

Tanker operators prosper through diversified approach

Leading small tanker owners are forging overseas relationships in order to both tap new markets and take advantage of the benefits of outsourcing

Denmark's small tanker sector is on a high. According to figures compiled by data specialist BRL Shipping Consultants, the nation's small tanker sector had 25 tankers up to 10,000 dwt on order around the world at the end of the first quarter this year, making it the eighth largest contractor of tonnage in this range worldwide.

One of the most prolific companies in this respect has been the Clipper Group, which in unit terms, has now surpassed A P Møller as Denmark's largest shipowner. Its small tanker fleet continues to provide invaluable transport coastwise for a range of fuels.

Recently, the company invested in Buenos Aires based Petro Tank SA, with a view to Argentinean cabotage development. The new joint venture will be known as Petro Clipper. In another move, Clipper agreed to bareboat charter the 3,769 dwt sisters, *Clipper Barolo* and *Clipper Barbera*, to OW Bunkers on a seven year basis with purchase options. The pair will switch to the Danish International Shipping register and work in a pool with Swedish tanker *Neptunus*, mainly serving Aalborg and Copenhagen. They replace two older tankers sold to Greece and Russia, having fallen outside new tanker transport regulations.

Another big mover is Herning Shipping, which is mid-way through what is, by its standards, a huge newbuilding programme. In recent years the company has forged a good relationship with Turkish builders of small chemical tankers but attention has now switched to China. This year the owner took delivery of *Ditte Theresa* and *Ruth Theresa* – the first and second in a series of 10 8,000 dwt IMO II chemical tankers from the Nantong Mingde yard, China.

The deliveries represent a considerable breakthrough for the builder since they are the first ships ever built there and vindicate the faith placed by Herning. Designed for global trading, all are strengthened to ice class 1A standards. Initial orders attracted a competitive price of around US\$16 million, but the last four contracted between December last year and April this year are priced at a much higher US\$19.9million apiece, reflecting increased costs. Herning, as a company, now boasts an owned fleet of 26 tankers, the biggest of which are 11,000 dwt and include *Charlotte Theresa* and *Jette Theresa*, still on order at Nantong Mingde.

Meanwhile, Herning's compatriot, Erria, has taken advantage of the foothold it has built in Vietnam, to take over local company, Pacific Tanker Shipping, which will give greater access to the Vietnamese coastal tanker markets.

This is an especially prospective new market, according to Erria's affable managing director, Henrik Andersen, who set up Saigon Shipping, the first company in communist Vietnam to be financed by foreign investors.

"After I left Torm in 2003, I went to Vietnam to set up Saigon Shipping, which was quite a



Henrik Andersen: "We pride ourselves on doing things a little differently"

challenge," he recalls with a smile. He returned in 2005 as managing director of Erria to begin a three year programme which would see Saigon Shipping's transformation from a predominantly bulk fleet to a majority of chemical carriers, and the company's sale to one of Erria's Vietnamese trading partners. "We retain a 34 per cent stake in the company, and our partner has the licence to trade domestically."

The more recent acquisition of Pacific Tanker Shipping, which will be absorbed within Saigon Shipping, saw two old, single hull tankers join the Erria fleet. The real value for Mr Andersen is access to the contracts and contacts book that comes with the organisation. "In 2007 Vietnam became a member of the WTO; however, the country has a five year grace period where it does not need to be open to foreigners.

"With the first refinery set to come on stream in 2010, I think we will be well placed to take advantage of the platform we have to both trade in and out of Vietnam, and especially domestically along the Vietnamese coast. Vietnam is important for us, not least because our interests there differentiate us from other owners."

Indeed, through its stake in Saigon Shipping, Erria is also a warehouse owner at a time when "foreigners are not allowed to own land in Vietnam". The company owns two warehouses and has concluded a joint venture with Japanese company Mitsui to build a third. "We are also agents for A P Møller and support that company's vessels running in and out of Vietnam."

Today, Erria is a diversified maritime service



Erria Dorthe – part of the diversified Erria Group – transiting the Istanbul Straits

company active in shipowning, chartering, shipmanagement, design and consulting. Founded in 1983, it takes its name from the island where it was founded; however as recently as 2002 the company fleet had just four coasters to its name. A series of acquisitions has seen the company diversify and grow, and it now has part or complete ownership of 15 vessels, and manages 11 chemical tankers (also 21 dry cargo vessels). Headquartered in Copenhagen, it has a presence in Poland, Turkey, Bulgaria, India, China, Malta and, of course, Vietnam.

The owned fleet comprises eight chemical tankers, six container ships and one cargo vessel. The strategy is to retain a 15-30 per cent share in each and sell the remainder through K/S companies (see related box).

The most recent addition to the fleet has been the single screw 4,710 dwt *Erria Nimmer* from Turkey's Celiktrans Shipyard, the fifth new tanker taken into the fleet from a Turkish yard this year.

However, the connections with Turkey run deeper than just ordering vessels. In October 2007 the company bought chemical tanker chartering company, Ibex Maritime Ltd, headquartered in Istanbul. At the time of *Tanker Shipping & Trade's* visit, Ibex had concluded an agreement to manage commercially a further four chemical tankers, bringing the total number of chemical tankers on its books to 20 (11 *Erria*-owned, nine for third parties).

The third parties are invariably those involved in Turkish-built and owned vessels. "Turks are mainly asset players, so come to us for commercial management. Previously, we did third party technical management as well through this company, but terminated these rather energy intensive contracts to grow the commercial arm," says Mr Andersen.

Technical shipmanagement is, however, offered out of both Denmark and Poland. These operations serve the *Erria* fleet and 23 vessels for external clients. In common with the rest of industry, *Erria* is focused on devising methods for crew retention.

"At the beginning of the year, on the chemical tanker side, we converted salaries from dollars to euros. We believe that we are one of the first to have done this and, of course, for our crews this has boosted their wages. We source our crew

K/S companies explained

Through the K/S company mechanism, Danish legislation provides the opportunity of registering and using Danish enterprises with a zero rate of tax. The K/S is a limited partnership, having no less than two partners. One of the partners is a general partner, while the other partner(s) has/have the status of limited partners.

For taxation purposes a Danish K/S with foreign partners and which does not carry out

business in Denmark is not liable for tax in Denmark. Under Danish tax law, a K/S is not regarded as a taxable person in its own right (and accordingly, is not required to obtain a taxpayer registration number in Denmark), but the profits derived by a K/S are taxable in the hands of its partners (i.e. the general partner and the limited partner(s) according to their country of residence, in the proportion of their interests in the K/S.

primarily from Poland and the Baltic countries. It simply does not make sense to have the ships operating in a region where they are financed in euros, earn in euros and have seafarers paid in dollars."

Other steps include inviting wives along when the company has an officer conference. "This goes a long way to closing the gap between seafarers and the company." In terms of life at sea, the company has installed VSAT on *Erria Nimmer* so crew can enjoy round the clock online access.

Entry into design and consultancy came with the acquisition of BR Marine in 2005. This company was a technical manager for chemical carriers, including the Clipper Group, but also oversaw all aspects of newbuildings and had built up a track record of more than 20 ships in Turkey alone for third party clients, including *Erria*.

Today, the company is supervising 14 new construction projects (of various types) around the world, including running a drydock and building two ferries, which will operate on Ghana's Lake Volta, the biggest manmade lake in the world. "There is a huge demand out there for know-how, the only constraint it would seem is our capacity to undertake these projects," adds Mr Andersen.

One way that the company has freed up capacity has been to outsource certain functions overseas. The company's purchasing department is located in Dano in Poland. "Instead of having three purchasers sitting here in Copenhagen, we have 10 in Poland, at the same price, providing high quality service to our ships." Similarly, the accounting is done in Turkey.

Nevertheless, "control is always exercised from Copenhagen," and chemical tanker operations are also co-ordinated from the headquarters. "Whenever we have a good Polish captain or Russian chief engineer, we fly him in here instead of outsourcing."

Having come such a long way in such a comparatively short period of time, where will *Erria* be in five years time?

"We will definitely develop as a chemical carrier company, and our consulting arm will most likely be working for *Erria* full time," forecasts Mr Andersen. "On the dry cargo side we are currently trying to find a partner to assist us in developing this division. We are now selling our older dry cargo ships and preparing for new cargo projects."

Something Mr Andersen does not foresee is the company being purchased during this period. "We have a sophisticated fleet with an average age of around two years which is very attractive to potential suitors," he says. "However, the fact that we are active across three core business – chemicals, dry cargo and consulting – is a deterrent to prospective purchasers," he says. "They might like one element, but not all three."

"A core differentiator between our company and many others is that some of the big shareholders that have funded and developed the company have quite illustrious shipping pasts. Three of our board members were involved with the East Asiatic Co, another with A P Møller.

"They have been drawn to investing in this small company by the prospect of developing it and seeing how far we can go. What is more, the company's set up allows registered shareholders to take a stake in our vessels when we put them up for sale – an uncommon feature that further binds shareholders to the company.

"All in all, we pride ourselves on doing things a little differently," says Mr Andersen, reclining in his chair. "We have a flat organisation, where the process of making decisions is simple. We sold a dry cargo ship recently: our chairman, Kaare Vagner, was in Venezuela, our deputy chairman, Jan Erlund, is a board member of the PSA in Singapore, and within 25 minutes we had sanctioned the sale. We really are moving that fast." **TST**

Hempel will cease paint production in Denmark in two years

Paint production at the Hempel factory in Lyngby, Denmark, will cease in May 2010, when production will transfer to a new factory in Poland. Hempel's remaining departments in Lyngby, will not be affected by the move.

According to an official statement, "The

decision is the result of developments in the global market. Growing competition in the paint industry means that it is no longer possible to produce paint in Denmark at competitive prices."

123 workers are expected to be affected by the closure in 2010.