



DERIVATIVES AND RISK MANAGEMENT IN SHIPPING

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By

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Derivatives and Risk Management in Shipping is the first book that draws together in a single place and systematically analyzes, measures and proposes strategies for managing all aspects of business risks in the shipping industry, discusses them critically, evaluates their contribution to our knowledge in the subject matter and is written in a way which is accessible to the widest possible audience. Risk management is a constantly developing area, with more and more enterprises entering into its practice for their business, as they realize that often their survival amongst competitors hangs on the effective management of the risks that they face. This is particularly important for shipping as the high volatility and cyclicity in rates and prices makes risk management a vital issue and takes a central role in the effective strategic management of business. These risks, if managed effectively, can stabilize cash-flows, with positive repercussions for business in a number of directions. Shipping derivatives have been developed in order to manage risks, emanating from fluctuations in freight rates, bunker prices, vessel prices, scrap prices, interest rates, and foreign exchange rates, more effectively, in a cheaper and more flexible manner. This book is of great value to the shipping business, as to how shipping derivatives can be used in the day-to-day practice of risk management, through both traditional and derivatives strategies, with many thoroughly analyzed practical

applications and examples both for risk management and investment purposes.

The book deals with the issue of risk management in the shipping industry at different levels:

1. It provides the theory underlying the use of derivatives.
2. It deals with the practice of the use of derivatives for risk management and investment purposes.
3. The book analyses the sources of risk in the shipping business and proposes "*traditional*" strategies for risk management at both the investment and operational level of the business.
4. Traditional methods of risk management are compared and contrasted with those involving financial derivatives.
5. The different solutions offered by the various types of derivative products are compared and contrasted between them. Sixth, practical applications of derivatives are examined.
6. A number of concepts presented in this book appear for the first time in the literature.
7. For researchers in the area it can become a stepping stone for work which can further enhance our knowledge of risk management and derivatives in the shipping industry.
8. Finally, it can provide solutions and become a point of reference for other industries with similar characteristics, wishing to deal with the issue of risk management through the use of derivatives.

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COMMENTS FROM PRACTITIONERS AND ACADEMIA ABOUT THE BOOK

"It is now over 20 years since the first real effort was made to launch a shipping derivatives market. When, in 1985, the Baltic Exchange opened its market trading freight contracts against a settlement index they could hardly have set themselves a more difficult task. Shipping was at the trough of the 1980s depression and the freight derivative product, existing only on paper, was a tough sell to a generation of shipowners brought up to trade physical ships and cargoes. Perhaps because of this difficult start, the growth of the shipping derivatives market was painfully slow and the BIFFEX contract trading system, which started to run down in the mid-1990s, never really gained enough depth to make it a serious hedging instrument, far less a speculative vehicle. But since 1997 the FFA market has gradually gained credibility and during the last five years has become a serious business. Serious markets need serious players and this must surely be the ideal time to launch the first authoritative book on "Derivatives and Risk Management in Shipping" for more than fifteen years. This new volume by Professors Kavussanos and Visvikis is well timed, providing an ideal blend of theory and practice from two acknowledged experts in the field. The structure is thoroughly practical. A neat and well-rounded book that will help to spread the gospel of professionalism amongst existing traders and newcomers to the shipping derivatives markets".

Dr. Martin Stopford
Executive Director, **Clarksons Plc.**

"A definitive text on the use of financial derivatives for hedging commercial risks in shipping has long been awaited. Written by two of the leading authorities in the field, this book is comprehensive, logical and extensively researched. As a unique product addressing an increasingly important niche area, it provides a firm foundation for the enhanced understanding of both students and industry practitioners alike. It will inevitably stimulate further discussion and development of the instruments and techniques it presents, as well as prompt their greater use in the future".

Professor Kevin Cullinane
Chair in Marine Transport & Management
University of Newcastle

"Producing the first of anything is often said to be the most difficult. The first book about Risk Management and the use of Freight Derivatives within the ocean shipping industry is certainly a case in point. This book deserves special attention from shipping executives and academics as well as those who wish to explore practical uses of derivatives in a highly volatile industry. I have been honored to participate with Professors Kavussanos and Visvikis at their freight derivative seminars in Athens and I congratulate them for their very important work".

Michael McClure
CFO, **Navios Maritime Holdings Inc.**
Chairman Freight Indices and Futures Committee (FIFC), **The Baltic Exchange**

"At last we have a book that lays down the principles of how we should use the basic insights of shipping derivatives, to advise investors on their continuous risk management problems. This book represents a major theoretical and practical breakthrough that allows us to interpret the principles of derivatives and risk management into concrete advice for the shipping investor. The analysis is simple, elegant and offers many practical examples, through which one can understand exactly how these tools can be used by the practitioners of the shipping industry. The book is essential reading for anyone interested in understanding how shipping derivatives work and should command a central place on the desk of all users of shipping derivatives".

Knut Møystad
Director of Marketing
International Maritime Exchange (**IMAREX**) ASA