

## POOLING FORMULA HITS THE MARK

*Tradewinds*

Heidmar's four revenue-sharing pools are on a roll, operating over 100 vessels and continuing to attract new owners.

"It won't last," the shipowner told Heidenreich Marine (Heidmar)'s Tim Brennan about the company's new panamax-tankers pool in January 1998.

"He said it would be dead within a year you're never going to get Greeks and Norwegians to get along in a pool," Brennan said, smiling and resisting a clear temptation to identify the owner by name.

Eight years later, the panamax pool now called Star Tankers operates 44 vessels the world's largest fleet. Heidmar has added a products-tanker pool, Dorado, in 2001; an aframax pool, Sigma, in 2004; and a second products pool for small tankers, Marida, in 2005. Together, they number 84 ships and had voyage revenues topping \$1bn last year, Brennan says.

From Greeks and Norwegians, Heidmar's pools have attracted owners from China, South Africa, India, Germany, Japan and Dubai.

"I think we're doing something right," Brennan said.

Heidmar found a formula with the original product then called the Heidmar-Pleiades pool in partnership with the Greek owner and has stuck with it in the other market segments. Although the younger pools have yet to reach Star's critical mass, sceptics may need to keep in mind the wayward shipowner's 1998 prophesy.

The Heidmar pitch suggests:

\*\*The pools' ability to return a market premium through improved efficiency and utilisation.

\*\*Chartering knowledge from offices in Connecticut, Houston, London, Caracas and Singapore.

\*\*Transparency of pool performance with help from its in-house information technology (IT).

\*\*Economies of scale in purchasing bunkers and other supplies through Heidmar's overall size.

For this, an owner pays a flat management fee per vessel and a per-fixture commission similar to a broker's fee of 1.25%.

"If you're an owner from Greece or some other part of the world, the question is, is it worth it to you to pay Heidmar as opposed to the cost of setting up your own satellite office in Connecticut or Houston to oversee two or three ships in this marketplace?" said one broker.

"Heidmar's success is a reflection that many owners have concluded that, yes, that is an attractive trade-off, helped of course by the quality of Heidmar's operation," he added.

The believers include the likes of George Economou, widely viewed as among the shrewdest of shipowners and the largest single contributor of tonnage to the Heidmar pools. He has ships in both Star and Sigma nearly half of all units in the latter.

Heidmar also won over German KG (limited partnership) owner Chemikalien Seetransport, whose Peter Kramer will increase his original stake of four panamaxes to 11 units by 2007.

"We were impressed by their market strength and power in panamaxes, which is obvious," Kramer said, while also praising commercial-management skills.

"But what I really would highlight is their transparency of information, which is exceptional. I don't know any other pool that performs at their level in IT. You get results clearly and on a fortnightly basis at minimum.

He added: "After seeing their presentation, one of the bankers asked [Heidmar pools boss] Jerry Townsend, can you press a button and get the captain's age also? It was that impressive."

Another core principle is that Heidmar itself should be an active contributor of vessels to each of its pools, Brennan says.

While it remains true to founder Per Heidenreich's tenet that Heidmar should not own much steel, the company charters in tonnage to each of its pools around 15 to 20 vessels across the operation.

"The area where we try to make money is through our time charters," Brennan said. "We don't realise a tremendous profit on our management fees they were set up largely to cover costs."

Brennan argues that because Heidmar is not a public company, "we have no loyalties to anyone but our pool partners. We don't have to answer to shareholders like some of the other pools led by public companies".

Heidmar sees synergies among the various pools. An increasing number of Star newbuildings are coated, allowing the carriage of clean products to augment Dorado's activities. Further, Sigma Tankers manager Ben Ognibene notes the strong correlation between the panamax and aframax markets.

"We have some customers who don't know whether they need a panamax or an aframax and we're able to help them with that," Ognibene said.

The Sigma pool also complements Heidenreich Lightering Services (HLSI), the Houston-based operation Heidmar set up in 2003. Heidmar executives call it strictly a third-party relationship, however, all lightering fixtures, including those to other companies, have been less than 10 per year, they say.

The sheer size of the Star pool has allowed it to secure a number of contracts of affreightment (COAs) covered by about one-third of the fleet. Managers say that both Dorado and Sigma have relatively small contract business because they are not yet large enough.

"Of course, with a strong spot market, that hasn't been a bad thing for us," Ognibene said.

Through its growth, Heidmar seems to have defeated the conventional wisdom that pools flourish only in poor markets. In some ways, the robust market of the past two years has even helped.

"When you have a vessel acquired at what have been strong valuations, there is no way the economics can be supported through time charters," Brennan said. "It's premised on the spot market and we're offering an opportunity to earn a premium on that market."

While Brennan declines to get into specifics, he says any premium to pool members has come from efficiency and utilisation, not pure rates.

"We are firm believers that the market is the market," Brennan said. "We're not in a position to influence rates. To the contrary, an operation like ours has more of an incentive to keep things moving as opposed to a small owner who tries to hold out for the last dollar."

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