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D'Amico execs express understanding of owners' predicament



Top executives of the Italian operator d'Amico Group, whose staple ships are bulkers and product carriers (PC), were recently interviewed by Kaiji Press concerning their projections on the shipping market and the management policies of their company in the future. D'Amico, which has extremely deep ties with Japan's shipping/shipbuilding industry in the areas of chartering and ship construction, expressed understanding of the plight of Japanese owners who are faced with such problems as the high yen and the soaring ship management costs, as well as showed a positive stance toward supporting shipowners through such means as exercising purchase options on ships. With regard to future newbuilding orders, the leaders of d'Amico revealed their intention to keep Japanese shipyards that boast of high quality at the core their fleet expansion in the future, but claimed that it would be difficult to order newbuildings from Japanese yards owing to the surging dollar-based ship prices brought about by the high yen.

The interview was attended by Paolo d'Amico, chairman, Cesare d'Amico, CEO, Lucio Bonaso, head of the dry division, and Marco Fiori, head of the tanker division of the d'Amico Group. The gist of the interview is as follows.

KP: What are your projections on the dry market?

\*The expansion in demand has been loosening since the last quarter, with the supply pressure from newbuildings coming to the fore. In 2009, many in the industry were pessimistic owing to the massive completion of newbuildings, but the market managed to evolve on a bullish tone thanks to the growth in ship demand brought about by the significant expansion in China's iron ore and coal imports. However, the condition is now changing, making it difficult to envision the market continuing its upward trend with the newbuilding completions.

KP: What are your forecasts on the PC market?

\*The excess in ship bottoms in the PC market lingers. At the very least, the next year

would be a tough year owing to the slumped transport demand and the supply pressure from newbuildings. We are coping with this by reducing the completion of PCs (through newbuilding cancellation, delivery changes and so on).

KP: What are your policies on fleet consolidation in the future?

\*After the Lehman shock, we ordered two 37,000-dwt bulkers from Hyundai Mipo Dockyard in January and then ordered an additional two units in May. With regard to future investments, we will basically think about it as the occasion arises. For instance, we can exercise our purchase options. Among the Japanese shipowners, there are owners who are struggling and cannot further boost their fleets due to the high yen and the increased costs, and those owners who are having difficulty executing their newbuilding contracts due to cash shortage. We are also considering cooperating with them in order to ease their conditions.

KP: Is today the right time to proactively invest and expand your fleet?

\*That will depend on the opportunities that will come along. In January this year, we ordered the bulkers because the chance came when the prices drastically plunged. But that does not mean that we necessarily adjudged that it was the perfect time to expand our fleet. The same policy basically applies to tankers, too.

KP: What are your thoughts on newbuilding ordering?

\*One thing I can say is that we are keeping an eye on Chinese shipyards now more than ever. In the past 15 years, more than 90% of our newbuildings were built at Japanese yards. We are very satisfied with our relationship with the Japanese community. Unfortunately, however, the high yen has been escalating and for reasons other than the foreign exchange rate, the prices of Japan's ships are on the rise. The quality of Japanese-built ships is far better than the vessels made in other countries, but when it comes to charter rates, we must convince the charterers about this. Even if we take into account the difference in performance, with the Japanese vessels boasting of an extremely high performance level, there are still cases when the current difference in ship prices cannot be justified.

Of course we also understand the condition of Japanese yards. The delivery dates that they can offer are in 2013-2014. They are forced to take a cautious stance about advanced deliveries, so they are unable to offer prices lower than today's levels. Now since they have ample order backlog, they probably do not see the need to slash their prices. Meanwhile, Chinese and South Korean builders are in a completely different state as they can offer much earlier delivery dates. Now although we hope to continue our commitment with Japan in the future, we must also think about the competitive edge of our fleet.

KP: D'Amico has numerous deals with Japanese owners through chartering, but how do you view their predicament?

\*The field of tankers is becoming a specialized business owing to the surging ship management costs and the increasingly complex/sophisticated ship management methods. In addition to this, the high yen prevails, so Japan is in such a severe state. Even with regard to the dry division, the condition is virtually the same owing to such factors as the effects of the high yen. The future of the shipowners will hinge on whether or not the market can be sustained. Charterers and shipowners would probably have to compromise, as much as possible.

Now, hypothetically speaking, even if a shipowner goes bankrupt, their ships will remain. This will then invite the lowering of freight rates, which could ultimately ruin the market. We think that we need to extend support so that shipowners can continue their businesses in order to prevent such scenario from happening.

(Interviewed by Kazuhiro Tsushima and Yoshihito Fukasawa)