs the question of whether the tanker market will go the same way as the liner trades, with merger after merger, leaving a handful of dominant players who dictate the terms to their customers in good times. If the example seen in VLCCs and the Suezmax markets is anything to go by, the answer is yes. And if this development does materialize, the question is: will Heidmar be one of those lucky few enjoying the rich pickings?

In his New York speech, Mr. Heidenreich said on the subject of tanker consolidation, "You bet. It may take many years but we have, over the past two years, seen a compelling beginning."

The pool critics have consistently said that the pools cannot survive. The argument is usually along the lines that owners will not give up commercial control. If they do, it will only be a relatively short period of time when the market is poor. Pools may help the market to recover but, once that has happened, owners will pull their ships out and go their own way.

Mr. Heidenreich is convinced that last year the critics were proved wrong. The Tankers International VLCC pool grew significantly in what was the strongest market seen in more than two decades. Consolidation and pooling in the capesize market also increased dramatically last year in the best freight market for 10 years.

The reasons for the pools developing in the tanker sector become more apparent when one considers that even in a strong freight market, the freight proportion compared with the total value of a cargo is miniscule; rarely does it exceed 5%. Moreover, most of the customers of a company like Heidmar have consolidated themselves. In the last three years, there have been the mergers of BP, Amoco and Arco; Exxon and Mobil; Total Fina and Elf; Repsol and YPF and now Chevron with Texaco, with the latter being subject to regulatory approval. This means that 12 of the world's largest oil companies have been slimmed down to just five. This has been justification for owners to consolidate, or at least pool, resources. Here, the comparison with the liner trades ends, because the customers of the lines are far more diversified and greater in number compared with the relative few involved in the oil and products trade.

### **A partnership pool**

Interestingly, the Star Tankers Pool differs from earlier tramp pools. Like the Tankers

International pool and the International Products Carriers pool, Star Tankers is jointly owned by its partners. This is contrary to the traditional pool, where participants are only pooling resources in an attempt to maximize earnings from their own vessels. Simply put, in a traditional pool, if a vessel is fixed, the owner is the only beneficiary. In a partnership pool, if a ship is fixed, all the partners benefit, unless it is fixed at a loss. Apart from the revenue sharing aspect, the pool also benefits on the cost side, with the significant buying power economies of scale enjoyed by larger owners or managers. While this may not extend to stores and spares, it is an important factor in buying bunkers, negotiating agency fees, towage and pilotage.

It is the closest form of cooperation, without a full-scale merger of vessel ownership. So while an owner is relinquishing direct commercial control of a vessel, or a fleet, the theory is that it is getting more back in return.

Heidmar's own operation has been interesting. The company has shied away from newbuildings. Three years ago it ordered three new panamax tankers from embattled Halla Heavy Industries in South Korea. The freight market collapsed after the effects of the Asian crisis, the shipyard itself got into extreme financial difficulty, giving Heidmar the upper hand in renegotiating, or even getting out of the contracts altogether. It ended up reselling the contracts to Eletson.

But the market has turned around and shipyard prices have risen. Even so, Heidmar has shown huge restraint when it comes to newbuildings, even though the age profile of its fleet is not exactly young. Most of the vessels are of 1980s' vintage, single-hulled and will have a limited legal life on the trades in which they operate. The fleet does include four 2000-built vessels but also has a few from 1979. But the average age of vessels in the 39-strong fleet is around the 17-year mark.

Whether it is the reputation of the Star Tankers Pool, or Heidmar itself, the ships have no difficulty in finding employment. Even recent grounding incidents, involving single-hulled vessels in politically-sensitive areas, such as the Mississippi River, have not had too much of an adverse impact on newbuildings.

Fortunately for Heidmar, demand for products, especially in the US, remains strong despite the economic uncertainties in that country. Most of its vessels are either employed in clean and dirty products from the Caribbean, or Venezuela upcoast, with some also serving the west coast, through the Panama Canal. The fleet also undertakes some lightering work in the Mexican Gulf, where rates have been high.

Heidmar has managed to secure 24-hour access to potential charterers by operating significant chartering operations in both London and Singapore.

### **US demand**

The strength in US demand is largely the result of the country's inefficient energy policies, rather than the robustness, or lack of it, in the economy. The country is heavily dependent on heating oil for homes and commercial buildings, especially in the densely populated metropolitan areas of the northeast, while demand for gasoline rises dramatically in the so-called summer driving season ? partly the result of the long distances people drive, the preponderance

of gas guzzler cars and because of the poor public transport infrastructure that exists through most of the US, with the exception of the metropolitan area surrounding New York. Allied to this, is the secret of any good freight market: matching tonnage supply with demand ? an elusive phenomenon that rarely happens, especially in the dry bulk market.

But, should any prolonged economic downturn in the US have a detrimental impact on oil and products demand, Heidmar will fare better than non-pool competitors, judging by the performance of the Star Tankers Pool to date. The same results are likely from the new Dorado pool.